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March 25, 2021

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

Financial Audit: FY 2020 and FY 2019 Consolidated Financial Statements of the U.S. Government

This report transmits the results of GAO's audit of the U.S. government's fiscal years 2020 and 2019 consolidated financial statements. GAO's audit report is incorporated on page 226 in the enclosed *Fiscal Year 2020 Financial Report of the United States Government* (*2020 Financial Report*) prepared by the Secretary of the Treasury in coordination with the Director of the Office of Management and Budget (OMB).

To operate as effectively and efficiently as possible, Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information—both for individual federal entities and for the federal government as a whole. Our report on the U.S. government's consolidated financial statements for fiscal years 2020 and 2019 discusses progress that has been made but also underscores that much work remains to improve federal financial management and that the federal government continues to face an unsustainable long-term fiscal path.

The federal government took unprecedented actions in response to the Coronavirus Disease 2019 (COVID-19) pandemic to protect public health and reduce economic impacts on individuals and businesses in fiscal year 2020. These efforts are reflected in the assets, liabilities, net cost, and the budget deficit reported in the U.S. government's consolidated financial statements for fiscal year 2020.

Significant assets as of September 30, 2020, resulting from the federal government's response to the COVID-19 pandemic include

- equity investments in special purpose vehicles of $108 billion, which the Federal Reserve established to enhance the liquidity of the U.S. financial system;
- advances of $173 billion to state, local, territorial, and tribal governments and Medicare providers;
- almost all of the $181 billion in disaster loans; and
- cash and other monetary assets of $1,927 billion, up from $525 billion as of September 30, 2019.[1]

[1]As discussed in Note 2 of the *2020 Financial Report*, the increase in cash and other monetary assets was due to Treasury maintaining an elevated cash balance to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19-related outflow.

In addition, loan guarantee liabilities increased to $520 billion as of September 30, 2020, from $22 billion as of September 30, 2019, primarily because of Paycheck Protection Program (PPP) lending established in response to the COVID-19 pandemic.

Major increases in net cost resulting from the federal government's response to the COVID-19 pandemic include costs related to small business loan guarantees, primarily PPP, of $527 billion; economic impact payments of $275 billion; and income maintenance program costs of $461 billion, primarily due to unemployment benefits. COVID-19 pandemic-related budget expenditures totaled $1.6 trillion during fiscal year 2020, increasing the budget deficit. Because of the ongoing deficit, increases in cash and other monetary assets, and COVID-19 pandemic-related spending, federal debt held by the public increased by $4.2 trillion during fiscal year 2020.

Subsequent to fiscal year 2020, further legislation was enacted containing provisions that provided additional relief to address the continued impact of the COVID-19 pandemic.[2] The effects of this subsequent legislation are not reflected in the U.S. government's consolidated financial statements for fiscal year 2020. The ultimate cost of these actions and any future actions in response to the pandemic and their impact on the federal government's financial condition will not be fully known for some time.

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

- Certain material weaknesses[3] in internal control over financial reporting and other limitations resulted in conditions that prevented us from expressing an opinion on the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019.[4] About 23 percent of the federal government's reported total assets as of September 30, 2020, and approximately 19 percent of the federal government's reported net cost for fiscal year 2020 relate to significant federal entities that received a disclaimer of

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[2]Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182 (Dec. 27, 2020); and American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (Mar. 11, 2021).

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

[4]The accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019, consist of the (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Budget Deficit, (4) Statements of Changes in Cash Balance from Budget and Other Activities, and (5) Balance Sheets, including the related notes to these financial statements. Most revenues are recorded on a modified cash basis.

opinion[5] on their fiscal year 2020 financial statements or whose fiscal year 2020 financial information was unaudited.[6]

- Significant uncertainties (discussed in Note 23 to the consolidated financial statements), primarily related to the achievement of projected reductions in Medicare cost growth, prevented us from expressing an opinion on the sustainability financial statements,[7] which consist of the 2020 and 2019 Statements of Long-Term Fiscal Projections;[8] the 2020, 2019, 2018, 2017, and 2016 Statements of Social Insurance;[9] and the 2020 and 2019 Statements of Changes in Social Insurance Amounts. About $45.7 trillion, or 70 percent, of the reported total present value of future expenditures in excess of future revenue presented in the 2020 Statement of Social Insurance relates to Medicare programs reported in the Department of Health and Human Services' 2020 Statement of Social Insurance, which received a disclaimer of opinion. A material weakness in internal control also prevented us from expressing an opinion on the 2020 and 2019 Statements of Long-Term Fiscal Projections.

- Material weaknesses resulted in ineffective internal control over financial reporting for fiscal year 2020.

- Material weaknesses and other scope limitations, discussed above, limited tests of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements for fiscal year 2020.

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[5]A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive and accordingly does not express an opinion on the financial statements.

[6]The Department of Defense received disclaimers of opinion on its fiscal year 2020 and 2019 financial statements. The Small Business Administration received a disclaimer of opinion on its fiscal year 2020 financial statements. The Department of Housing and Urban Development received a qualified opinion on its fiscal year 2019 financial statements. A qualified opinion arises when the auditor is able to express an opinion on the financial statements except for specific areas where the auditor was unable to obtain sufficient and appropriate evidence. As of the date of our audit report, the audited Schedules of the General Fund of the U.S. Government for fiscal year 2020 were not issued. The fiscal year 2019 Schedules of the General Fund were not audited to allow the Department of the Treasury sufficient time to develop and begin to implement a remediation plan to address the issues we identified as part of our audit of the fiscal year 2018 Schedules of the General Fund. Also, for fiscal years 2020 and 2019, the financial information for Security Assistance Accounts was unaudited.

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

[8]The 2020 and 2019 Statements of Long-Term Fiscal Projections present, for all the activities of the federal government, the present value of projected receipts and noninterest spending under current policy without change, the relationship of these amounts to projected gross domestic product (GDP), and changes in the present value of projected receipts and noninterest spending from the prior year. These statements also present the fiscal gap, which is the combination of noninterest spending reductions and receipts increases necessary to hold debt held by the public as a share of GDP at the end of the projection period to its value at the beginning of the period. The valuation date for the Statements of Long-Term Fiscal Projections is September 30.

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

Overall, the federal government has made significant strides in improving financial management since key federal financial management reforms were enacted in the 1990s. Twenty-two of the 24 Chief Financial Officers Act of 1990 (CFO Act) agencies received unmodified ("clean") opinions on their respective entities' fiscal year 2020 financial statements, up from six CFO Act agencies that received clean audit opinions for fiscal year 1996.[10] In addition, accounting and financial reporting standards have continued to evolve to provide greater transparency and accountability over the federal government's operations, financial condition, and fiscal outlook. In August 2020, we highlighted the substantial progress made in federal financial management and identified several challenges that remain in fully achieving the vision of the CFO Act.[11] Areas where federal financial management can be enhanced include standardizing the responsibilities of chief financial officers, preparing government-wide and agency-level financial management plans, and better linking performance and cost information for decision-making.

While the U.S. government's consolidated financial statements provide a high-level summary of the financial position, financial condition, and operating results for the federal government as a whole, substantial benefits have been achieved as a result of agencies' preparation and audit of financial statements, including

- useful and necessary insight into government operations, including the agencies' financial conditions;
- increased federal agency accountability to Congress and citizens, including independent assurance about the reliability of reported financial information;
- greater confidence to stakeholders (governance officials, taxpayers, consumers, or regulated entities) that federal funds are being properly accounted for and assets are properly safeguarded;
- an assessment of the reliability and effectiveness of systems and related internal controls, including identifying control deficiencies that could lead to fraud, waste, or abuse;
- a focus on information security;
- early warnings of financial management issues; and
- identification of noncompliance with laws and regulations, which can present challenges to agency operations.

The preparation and audit of individual federal entities' financial statements have also identified numerous deficiencies, leading to corrective actions to strengthen federal entities' internal controls, processes, and systems. For instance, the Department of Housing and Urban Development took corrective actions to address deficiencies identified during its audits that enabled it to obtain a clean audit opinion on its fiscal year 2020 financial statements after

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

[11]GAO, *Federal Financial Management: Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits*, GAO-20-566 (Washington, D.C.: Aug. 6, 2020).

receiving a qualified opinion on its fiscal year 2019 financial statements and receiving disclaimers of opinion on its financial statements for several years before that.

However, since the federal government began preparing consolidated financial statements over 20 years ago, three major impediments have continued to prevent us from rendering an opinion on the federal government's accrual-based consolidated financial statements: (1) serious financial management problems at the Department of Defense (DOD), (2) the federal government's inability to adequately account for intragovernmental activity and balances between federal entities, and (3) weaknesses in the federal government's process for preparing the consolidated financial statements. In addition, the Small Business Administration (SBA), which had substantial activity related to the COVID-19 pandemic response, received a disclaimer of opinion on its fiscal year 2020 financial statements, after years of receiving clean opinions.

DOD continues to take positive steps to improve its financial management, but faces long-standing issues. After many years of working toward financial statement audit readiness, DOD underwent full financial statement audits for fiscal years 2018 through 2020. These audits resulted in disclaimers of opinion, material weaknesses in internal control over financial reporting (25 in fiscal year 2019 and 26 in fiscal year 2020), and thousands of audit findings. Some of the material weaknesses—such as an inability to account for its property and equipment and ineffective information system controls—are examples of long-standing weaknesses that DOD has been unable to address.

DOD leadership identified a number of financial management-related benefits from these department-wide audits, as well as operational improvements. Specifically, DOD stated that some of the benefits of the audit process included the following:

- Inventories of real property resulted in improved accuracy of inventory records and redeployed maintenance costs.
- DOD enhanced its information technology efficiency by consolidating systems to reduce complexity, improve data flow, and improve internal controls. These efforts resulted in a savings of $19 million in recurring maintenance costs for legacy systems.
- Inventory cleanup initiatives identified almost $3 billion in materials that could be used for redeployment. As a result, DOD was able to use $50 million of this material to fill over 12,000 requisitions.

DOD has acknowledged that achieving a clean audit opinion will take time. In fiscal year 2020, DOD management prioritized certain critical areas (e.g., information technology, real property, and inventory) for improvement. DOD reported that the number of audit findings closed and material weaknesses downgraded from year to year is the objective measure of progress toward that goal. DOD will also track progress by the number of components moving from disclaimers of opinion to clean opinions. For fiscal year 2020, while the number of overall audit findings increased, two material weaknesses were downgraded; 24 percent of findings from prior year financial statement audits were closed; and the Defense Information Systems Agency, a component of DOD, received a clean opinion, after years of receiving disclaimers of opinion.

Various efforts are also under way to address the other two major impediments to an audit of the consolidated financial statements. Regarding the government's inability to adequately account for intragovernmental activity and balances between federal entities, during fiscal year 2020, the Department of the Treasury (Treasury) continued to provide information and assistance to significant component entities to aid in resolving their intragovernmental differences.[12] Treasury also issued additional guidance to federal entities related to accounting for intragovernmental transactions. Regarding weaknesses in the federal government's process for preparing the consolidated financial statements, in recent years, Treasury's corrective actions have included improving systems and implementing new processes for preparing the consolidated financial statements, enhancing guidance for collecting data from component entities, and implementing procedures to address certain internal control deficiencies detailed in our previously issued management report.[13] In addition to Treasury's and OMB's continued leadership, federal entities' strong and sustained commitment is critical to fully addressing these issues.

SBA's auditor reported that the urgent need for SBA to implement COVID-19 pandemic-related programs as quickly and efficiently as possible led to deficiencies in internal control processes. SBA's auditor identified several material weaknesses in internal control related to PPP and disaster loans under the Economic Injury Disaster Loan (EIDL) program. These weaknesses included control deficiencies in SBA's loan and loan guarantee approvals, reporting and estimating costs for loan guarantees, and overseeing service providers for both programs. SBA's auditor made 29 recommendations to address these material weaknesses and 17 recommendations to address other internal control deficiencies. We, along with SBA's Office of Inspector General (OIG), have also reported concerns with SBA's internal controls over PPP and EIDL. Since June 2020, we have made three recommendations to SBA related to its COVID-19 pandemic programs, including that SBA take steps to ensure program integrity and identify and respond to risks, including fraud. SBA's OIG has also highlighted the need for strong oversight of these programs. SBA's deficiencies related to PPP and EIDL limit the reliability of SBA's financial reporting and increase the risk of fraud and improper payments.

The material weaknesses underlying these three major impediments, as well as the new weaknesses identified at SBA, (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost, as well as the financial and nonfinancial performance, of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable, useful, and timely financial information to operate effectively and efficiently. We have made a number of recommendations to OMB, Treasury, and DOD to address these issues.[14] These entities have taken or plan to take actions to address these recommendations.

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[12]OMB and Treasury have identified 40 federal entities that are significant to the U.S. government's fiscal year 2020 consolidated financial statements, including the 24 CFO Act agencies. See app. A of the *Fiscal Year 2020 Financial Report of the United States Government* for a list of the 40 entities.

[13]GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, GAO-20-586 (Washington, D.C.: Aug. 25, 2020).

[14]See GAO-20-586. In addition, see GAO, *DOD Financial Management*, accessed Mar. 17, 2021, https://www.gao.gov/highrisk/dod_financial_management. Further, other auditors have made recommendations to DOD and SBA for improving its financial management. In addition, see GAO, *High Risk Area: Emergency Loans for Small Businesses*, accessed Mar. 17, 2021, https://www.gao.gov/highrisk/emergency-loans-small-businesses.

In addition to the material weaknesses referred to above, we identified two other material weaknesses. These are the federal government's inability to (1) determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them and (2) identify and resolve information security control deficiencies and manage information security risks on an ongoing basis. The fiscal year 2020 government-wide total of reported estimated improper payments was $206 billion. Our audit report presents additional details concerning these material weaknesses and their effect on the accrual-based consolidated financial statements and managing federal government operations. Until the problems outlined in our audit report are adequately addressed, they will continue to have adverse implications for the federal government and the American people.

The 2020 Statement of Long-Term Fiscal Projections and related information in Note 24 and in the unaudited Required Supplementary Information section of the *2020 Financial Report* show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path. GAO and the Congressional Budget Office (CBO) also prepare long-term federal fiscal simulations, which continue to show federal debt held by the public rising as a share of gross domestic product (GDP) in the long term.[15] This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable.

GAO, CBO, and the *2020 Financial Report*, although using somewhat different assumptions, all project that debt held by the public as a share of GDP will surpass its historical high (106 percent in 1946) in the next 4 to 10 years. Health care and Social Security remain key drivers of federal non-interest spending in the long-term projections. In addition, while interest rates are historically low, GAO, CBO, and the *2020 Financial Report* project growing debt will lead to higher spending on net interest (primarily interest on debt held by the public).

Congress and the administration have responded in an unprecedented manner to the COVID-19 pandemic and the resulting severe economic repercussions. This fiscal response and the economic repercussions generated a substantial increase in federal debt, further complicating our government's fiscal condition and outlook. Once the pandemic recedes and the economy substantially recovers, Congress and the administration should quickly pivot to developing an approach to place the federal government on a sustainable long-term fiscal path.

Since 2017, we have stated that a fiscal plan is needed to ensure that the United States remains in a strong economic position to meet its social and security needs, as well as to preserve flexibility to address unforeseen events like public health emergencies. In developing a fiscal plan at the appropriate time, policymakers will need to consider the entire range of federal activities, both revenue (including tax expenditures) and spending (entitlement programs, other mandatory spending, and discretionary spending) that affect the debt.[16]

Congress's efforts to improve the federal government's long-term fiscal path could benefit from well-designed fiscal rules and targets. Fiscal rules and targets can help manage debt by controlling factors like spending and revenue as part of a long-term fiscal plan. A variety of rules and targets exist, each with its own advantages and drawbacks, and governments can use a

[15]For more information on GAO's simulations, see GAO, *America's Fiscal Future*, accessed on Mar. 17, 2021, https://www.gao.gov/americas_fiscal_future. For more information on CBO's simulations, see Congressional Budget Office, *The 2021 Long-Term Budget Outlook* (Washington, D.C.: Mar. 4, 2021).

[16]Tax expenditures, as defined by law, are provisions of the federal tax code that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the federal government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates. 2 U.S.C. § 622(3).

combination of rules to help address the deficiencies of any one particular rule. To help Congress in designing any rules and targets, in September 2020, we identified a number of key considerations based on a literature review and interviews with experts on fiscal policy and fiscal rules.[17] We have also suggested that the long-term fiscal plan include fiscal rules and targets, such as a debt-to-GDP target.[18] As part of the fiscal plan, Congress should consider its medium- and long-term fiscal goals and align those goals with annual budgets to form a consistent strategy.

We have also recommended that Congress consider alternative approaches to the current debt limit as part of any long-term fiscal plan. The debt limit is a legal limit on the total amount of federal debt that can be outstanding at one time.[19] However, it does not restrict Congress's ability to pass spending and revenue legislation that affects the level of debt in the future, nor does it otherwise constrain fiscal policy. As currently structured, the debt limit is not a fiscal rule; it is a limit only on Treasury's authority to borrow in order to finance the decisions already enacted by Congress and the President.

The combination of the liquidity, depth, and safety of the U.S. Treasury market is unmatched in global markets. These characteristics make Treasury securities a unique and critical asset for a broad range of investors. Many investors accept low yields on Treasury securities because they are considered one of the safest assets in the world. This enables Treasury to keep borrowing costs low. By limiting Treasury's borrowing ability without restraining spending and revenue decisions, the debt limit as currently designed does not limit debt, but it does threaten investors' confidence in U.S. Treasury securities. Uncertainty over whether the debt limit will be raised or suspended leads to increased borrowing costs and disrupts the market for Treasury securities.[20] One cannot overstate the importance of preserving the confidence that investors have that debt backed by the full faith and credit of the United States will be honored.

Further, there are other risks, such as public health emergencies, cyberattacks, military engagements, and economic crises, that could affect the federal government's financial condition and its financial management in the future. These risks are not fully accounted for in the government's long-term fiscal projections. We discuss certain specific risks further in our

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[17]GAO, *The Nation's Fiscal Health: Effective Use of Fiscal Rules and Targets*, GAO-20-561 (Washington, D.C.: Sept. 23, 2020).

[18]GAO, *The Nation's Fiscal Health: Information on the Spending and Revenue Implications of Potential Debt Targets,* GAO-21-211 (Washington, D.C.: Dec. 15, 2020).

[19]The debt limit is codified at 31 U.S.C. § 3101(b), as amended, and applies to federal debt issued pursuant to authority under 31 U.S.C. chapter 31. A very small amount of total federal debt is not subject to the debt limit. This amount primarily comprises unamortized discounts on Treasury bills and Zero Coupon Treasury bonds; debt securities issued by agencies other than Treasury, such as the Tennessee Valley Authority; and debt securities issued by the Federal Financing Bank. The Bipartisan Budget Act of 2019 temporarily suspended the debt limit through July 31, 2021. Pub. L. No. 116-37, § 301, 133 Stat. 1049, 1057 (Aug. 2, 2019), *reprinted in* 31 U.S.C. § 3101 note.

[20]See GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, GAO-15-476 (Washington, D.C.: July 9, 2015), and *Federal Debt Management: Treasury Should Strengthen Policies for Market Outreach and Analysis to Maintain Broad-Based Demand for Securities*, GAO-20-131 (Washington, D.C.: Dec. 5, 2019).

annual report on the fiscal health of the federal government.[21] Some of the specific risks that could affect the federal government's financial condition include the following:

- Federal support of the housing finance market remains significant even though the market has largely recovered since the 2007 to 2009 financial crisis. In 2008, the federal government placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) under conservatorship and entered into preferred stock purchase agreements with these government-sponsored enterprises (GSE) to help ensure their financial stability. These agreements could affect the federal government's financial condition. At the end of fiscal year 2020, the federal government reported about $109 billion of investments in the GSEs, which is net of about $118 billion in valuation losses. The GSEs paid Treasury no cash dividends during fiscal year 2020 and $15 billion during fiscal year 2019, respectively. The reported maximum remaining contractual commitment to the GSEs, if needed, is about $254 billion.

- Disaster costs are projected to increase as extreme weather events become more frequent and intense because of climate change as observed and projected by the U.S. Global Change Research Program and the National Academies of Sciences, Engineering, and Medicine. Federal insurance programs are also likely to be affected by the increasing costs of weather and climate disasters. For example, as currently structured, the National Flood Insurance Program's premiums and dedicated resources are not, over the long term, sufficient to cover expected costs without borrowing from Treasury.[22] As of September 30, 2020, the Federal Emergency Management Agency (FEMA), which administers the National Flood Insurance Program, owed about $21 billion to Treasury for money borrowed to pay claims and other expenses. We have reported that FEMA is unlikely to collect enough in premiums in the future to repay this debt.[23]

  The U.S. Postal Service (USPS) continues to be in poor financial condition. USPS cannot fund its current level of services and meet its financial obligations from its current level of revenues. The fiscal year 2020 net loss of $9.2 billion marked its 14th consecutive year of net losses—totaling $87 billion. In addition, USPS has missed $63.3 billion in required payments for postal retiree health and pension benefits through fiscal year 2020, including $51.9 billion in missed payments for retiree health benefits and $11.4 billion in missed payments for pension benefits. USPS stated that it missed these payments to minimize the risk of running out of cash.

Every 2 years, GAO provides Congress with an update on its High Risk Series, which highlights federal entities and program areas that are at high risk because of their vulnerabilities to fraud, waste, abuse, and mismanagement or are most in need of broad reform. We issued our most

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[21]GAO, *The Nation's Fiscal Health: After Pandemic Recovery, Focus Needed on Achieving Long-Term Fiscal Sustainability,* GAO-21-275SP (Washington, D.C.: Mar. 23, 2021).

[22]We have suggested an alternative way to record insurance commitments in the budget such that the federal government's commitment would be more fully recognized. See GAO, *Fiscal Exposures: Federal Insurance and Other Activities That Transfer Risk or Losses to the Government*, GAO-19-353 (Washington, D.C.: Mar. 27, 2019).

[23]GAO, *Flood Insurance: Comprehensive Reform Could Improve Solvency and Enhance Resilience*, GAO-17-425 (Washington, D.C.: Apr. 27, 2017).

recently updated High Risk Series on March 2, 2021.[24] GAO's High Risk Series includes most of the above-noted issues, such as DOD financial management, federal government information security, resolving the federal role in housing finance, the National Flood Insurance Program, and USPS financial viability. In addition, because of SBA's limited controls over PPP and EIDL approvals and the lack of finalized oversight plans to identify and respond to risks, we added SBA Emergency Loans for Small Businesses as a new high-risk area.

Our audit report on the U.S. government's consolidated financial statements would not be possible without the commitment and professionalism of inspectors general throughout the federal government who are responsible for annually auditing the financial statements of individual federal entities. We also appreciate the cooperation and assistance of Treasury and OMB officials as well as the federal entities' chief financial officers' flexibility, adaptability, and ability to issue their financial statements on a timely basis. We look forward to continuing to work with these individuals, the administration, and Congress to achieve the goals and objectives of federal financial management reform.

Our guide, *Understanding the Financial Report of the United States Government*, is intended to help those who seek to obtain a better understanding of the financial report and is available on GAO's website at https://www.gao.gov.[25]

We are sending copies of this report to the Majority and Minority Leaders of the U.S. Senate and House of Representatives, interested congressional committees, the Secretary of the Treasury, the Director of the Office of Management and Budget, and other agency officials. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

Our audit report was prepared under the direction of Robert F. Dacey, Chief Accountant, and Dawn B. Simpson, Director, Financial Management and Assurance. If you have any questions, please contact me on (202) 512-5500 or them on (202) 512-3406. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Gene L. Dodaro
Comptroller General
of the United States

(104199)

[24]See GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, GAO-21-119SP (Washington, D.C.: Mar. 2, 2021).

[25]GAO, *Understanding the Financial Report of the United States Government*, GAO-18-239SP (Washington, D.C.: Feb. 2018).

FINANCIAL REPORT

OF THE UNITED STATES GOVERNMENT

FY20

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

March 25, 2021

A Message from the Secretary

During fiscal year 2020, the United States - and the world at large - were struck by a global pandemic and an adjacent economic crisis. In response, the U.S. government launched an enormous effort to help Americans endure the health and economic emergencies. This Financial Report of the United States Government provides a window into the efforts supporting the nation's recovery, many of which are still ongoing.

The fiscal year 2020 Financial Report is an important resource for accountability and transparency. It provides a comprehensive overview of the federal government's financial position and results, including the effects of the response to the COVID-19 pandemic as of September 30, 2020. In these pages, you will find information about the critical programs precipitated by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and related legislative measures, which provided more than $2 trillion in much needed support. That support included, but was not limited to, direct payments to citizens and families, the provision of forgivable loans to small businesses to encourage employee retention, assistance to especially hard-hit industries, expanded unemployment insurance, help for state, local, and tribal governments, and funding for the development and purchase of vaccines, therapeutic treatment, testing, and medical supplies.

This Financial Report discusses not only current financial results but also important, long-term trends affecting our critical social insurance programs and fiscal health.

It is my duty and pleasure to present this Financial Report to the American people. This document is a testament to the importance of accountability and transparency in how the nation handles its finances and economic policymaking.

Janet L. Yellen

Janet L. Yellen

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

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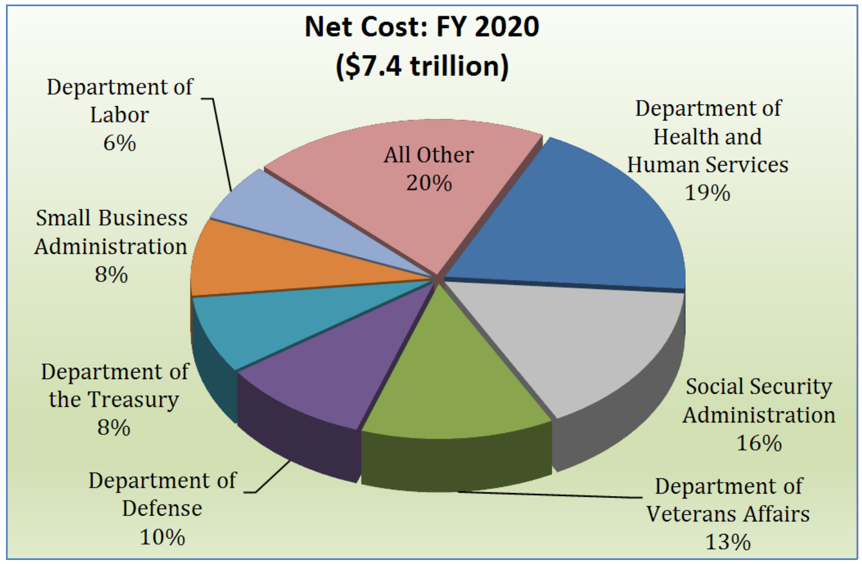
RESULTS IN BRIEF
Highlights of the FY 2020 Financial Report of the U.S. Government

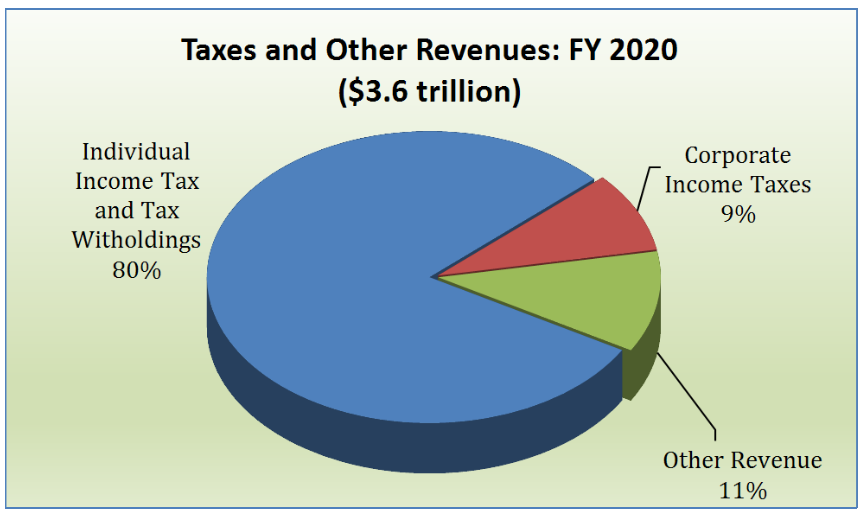
Where We Are Now

The government's net cost before taxes and other revenues for FY 2020 was $7.4 trillion - an increase of $2.3 trillion (46.3 percent) from FY 2019.



Net cost equals gross costs of $7.2 trillion, less earned program revenues (e.g., Medicare premiums, national park entry fees), and then adjusted for gains or losses from assumption changes used to estimate future federal employee and veteran benefits payments.

The increase in net cost is attributable to the combined effect of many offsetting increases and decreases across the government, including, but not limited to:



- Net cost increases at SBA ($559.1 billion), Treasury ($405.0 billion), HHS ($184.8 billion), DOL ($452.7 billion) attributable in great part to pandemic relief efforts.
- Net cost increase totaling $480.6 billion across multiple agencies, including, but not limited to VA (net loss), DOD (net gain), and OPM (net loss) associated with changes in actuarial assumptions for the costs of federal employee and veteran benefits programs.
- HHS and SSA net costs increased $184.8 billion and $56.4 billion, respectively resulting largely from COVID-19 relief efforts at HHS referenced above, as well as increases in benefit expenses from the social insurance programs administered by these entities (e.g., Medicare and Social Security).
- A decrease of $32.5 billion in interest costs related to federal debt securities held by the public largely due to a decrease in the average interest rates on the debt.

Total government tax and other revenues decreased by $49.4 billion (1.4 percent) to about $3.6 trillion for FY 2020. The government deducts the $3.6 trillion in tax and other revenues from its $7.4 trillion net cost (with some adjustments) to derive its FY 2020 "bottom line" net operating cost of $3.8 trillion, a $2.4 trillion increase over FY 2019.

By comparison, the government's budget deficit for FY 2020 was $3.1 trillion – an increase of $2.1 trillion over FY 2019. The $696.9 billion difference between the budget deficit and net operating cost is primarily due to accrued costs (incurred but not paid) relating to federal employee and veteran benefits that are included in net operating cost, but not the budget deficit.

An Unsustainable Fiscal Path

The long-term fiscal projections indicate that the government's debt-to-GDP ratio will rise to 623 percent over the 75-year projection period, and will continue to rise thereafter, if current policy is kept in place. The debt-to-GDP at September 30, 2020 was 100 percent. The continuous rise of the debt-to-GDP ratio projections based on the assumptions in this *Financial Report* indicates that current policy is not sustainable. These projections assume that current policy will continue indefinitely, and are, therefore, neither forecasts nor predictions. While the projections are inherently uncertain, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely. This report presents data, including debt, as a percent of GDP to help readers assess whether current fiscal policy is sustainable. The long-term fiscal projections in this report are based on the same economic assumptions that underlie the Social Security Trustees' Report, and those assumptions were developed using data available as of January 1, 2020, prior to the economic downturn. At this time, management cannot reasonably estimate the potential effects of COVID-19 on the projections or other sustainability measures, which could be significant.

The primary deficit is the difference between non-interest spending and receipts. The primary deficit projections, along with those for interest rates and GDP, determine the debt-to-GDP ratio projections. The ratio of the primary deficit to GDP is useful for gauging long-term fiscal sustainability. This ratio spiked from FY 2009 through FY 2012 due to the financial crisis of 2008-09, the ensuing severe recession, and increased spending and temporary tax reductions enacted to stimulate the economy and support recovery. As the economic recovery took hold, the primary deficit-to-GDP ratio fell, averaging 2.1 percent from FYs 2013-2019. The primary deficit-to-GDP ratio spiked again in 2020 rising to 13.3 percent of GDP due to increased spending to address the COVID-19 pandemic and lessen the economic impacts of stay-at-home and social distancing orders on individuals, hard-hit industries, and small businesses. The ratio is projected to fall to 6.0 percent in FY 2021 and then shrink to 2.9 percent in 2023 as the economy grows and spending due to legislation enacted in response to the COVID-19 pandemic decreases. After FY 2024, increased spending for Social Security and health programs is projected to result in increasing primary deficits that will peak in FY 2042 at 5.4 percent. This effect is due to the continued retirement of the baby boom generation and increases in health care costs. After FY 2042, the ratio is projected to gradually decrease to 4.3 percent by FY 2095 as the aging of the population slows.

The expiring individual income and estate and gift tax provisions of the TCJA are assumed to continue past their legal expiration on December 31, 2025 because of the recent historical pattern of such tax rates being extended, similar to the presentation in the FY 2021 President's Budget. Congressional action is required to extend the provisions of the TCJA. GDP, interest, and other economic and demographic assumptions are the same as those that underlie the most recent Social Security and Medicare Trustees' Report projections, adjusted for historical revisions that occur annually. See Note 24—Long-Term Fiscal Projections for additional information.

If changes in policy are not so abrupt as to slow economic growth, then the sooner policy changes are adopted, the smaller the changes to revenue and/or spending will be required to return the government to a sustainable fiscal path.

The Federal Government's Response to the Pandemic

During FY 2020, the federal government took broad action to protect public health from the effects of the unprecedented pandemic, enacting four major pieces of legislation, including, but not limited to P.L. 116-136, the CARES Act. These laws address the health and economic effects of COVID-19, providing assistance to American workers and families, small businesses, and state, local, and tribal governments, and preserving jobs for American industry. The financial effects of the government's response to the COVID-19 pandemic during FY 2020 were broad, impacting many agencies in a variety of ways and to varying degrees. The *Financial Report* includes discussion and analysis of the significant impact that the federal government's response to the COVID-19 pandemic had on the government's financial results during FY 2020. This Report also discusses significant events that occurred after the end of the fiscal year, but prior to release of this Report.

NATION BY THE NUMBERS

A Snapshot of The Government's Financial Position & Condition

	2020	2019*
Financial Measures (Dollars in Billions):		
Total Tax and Other Unearned Revenues	**$ 3,571.6**	**$ 3,621.0**
Net Cost:		
Gross Costs	$ (7,194.1)	$ (5,287.2)
Less: Earned Revenue	$ 461.6	$ 418.4
Gain/(Loss) from Changes in Assumptions	$ (679.5)	$ (198.9)
Total Net Cost	**$ (7,412.0)**	**$ (5,067.7)**
Unmatched Transactions and Balances	$ 11.6	$ 0.4
Net Operating Cost	**$ (3,828.8)**	**$ (1,446.3)**
Budget Deficit	**$ (3,131.9)**	**$ (984.4)**
Assets, comprised of:		
Cash and Other Monetary Assets	$ 1,926.9	$ 524.6
Direct Loans and Loan Guarantees Receivable, Net	$ 1,577.4	$ 1,425.8
General Property, Plant, and Equipment, Net	$ 1,145.0	$ 1,106.9
Other	$ 1,301.4	$ 934.7
Total Assets	**$ 5,950.7**	**$ 3,992.0**
Less: Liabilities, comprised of:		
Federal Debt and Interest Payable	$ (21,082.9)	$ (16,861.0)
Federal Employee & Veteran Benefits Payable	$ (9,409.3)	$ (8,440.3)
Other	$ (2,251.7)	$ (1,643.5)
Total Liabilities	**$ (32,743.9)**	**$ (26,944.8)**
Unmatched Transactions and Balances	$ (3.1)	$ (14.7)
Net Position[1]	**$ (26,796.3)**	**$ (22,967.5)**
Sustainability Measures (Dollars in Trillions):		
Social Insurance Net Expenditures	$ (65.5)	$ (59.1)
Total Federal Non-Interest Net Expenditures	$ (79.5)	$ (49.0)
Sustainability Measures as Percent of Gross Domestic Product (GDP):		
Social Insurance Net Expenditures	(4.2%)	(4.1%)
Total Federal Non-Interest Net Expenditures	(4.8%)	(3.2%)
Fiscal Gap[2]	(5.4%)	(3.8%)

*Restated (see Financial Statement Note 1.U)

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

[2] To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amount to 5.4 percent of GDP on average is needed (3.8 percent of GDP on average in 2019). See Financial Statement Note 24.

Executive Summary to the FY 2020 Financial Report of the United States Government

The FY 2020 *Financial Report* presents the U.S. government's current financial position and condition, and discusses key financial topics and trends. The *Financial Report* is produced by Treasury in coordination with OMB, which is part of the Executive Office of the President. The table on the preceding page presents several key indicators of the government's financial position and condition, which are discussed in this Executive Summary and, in greater detail, in the *Financial Report*. The Secretary of the Treasury, the Director of OMB, and the Comptroller General of the U.S. at the GAO believe that the information discussed in this *Financial Report* is important to all Americans.

This *Financial Report* addresses the government's financial activity and results as of and for the fiscal years ended September 30, 2020 and 2019. 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.

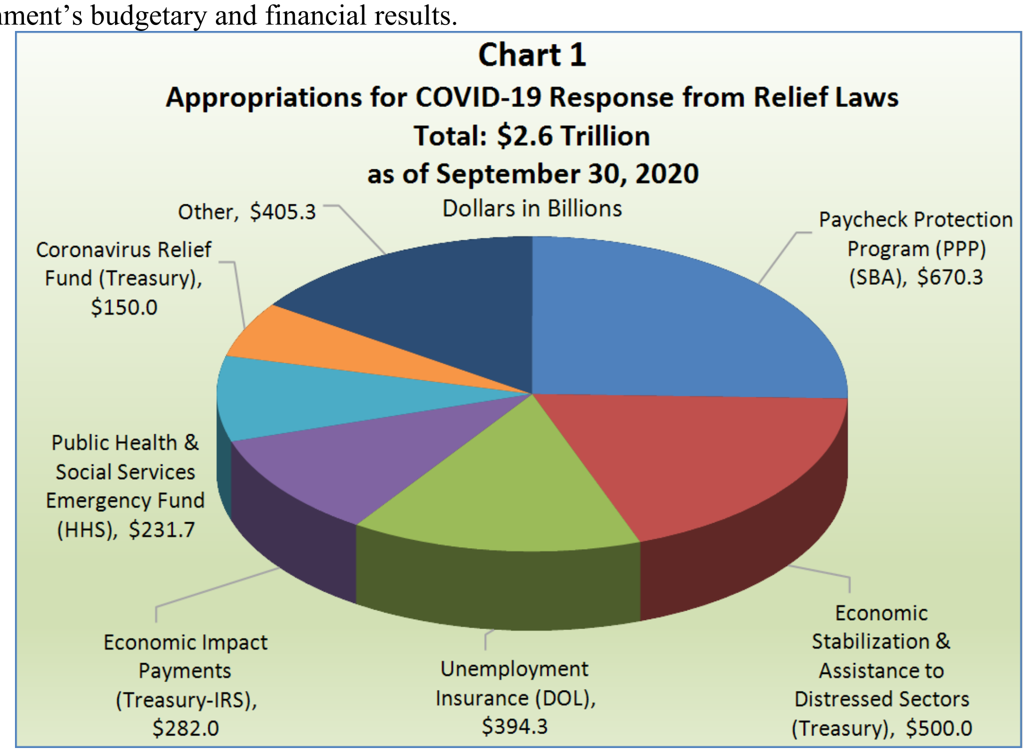
Where We Are Now

The Federal Government's Response to the Pandemic

During FY 2020, the federal government took broad action to protect public health from the effects of the unprecedented pandemic, signing into law four major pieces of legislation:

- *Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020* (P.L. 116-123)
- *Families First Coronavirus Response Act* (FFCRA, P.L. 116-127)
- *Coronavirus Aid, Relief, and Economic Security* (CARES Act, P.L. 116-136)
- *Paycheck Protection Program and Health Care Enhancement Act* (PPPHCE Act, P.L. 116-139)

These laws address the health and economic effects of COVID-19, providing assistance to American workers and families, small businesses, and state, local, and tribal governments, and preserving jobs for American industry. As indicated here and in the *Financial Report*, these essential programs had significant effects on the federal government's budgetary and financial results.



Source: Treasury – Central Accounting Reporting System (CARS)

Chart 1 summarizes the more than $2.6 trillion in appropriations enacted for key pandemic-related assistance programs, which include, but are not limited to:

- The PPP, administered by SBA, is a loan guarantee program designed to provide a direct incentive for small businesses to retain employees by providing loan forgiveness for amounts used for eligible expenses for payroll and benefit costs, interest on mortgages, rent, and utilities. ($670.3 billion)

- Through its Economic Stabilization and Assistance to Severely Distressed Sectors of the U.S. Economy efforts (CARES Act Title IV), Treasury, including in collaboration with the Federal Reserve, provides funding through direct loans or other support for various businesses and state and local governments. ($500.0 billion)

- Through its UI Program, DOL expands states' ability to provide unemployment insurance for many workers impacted by the pandemic, including for workers who are not eligible for regular/traditional unemployment benefits. ($394.3 billion)

- The IRS provided a refundable tax credit, the recovery rebate, of $1,200 per qualifying adult, and $500 per dependent child, and a deferral of payment of employer's share of Social Security taxes through December 2020. ($282.0 billion)

- Through the PHSSEF, HHS provides broad support, including, but not limited to: reimbursements to health care providers for expenses or lost revenues attributable to the pandemic, and support for the development and purchase of vaccines, therapeutic treatment, testing, and medical supplies. ($231.7 billion)
- Through Coronavirus Relief Fund efforts, Treasury provides for payments to state, local, and tribal governments for pandemic-related spending. ($150.0 billion)

- Many other agencies and programs comprise the remaining $405.3 billion reported as "Other" in Chart 1, including, but not limited to funding for: transportation system assistance at the DOT, student loan deferrals at Education, and FEMA's Disaster Relief Fund.
- Note 29—Subsequent Events, discusses the financial effects of significant events that occurred following the end of the fiscal year, but prior to issuance of this *Financial Report*. For example, on December 27, 2020, the President signed into law the *Consolidated Appropriations Act, 2021* (PL 116-120). This act included provisions for an additional $900.0 billion in stimulus relief related to the pandemic and rescinded $478.8 billion of the $500.0 billion appropriation provided to Treasury referenced above. In addition, $146.5 billion that was appropriated to SBA under the SBA-Business Loans Program Account, CARES Act was rescinded under the *Consolidated Appropriations Act, 2021*. In addition, on March 11, 2021, the President signed into law the *American Rescue Plan Act, 2021,* a $1.9 trillion economic relief package to address the continued impact of COVID-19 on the economy. Additional information about these and other subsequent events and their effects are referenced in Note 29.

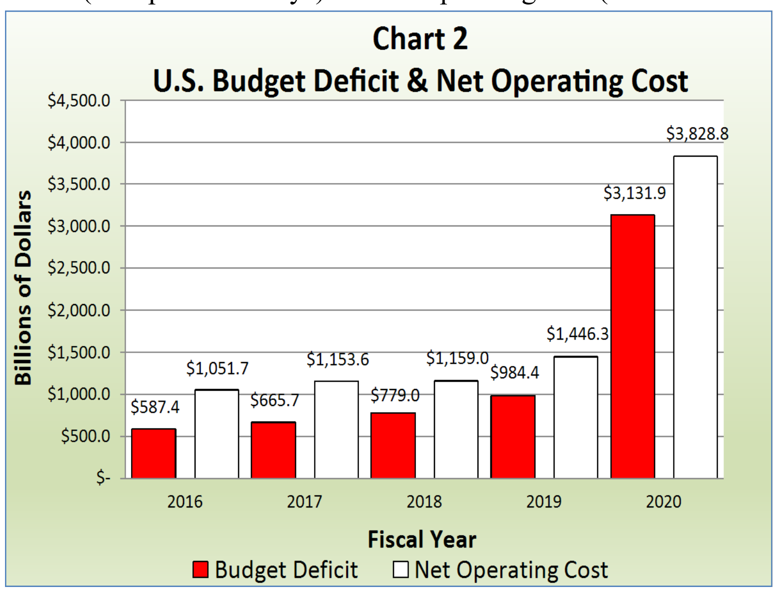
The financial effects of the government's response to the COVID-19 pandemic were broad, impacting many agencies in a variety of ways and to varying degrees. The *Financial Report* includes discussion and analysis of the significant impact that the federal government's response to the COVID-19 pandemic had on the government's financial statements for FY 2020. Additional information can be obtained from individual agency financial statements.

Comparing the Budget and the Financial Report

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

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

Chart 2 compares the government's budget deficit (receipts vs. outlays) and net operating cost (revenues vs. costs) for FYs 2016 - 2020. During FY 2020:

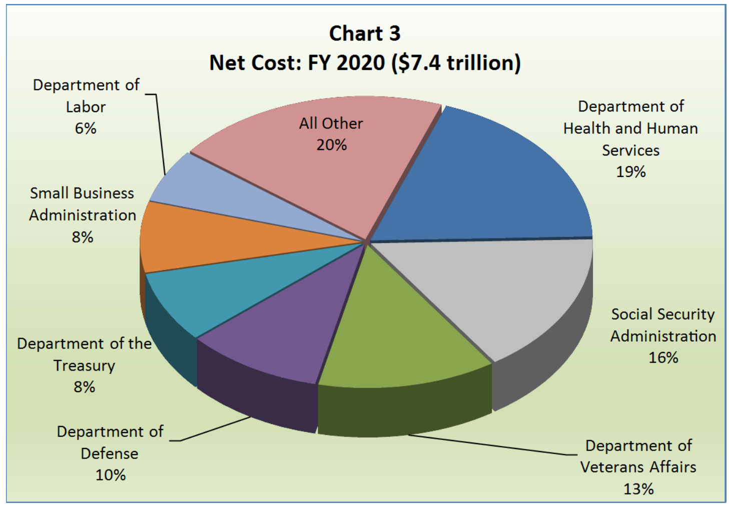


- A $2.1 trillion increase in outlays and a $42.2 billion decrease in receipts combined to increase the budget deficit by $2.1 trillion to $3.1 trillion.
- Net operating cost increased $2.4 trillion or 164.7 percent from $1.4 trillion to $3.8 trillion, due mostly to a $2.3 trillion or 46.3 percent increase in net cost combined with a $49.4 billion or 1.4 percent decrease in tax and other revenues.

The $696.9 billion difference between the budget deficit and net operating cost is primarily due to accrued costs (incurred but not necessarily paid) that are included in net operating cost, but not the budget deficit, primarily costs related to increases in estimated federal employee and veteran benefits liabilities. Other sources of differences include, but are not limited to increases in taxes receivable, as well as increases in advances associated with the government's pandemic response.

Costs and Revenues

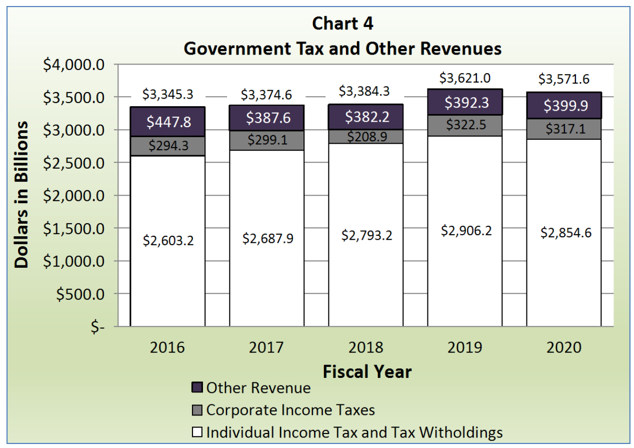
The government's "bottom line" net operating cost increased $2.4 trillion (164.7 percent) during FY 2020 to $3.8 trillion. It is calculated as follows:



- Starting with total gross costs of $7.2 trillion, the government subtracts earned program revenues (e.g., Medicare premiums, national park entry fees, and postal service fees) and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate future federal employee and veteran benefits payments to derive its net cost before taxes and other revenues of $7.4 trillion (see Chart 3), an increase of $2.3 trillion (46.3 percent) from FY 2019. This net increase is the combined effect of many offsetting increases and decreases across the government. For example:
  - The federal government's response to the COVID-19 pandemic translated into substantial increases in costs across multiple agencies during FY 2020, including but not limited to:
    - A $559.1 billion increase in net costs at the SBA, driven primarily by a $527.8 billion increase in loan subsidy costs, including reestimates, attributable to the PPP and Debt Relief programs under the CARES Act. As noted earlier, the PPP provides loan forgiveness for amounts used for eligible expenses for payroll and benefit costs. Under the Debt Relief program, SBA pays six months of principal, interest, and any associated fees that borrowers owe for all current loans in regular servicing status in its 7(a), 504, and Microloan programs, as well as new 7(a), 504, and Microloans disbursed prior to September 27, 2020;
    - A $452.7 billion increase at DOL, much of which is attributable to a $461.4 billion increase primarily associated with unemployment benefits authorized by the CARES Act;
    - A $405.0 billion increase in Treasury net costs largely due to the issuance of "Economic Impact Payments" to individuals to help stimulate the economy. In FY 2020, the IRS disbursed $274.7 billion of EIPs to eligible recipients in every state and territory and at foreign addresses. Treasury's net cost increase is also due in part from Coronavirus relief fund payments made to affected state, local, territorial, and tribal governments. $80.6 billion of the $149.5 billion of such payments made was recognized as net costs in FY 2020. Treasury costs also include $28.2 billion in financial assistance payments to passenger air carriers, air cargo carriers, and contractors, and to provide payroll support to aviation workers; and
    - A $184.8 billion net cost increase at HHS primarily due to a $106.2 billion increase to the PHSSEF to fund a wide range of efforts, including, but not limited to reimbursements to health care providers for expenses or lost revenues, and development and purchase of vaccines, therapeutic treatment, testing, and medical supplies.
  - Entities administering federal employee and veteran benefits programs, including the OPM, VA, and DOD employ a complex series of assumptions to make actuarial projections of their long-term benefits liabilities. These assumptions include but are not limited to interest rates, beneficiary eligibility, life expectancy, and medical cost levels. Changes in these assumptions can result in either losses (net cost increases) or gains (net cost decreases). Across the government, these net losses from changes in assumptions amounted to $679.5 billion in FY 2020, a loss (and net cost) increase of $480.6 billion compared to FY 2019.

- VA net costs increased $567.4 billion due largely to changes in benefits program experience and assumptions, including, but not limited to an increase in veterans who first became eligible for benefits during FY 2020.
- DOD net costs decreased $163.4 billion due primarily to a $156.4 billion loss decrease (net gain) from changes in assumptions referenced above, as well as slight decreases in net costs across DOD's major programs, including military operations, readiness, support, procurement, personnel, and R&D.
- HHS and SSA net costs increased $184.8 billion and $56.4 billion, respectively. These increases resulted largely from COVID-19 relief efforts at HHS referenced above, as well as increases in benefit expenses from the social insurance programs administered by these entities (e.g., Medicare and Social Security).
- DHS costs increased by $49.7 billion due to costs associated with disaster responses to COVID-19, hurricanes, and wildfires.
- While debt held by the public increased substantially, interest costs related to federal debt securities held by the public decreased by $32.5 billion due largely to a decrease in the average interest rates on the debt.

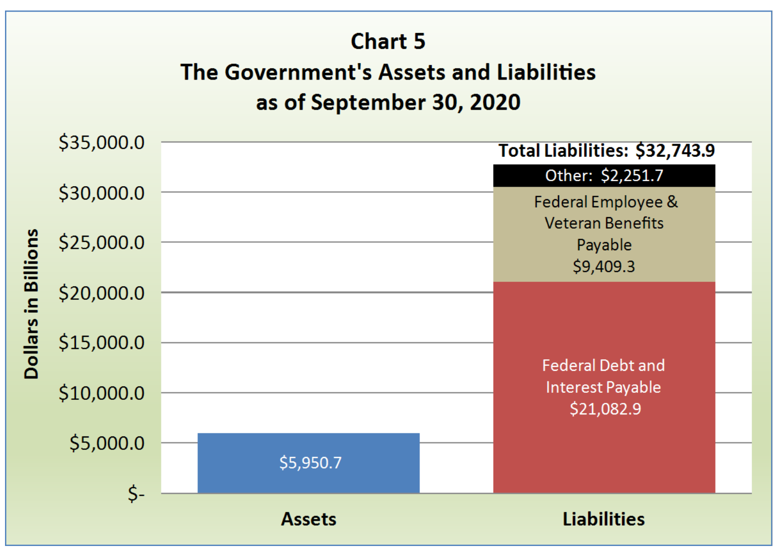
- The government deducts tax and other revenues from net cost (with some adjustments) to derive its FY 2020 "bottom line" net operating cost of $3.8 trillion.
  - From Chart 4, total government tax and other revenues decreased slightly by $49.4 billion (1.4 percent) to about $3.6 trillion for FY 2020. This net decrease was due primarily to a $51.6 billion decrease in individual tax revenue, compared with an offsetting decrease and increase in corporate and other tax revenue, respectively.
  - Together, individual income tax and tax withholdings, and corporate taxes accounted for about 88.8 percent of total tax and other revenues in FY 2020. Other revenues include Federal Reserve earnings, excise taxes, and customs duties.



Assets and Liabilities

Chart 5 summarizes the assets and liabilities that the government reports on its Balance Sheet. As of September 30, 2020:

- More than three-fourths of the federal government's total assets ($6.0 trillion) consist of: 1) $1.9 trillion in cash and monetary assets, 2) $1.6 trillion in net loans receivable (primarily student loans), and 3) $1.1 trillion in net PP&E.
  - Other significant government resources not reported on the Balance Sheet include stewardship assets, natural resources, and the government's power to tax and set monetary policy.
- Total liabilities ($32.7 trillion) consist mostly of: 1) $21.1 trillion in federal debt and interest payable and 2) $9.4 trillion in federal employee and veteran benefits payable.



- Federal debt held by the public is debt held outside of the government by individuals, corporations, state and local governments, FRB, foreign governments, and other non-federal entities.
- The government borrows from the public (increases federal debt levels) to finance deficits. During FY 2020, federal debt held by the public increased $4.2 trillion (25.0 percent) to $21.1 trillion.
- The government also reports about $6.0 trillion of intra-governmental debt outstanding, which arises when one part of the government borrows from another. For example, government funds (e.g., Social Security and Medicare Trust Funds) typically must invest excess annual receipts, including interest earnings, in Treasury-issued federal debt securities. Although not reflected in Chart 5, these securities are included in the calculation of federal debt subject to the debt limit.
- Federal debt held by the public plus intra-governmental debt equals gross federal debt, which, with some adjustments, is subject to a statutory debt ceiling ("debt limit"). At the end of FY 2020, debt subject to the statutory limit was $26.9 trillion. Increasing or suspending the debt limit does not increase spending or authorize new spending; rather, it permits the government to continue to honor pre-existing commitments. Effective March 2, 2019, the statutory debt limit was set at $22.0 trillion. On August 2, 2019, the *BBA of 2019* (P.L. 116-37) was enacted suspending the statutory debt limit through July 31, 2021.
- FEVBP represents the amounts of benefits payable by agencies which administer the government's pension and other benefit plans for its military and civilian employees.

The Effects of the Pandemic on the Balance Sheet

The COVID-19 pandemic's effects on the government's finances extended to the balance sheet, affecting both assets and liabilities, including, but not limited to:

- Cash and monetary assets ($1.9 trillion) is comprised largely of the operating cash of the U.S. government, which grew by $1.4 trillion (371 percent) to $1.8 trillion during FY 2020 largely due to Treasury maintaining an elevated cash balance to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19-related outflows. (See Note 2—Cash and Monetary Assets).
- SBA's credit program receivables are generally comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guarantee programs. These receivables increased to $182.9 billion as of FY 2020, stemming from a $173.2 billion increase in direct disaster loans primarily funded by the CARES Act. SBA's liability for loan guarantees increased $510.7 billion. These large fluxes are a direct result of the PPP and Debt Relief programs (See Note 4—Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability).
- During FY 2020, Education net loans receivable decreased by $32.4 billion, due to various factors including a provision related to the CARES Act and a subsequent Presidential Memorandum which provided support for student loan borrowers by temporarily suspending nearly all federal student loan payments. In addition, all federal wage garnishments and collections actions for borrowers with federally held loans in default were halted (See Note 4—Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability).
- The Balance Sheet includes $108.4 billion of "Investments in Special Purpose Vehicles". In response to the COVID-19 pandemic, Treasury holds equity investments in SPVs established by the Federal Reserve for the purpose of enhancing the liquidity of the U.S. financial system (See Note 8—Investments in Special Purpose Vehicles).
- "Other Assets" on the Balance Sheet includes $218.6 billion in "Advances and Prepayments". The $150.6 billion increase in this amount during FY 2020 is largely attributable to COVID-19 relief efforts at HHS (for AAP and PHSSEF advances for personal protection equipment and test kits) and Treasury (for Coronavirus Relief Fund assistance payments (See Note 10—Other Assets)).

See Note 28—COVID-19 Activity, as well as the referenced agencies' FY 2020 financial statements for additional information.

As noted earlier, Note 29—Subsequent Events, discusses the financial effects of significant events that occurred following the end of the fiscal year, but prior to issuance of this *Financial Report*.

Key Economic Trends

An examination of key macroeconomic indicators helps put the discussion of the government's financial performance into context. During the first five months of FY 2020, the U.S. economy exhibited solid growth with strong labor markets. However, the spread of the COVID-19 virus led to a sharp, severe economic contraction and an unprecedented level of fiscal support. These and other economic and financial developments are discussed in greater detail in the *Financial Report*.

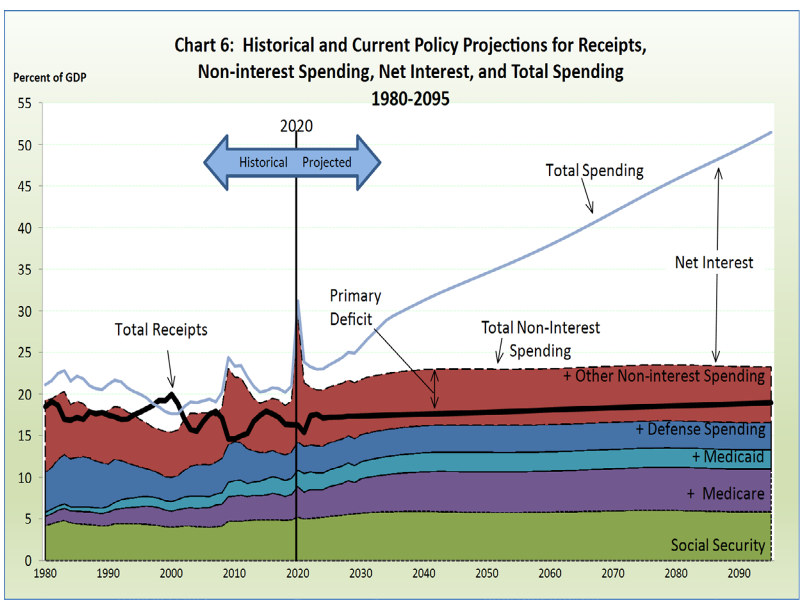
An Unsustainable Fiscal Path

An important purpose of this *Financial Report* is to help citizens understand current fiscal policy and the importance and magnitude of policy reforms necessary to make it sustainable. A sustainable fiscal policy is defined as one where the ratio of debt held by the public to GDP (the debt-to-GDP ratio) is stable or declining over the long term. GDP measures the size of the nation's economy in terms of the total value of all final goods and services that are produced in a year. Considering financial results relative to GDP is a useful indicator of the economy's capacity to sustain the government's many programs. This 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 reached 100 percent at the end of FY 2020. The long-term fiscal projections in this report are based on the same economic assumptions that underlie the Social Security Trustees' Report, and those assumptions were developed using data available as of January 1, 2020, prior to the economic downturn. At this time, management cannot reasonably estimate the potential effects of COVID-19 on the projections or other sustainability measures (such as projected depletion dates for the Social Security and Medicare Hospital Insurance Trust Funds in Table 1 below), which could be significant.

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

Receipts, Spending, and the Debt

Chart 6 shows historical and current policy projections for receipts, non-interest spending by major category, net interest, and total spending expressed as a percent of GDP.



- The primary deficit is the difference between non-interest spending and receipts. The ratio of the primary deficit to GDP is useful for gauging long-term fiscal sustainability.
- The primary deficit-to-GDP ratio spiked during 2009 through 2012 due to the financial crisis of 2008-09 and the ensuing severe recession, as well as increased spending and temporary tax reductions enacted to stimulate the economy and support recovery. As an economic recovery took hold, the primary deficit-to-GDP ratio fell,

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

averaging 2.1 percent from 2013 through 2019. The ratio spiked again in 2020 rising to 13.3 percent of GDP due to increased spending to address the COVID-19 pandemic and lessen the economic impacts of stay-at-home and social distancing orders on individuals, hard-hit industries, and small businesses. The ratio is projected to fall to 6.0 percent in 2021 and then shrink to 2.9 percent in 2023 as the economy grows and spending due to legislation enacted in response to the COVID-19 pandemic decreases. After 2024, however, increased spending for Social Security and health programs[2] due to the continued retirement of the baby boom generation and increases in health care costs is projected to result in increasing primary deficits that peak in 2042, when the primary deficit-to-GDP ratio reaches 5.4 percent. After 2042, the ratio gradually decreases as the aging of the population continues at a slower pace, and reaches 4.3 percent in 2095, the last year of the projection period.

- The expiring individual income and estate and gift tax provisions of the TCJA are assumed to continue past their legal expiration on December 31, 2025 because of the recent historical pattern of such tax rates being extended, similar to the presentation in the FY 2021 President's Budget. Congressional action is required to extend the provisions of the TCJA. GDP, interest, and other economic and demographic assumptions are the same as those that underlie the most recent Social Security and Medicare Trustees' Report projections, adjusted for historical revisions that occur annually. The most recent Social Security and Medicare Trustees' Reports were released in April 2020, and the economic and demographic assumptions do not reflect the effects of the COVID-19 pandemic, increasing the uncertainty surrounding this year's long-term fiscal projections including the projected depletion dates in Table 1.
- The persistent long-term gap between projected receipts and total spending shown in Chart 6 occurs despite the projected effects of the PPACA[3] on long-term deficits.
    - Enactment of the PPACA in 2010 and the MACRA in 2015 established cost controls for Medicare hospital and physician payments whose long-term effectiveness is still to be demonstrated fully.
    - There is uncertainty about the extent to which these projections can be achieved and whether the PPACA's provisions intended to reduce Medicare cost growth will be overridden by new legislation.

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

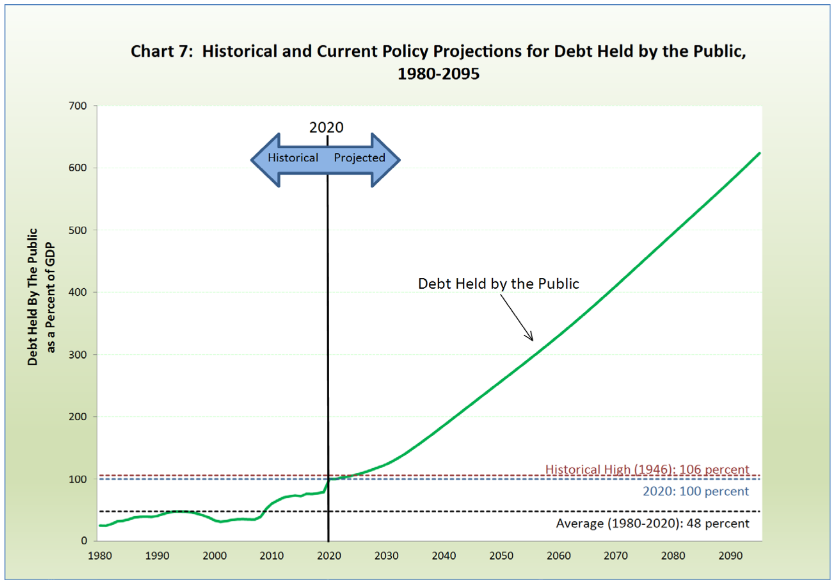
Table 1: Trust Fund Status

Fund	Projected Depletion	Projected Post-Depletion Trend
Medicare Hospital Insurance (HI)*	2026 (unchanged from FY 2019 Report)	In 2026, trust fund income is projected to cover 90 percent of benefits, decreasing to 78 percent in 2044, then returning to 90 percent by 2094.
Combined Old-Age Survivors and Disability Insurance (OASDI)**	2035 (unchanged from FY 2019 Report)	In 2035, trust fund income is projected to cover 79 percent of scheduled benefits, decreasing to 73 percent by 2094.

* Source: 2020 Medicare Trustees Report ** Source: 2020 OASDI Trustees Report
Projections assume full Social Security and Medicare benefits are paid after fund depletion contrary to current law.
Projections do not include the effects of the pandemic.

[2] See the 2020 Trustees' Report for Medicare (pp 4-5) and Social Security (pp 4-23) and the 2018 Medicaid Actuarial Report.
[3] The PPACA refers to P.L. 111-148, as amended by P.L. 111-152. The PPACA expands health insurance coverage, provides health insurance subsidies for low-income individuals and families, includes many measures designed to reduce health care cost growth, and significantly reduces Medicare payment rates relative to the rates that would have occurred in the absence of the PPACA. (See Note 23 and the RSI section of the *Financial Report*, and the 2020 Medicare Trustees' Report for additional information).

The primary deficit projections in Chart 6, along with those for interest rates and GDP, determine the debt-to-GDP ratio projections in Chart 7.



- The debt-to-GDP ratio was 100 percent at the end of FY 2020, and under current policy and based on this report's assumptions is projected to reach 623 percent in 2095.
- The debt-to-GDP ratio rises continuously in great part because primary deficits lead to higher levels of debt. The continuous rise of the debt-to-GDP ratio indicates that current fiscal policy is unsustainable.
- These debt-to-GDP projections are higher than both the 2019 and 2018 *Financial Report* projections.

The Fiscal Gap and the Cost of Delaying Fiscal Policy Reform

- The 75-year fiscal gap is a measure of how much primary deficits must be reduced over the next 75 years in order to make fiscal policy sustainable. That estimated fiscal gap for 2020 is 5.4 percent of GDP (compared to 3.8 percent for 2019).
- This estimate implies that making fiscal policy sustainable over the next 75 years would require some combination of spending reductions and receipt increases that equals 5.4 percent of GDP on average over the next 75 years. The fiscal gap represents 30.2 percent of 75-year PV receipts and 23.8 percent of 75-year PV non-interest spending.
- The timing of policy changes to make fiscal policy sustainable has important implications for the well-being of future generations as is shown in Table 2.

Table 2

Cost of Delaying Fiscal Reform

Period of Delay	Change in Average Primary Surplus
Reform in 2021 (No Delay)	5.4 percent of GDP between 2021 and 2095
Reform in 2031 (Ten-Year Delay)	6.4 percent of GDP between 2031 and 2095
Reform in 2041 (Twenty-Year Delay)	7.8 percent of GDP between 2041 and 2095

  - Table 2 shows that, if action is delayed by 10 years, the estimated magnitude of primary surplus increases necessary to close the 75-year fiscal gap increases by 18.5 percent from 5.4 percent of GDP on average over 75 years to 6.4 percent on average over 65 years; if action is delayed by 20 years, the magnitude of reforms necessary increases by an additional 21.9 percent.
  - The longer policy action to close the fiscal gap is delayed, the larger the post-reform primary surpluses must be to achieve the target debt-to-GDP ratio at the end of the 75-year period. Future generations are harmed by a policy delay because the higher the primary surpluses are during their lifetimes, the greater is the difference between the taxes they pay and the programmatic spending from which they benefit.

Conclusion

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

Find Out More

The FY 2020 *Financial Report* and other information about the nation's finances are available at:

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

The GAO audit report on the U.S. government's consolidated financial statements can be found beginning on page 226 of the full *Financial Report*. GAO was unable to express an opinion (disclaimed) on these consolidated financial statements for the reasons discussed in the audit report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The FY 2020 *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 165 federal consolidation entities (see organizational chart on the next page and Appendix A). As it has for the past 22 years, GAO issued a disclaimer of opinion on the accrual-based, consolidated financial statements for the fiscal years ended September 30, 2020 and 2019. GAO also issued a disclaimer of opinion on the sustainability financial statements, which consist of the 2020 and 2019 SLTFP; the 2020, 2019, 2018, 2017, and 2016 SOSI; and the 2020 and 2019 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 2020, 35[2] of the 40 most significant entities earned unmodified ("clean") opinions on their financial statements.

The FY 2020 *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, 2020 and 2019. 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 Results in Brief and Executive Summary to this *Financial Report* provide a quick reference to the key issues in the *Financial Report* and an overview of the government's financial position and condition.

Mission & Organization

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

[1] The *Government Management Reform Act of 1994* has required such reporting, covering the executive branch of the government, beginning with financial statements prepared for FY 1997. The consolidated financial statements include the legislative and judicial branches.
[2] The 35 entities include the HHS, which received disclaimers of opinion on its 2020, 2019, 2018, 2017, and 2016 SOSI and on its 2020 and 2019 SCSIA.

Exhibit 1

THE UNITED STATES GOVERNMENT

THE CONSTITUTION

LEGISLATIVE BRANCH

THE CONGRESS
SENATE HOUSE

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

EXECUTIVE BRANCH

THE PRESIDENT
THE VICE PRESIDENT
EXECUTIVE OFFICE OF THE PRESIDENT

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

JUDICIAL BRANCH

THE SUPREME COURT OF THE U.S.

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

CHIEF FINANCIAL OFFICERS ACT AGENCIES (24)

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

SIGNIFICANT CONSOLIDATION ENTITIES (16)

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

OTHER CONSOLIDATION ENTITIES LISTED IN APPENDIX A OF THIS FINANCIAL REPORT (125)

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

	2020	2019*	Increase / (Decrease) $	Increase / (Decrease) %
FINANCIAL MEASURES (Dollars in Billions)				
Gross Cost	**$ (7,194.1)**	**$ (5,287.2)**	**$ 1,906.9**	**36.1%**
Less: Earned Revenue	$ 461.6	$ 418.4	$ 43.2	10.3%
Gain/(Loss) from Changes in Assumptions	$ (679.5)	$ (198.9)	$ 480.6	241.6%
Net Cost	**$ (7,412.0)**	**$ (5,067.7)**	**$ 2,344.3**	**46.3%**
Less: Tax and Other Revenues	**$ 3,571.6**	**$ 3,621.0**	**$ (49.4)**	**(1.4%)**
Unmatched Transactions & Balances	$ 11.6	$ 0.4	$ 11.2	2,800.0%
Net Operating Cost	**$ (3,828.8)**	**$ (1,446.3)**	**$ 2,382.5**	**164.7%**
Budget Deficit	**$ (3,131.9)**	**$ (984.4)**	**$ 2,147.5**	**218.2%**
Assets:				
Cash & Other Monetary Assets	$ 1,926.9	$ 524.6	$ 1,402.3	267.3%
Direct Loans and Loan Guarantees Receivable, Net	$ 1,577.4	$ 1,425.8	$ 151.6	10.6%
Inventories & Related Property, Net	$ 379.7	$ 355.7	$ 24.0	6.7%
General Property, Plant & Equipment, Net	$ 1,145.0	$ 1,106.9	$ 38.1	3.4%
Other	$ 921.7	$ 579.0	$ 342.7	59.2%
Total Assets	**$ 5,950.7**	**$ 3,992.0**	**$ 1,958.7**	**49.1%**
Liabilities:				
Federal Debt and Interest Payable	$ (21,082.9)	$ (16,861.0)	$ 4,221.9	25.0%
Federal Employee & Veteran Benefits Payable	$ (9,409.3)	$ (8,440.3)	$ 969.0	11.5%
Other	$ (2,251.7)	$ (1,643.5)	$ 608.2	37.0%
Total Liabilities	**$ (32,743.9)**	**$ (26,944.8)**	**$ 5,799.1**	**21.5%**
Unmatched Transactions and Balances	$ (3.1)	$ (14.7)	$ (11.6)	(78.9%)
Net Position	**$ (26,796.3)**	**$ (22,967.5)**	**$ 3,828.8**	**16.7%**
SUSTAINABILITY MEASURES (Dollars in Trillions)				
Social Insurance Net Expenditures:				
Social Security (OASDI)	$ (19.7)	$ (16.8)	$ 2.9	17.3%
Medicare (Parts A, B, & D)	$ (45.7)	$ (42.2)	$ 3.5	8.3%
Other	$ (0.1)	$ (0.1)	$ -	- %
Total Social Insurance Net Expenditures	**$ (65.5)**	**$ (59.1)**	**$ 6.4**	**10.8%**
Total Federal Non-Interest Net Expenditures	**$ (79.5)**	**$ (49.0)**	**$ 30.5**	**62.2%**
75-Year Fiscal Gap (Percent of Gross Domestic Product)[1]	**(5.4%)**	**(3.8%)**	**1.6%**	**42.1%**

*Restated (see Financial Statement Note 1.U)

[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 5.4 percent of GDP on average is needed (3.8 percent of GDP on average in 2019). See Financial Statement Note 24.

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

- This *Financial Report* includes discussion and analysis of the significant impact that the federal government's response to the COVID-19 pandemic had on the government's financial position during FY 2020.
- During FY 2020, the budget deficit increased by $2.1 trillion (218.2 percent) to $3.1 trillion and net operating cost increased by $2.4 trillion (164.7 percent) to $3.8 trillion.
- The government's gross costs of $7.2 trillion, less $461.6 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 $679.5 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, an increase of $2.3 trillion or 46.3 percent over FY 2019.
- Deducting $3.6 trillion in tax and other revenues, with some adjustment for unmatched transactions and balances, results in a "bottom line" net operating cost of $3.8 trillion for FY 2020, an increase of $2.4 trillion or 164.7 percent over FY 2019.
- Comparing total 2020 government assets of $6.0 trillion to total liabilities of $32.7 trillion (comprised mostly of $21.1 trillion in federal debt and interest payable[3], and $9.4 trillion of federal employee and veteran benefits payable) yields a negative net position of $26.8 trillion.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2020, debt held by the public, excluding accrued interest, was $21.0 trillion. This amount, plus intra-governmental debt ($6.0 trillion) equals gross federal debt, which, with some adjustments, is subject to the statutory debt limit. As of September 30, 2020, the government's total debt subject to the debt limit was $26.9 trillion. The statutory debt limit was most recently suspended through July 31, 2021.

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 $79.5 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 $65.5 trillion, a $6.4 trillion increase over 2019 social insurance projections.
- The two sustainability 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 as a whole. 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 (i.e., including the consolidated receipts and outlays from federal funds and the Social Security Trust Fund) increased from $984.4 billion in FY 2019 to $3.1 trillion in FY 2020. The deficit-to-GDP ratio in 2020 was 14.9 percent, an increase from 4.6 percent in FY 2019.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2020, the $21.0 trillion in debt held by the public, excluding accrued interest, equates to approximately 100 percent of GDP.
- The 2020 SOSI projection of $65.5 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 $79.5 trillion from the SLTFP represents 4.8 percent of GDP over 75 years. As discussed in this *Financial Report*, changes in these projections can, in turn, have a significant impact on projected debt as a percent of GDP.
- To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 5.4 percent of GDP on average is needed (3.8 percent of GDP on average in the 2019 projections). The fiscal gap represents 30.2 percent of 75-year PV receipts and 23.8 percent of 75-year PV non-interest spending.

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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 2020 and 2019 SOSI, the amounts eliminated totaled $40.9 trillion and $36.8 trillion, respectively.

FY 2020 Financial Statement Audit Results

For FY 2020, GAO issued a disclaimer of audit opinion on the accrual-based, government-wide financial statements, as it has for the past 23 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 226 of this *Financial Report*, discusses GAO's findings.

Twenty-two 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 11 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 26—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 reports 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 2020, 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.

The Federal Government's Response to the Pandemic

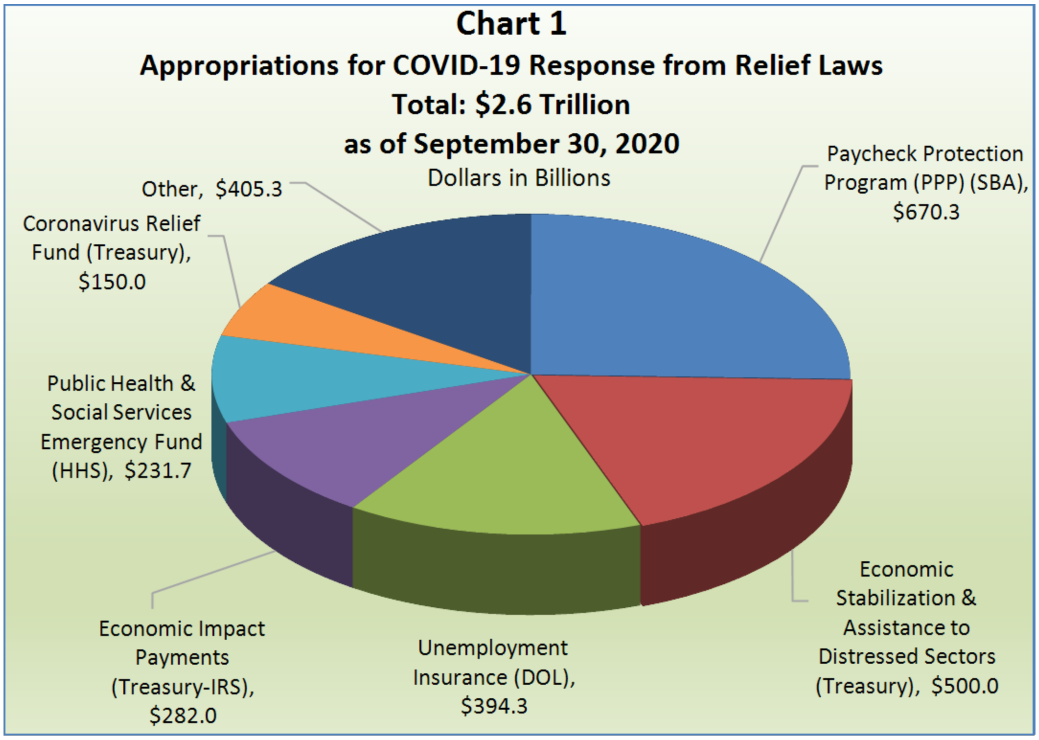
During FY 2020, the federal government took broad action to protect public health from the effects of the unprecedented pandemic, signing into law four major pieces of legislation:

- *Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020* (P.L. 116-123)
- *Families First Coronavirus Response Act* (FFCRA, P.L. 116-127)
- *Coronavirus Aid, Relief, and Economic Security* (CARES Act, P.L. 116-136)
- *Paycheck Protection Program and Health Care Enhancement Act* (PPPHCE Act, P.L. 116-139)

These laws address the health and economic effects of COVID-19, providing assistance to American workers and families, small businesses, and state, local, tribal governments, and preserving jobs for American industry. As indicated here and in the *Financial Report*, these essential programs had significant effects on the federal government's budgetary and financial results.

[6] The 22 entities include the HHS, which received disclaimers of opinions on its 2020, 2019, 2018, 2017, and 2016 SOSI and its 2020 and 2019 SCSIA. The 13 entities include the FDIC, the NCUA, and the FCSIC, which operate on a calendar year basis (December 31 year-end). Statistic reflects 2019 audit results for these organizations if 2020 results are not available.

[7] See Note 22—Fiduciary Activities



Source: Treasury – Central Accounting Reporting System (CARS)

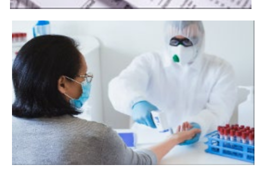
Chart 1 summarizes the more than $2.6 trillion in appropriations enacted for key pandemic-related assistance programs during FY 2020, which include, but are not limited to:

- The PPP, administered by the SBA, is a loan guaranty program designed to provide a direct incentive for small businesses to retain employees by providing loan forgiveness for amounts used for eligible expenses for payroll and benefit costs, interest on mortgages, rent, and utilities ($670.3 billion).

- Through its Economic Stabilization and Assistance to Severely Distressed Sectors of the U.S. Economy efforts (CARES Act Title IV), Treasury, including in collaboration with the Federal Reserve, provides funding through direct loans and loan guarantees or other support for various businesses and state and local governments ($500.0 billion).

- Through its UI Program, the DOL expands states' ability to provide UI for many workers impacted by the pandemic, including for workers who are not eligible for regular/traditional unemployment benefits ($394.3 billion).

- The IRS provided a refundable tax credit, the recovery rebate, of $1,200 per qualifying adult, and $500 per dependent child, and a deferral of payment of employer's share of Social Security taxes through December 2020 ($282.0 billion).



- Through the PHSSEF, the HHS provides broad support, including, but not limited to: reimbursements to health care providers for expenses or lost revenues attributable to the pandemic, and support for the development and purchase of vaccines, therapeutic treatment, testing, and medical supplies ($231.7 billion).

- Through Coronavirus Relief Fund efforts, Treasury provides for payments to states, local, and tribal governments for pandemic-related spending ($150.0 billion).

- Many other agencies and programs comprise the remaining $405.3 billion reported as "Other" in Chart 1, including, but not limited to funding for: transportation system assistance at the DOT, student loan deferrals provided by Education, and FEMA's Disaster Relief Fund.

- Note 29—Subsequent Events, discusses the financial effects of significant events that occurred following the end of the fiscal year, but prior to issuance of this *Financial Report*. Those subsequent events include additional appropriations as well as subsequent recissions (i.e., reductions) to appropriated amounts referenced above.[8] Additional subsequent events are referenced throughout the *Financial Report* as appropriate.

Three key components of the U.S. 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. Once funds are appropriated by Congress, Treasury issues warrants that officially establish the amounts available to be obligated and spent (i.e., expended or outlayed) by each agency. An agency's obligation of funds is a binding agreement to outlay funds for a particular purpose immediately or in the future. Table 2 below compares the obligated and outlaid amounts to the appropriation amounts for each program summarized in Chart 1. Obligations and outlays provide an indication of how much appropriations have been used. Outlays for SBA's PPP and Treasury's Economic Stabilization & Assistance to Distressed Sectors programs detailed in Table 2 represent the subsidy cost reflected in the budget deficit for such programs. The PPP budget outlays primarily represent estimated subsidy cost for which cash payments have not yet been made to the lenders, resulting in a liability on the balance sheet as of September 30, 2020. Concerning Treasury's Economic Stabilization & Assistance to Distressed Sectors Program, the outlays primarily relate to estimated losses on Investments in Special Purpose Vehicles reported on the balance sheet.

Table 2: COVID-19 Response From Relief Laws

Dollars in Billions	Appropriatons*	Obligations Incurred **	Gross Outlays**
Paycheck Protection Program (PPP) (SBA)	$ 670.3	$ 532.3	$ 525.9
Economic Stabilization & Assistance to Distressed Sectors (Treasury)	$ 500.0	$ 31.8	$ 19.3
Unemployment Insurance (DOL)	$ 394.3	$ 358.0	$ 345.5
Economic Impact Payments (Treasury-IRS)	$ 282.0	$ 274.7	$ 274.7
Public Health & Social Services Emergency Fund (PHSSEF) (HHS)	$ 231.7	$ 141.7	$ 108.1
Coronavirus Relief Fund (Treasury)	$ 150.0	$ 150.0	$ 149.5
Other	$ 405.3	$ 301.9	$ 199.2
Total	**$ 2,633.6**	**$ 1,790.4**	**$ 1,622.2**

*Source: Treasury - Central Accounting Reporting System (CARS)

**Source: Treasury - Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS)

Chart 1 and Table 2 above reflect only amounts appropriated, obligated, and outlaid as of September 30, 2020. The Treasury website, www.USAspending.gov provides more current information about amounts spent by the federal government for COVID-19 response and for other purposes.

Budgetary activity, such as appropriations, obligations, and outlays are different from, but related to financial activity, such as costs, assets, and liabilities. The following section provides a brief discussion of the relationship between budgetary and financial accounting in the federal government. As agencies implement programs, the appropriations, obligations, and outlays referenced in Table 2 precipitate a wide range of financial effects, including the incurrence of program costs, and the creation of or changes in assets such as advances or loans receivable, or liabilities such as loan guarantees. Table 3 in the following section, which summarizes the *Reconciliation of Net Operating Cost and Budget Deficit* statement, presents the significant differences between the two accounting perspectives utilized by the federal government. The corresponding financial effects are discussed later in the MD&A in the section entitled "The Government's Net Position: 'Where We Are'".

[8] On December 27, 2020, the President signed into law the *Consolidated Appropriations Act, 2021* (P.L. 116-120). This act included provisions for an additional $900.0 billion in stimulus relief related to the pandemic. In addition, as of the date of enactment, this act rescinded $478.8 billion of the $500.0 billion appropriation provided to Treasury under Section 4027 of the CARES Act. Effective January 9, 2021, the statute eliminates Treasury's ability to make new loans and investments under Section 4003 of the CARES Act. In addition, $146.5 billion that was appropriated to SBA under the SBA-Business Loans Program Account, CARES Act, was rescinded under the *Consolidated Appropriations Act, 2021*. In addition, on March 11, 2021, the President signed into law the *American Rescue Plan Act, 2021*, a $1.9 trillion economic relief package to address the continued impact of COVID-19 on the economy. See Note 29—Subsequent Events and Treasury's financial statements for more information.

Accounting Differences Between the Budget and the Financial Report

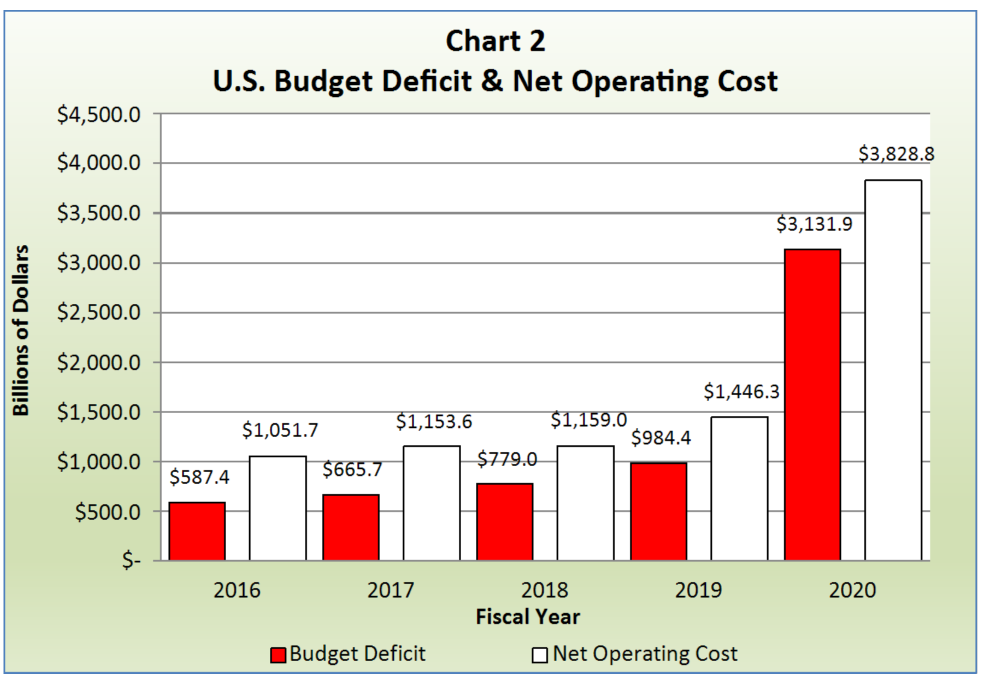
Each year, the Administration issues two reports that detail the government's financial results: the *Budget* and this *Financial Report*. The exhibit on the following page provides the key characteristics and differences between the two documents.

Treasury generally prepares the financial statements in this *Financial Report* on an accrual basis of accounting as prescribed by GAAP for federal entities.[9] These principles are tailored to the government's unique characteristics and circumstances. For example, entities prepare a uniquely structured "Statement of Net Cost," which is intended to present net government resources used in its operations. Also, unique to government is the preparation of separate statements to reconcile differences and articulate the relationship between the budget and financial accounting results.

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 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

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, 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 2, 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.



[9] Under GAAP, most U.S. government revenues are recognized on a 'modified cash' basis, (see Financial Statement Note 1.B). The Statement of Social Insurance 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 Statement of Long-Term Fiscal Projections presents the 75-year PV of the projected future receipts and non-interest spending for the federal government.

The government's primarily cash-based[10] budget deficit increased by $2.1 trillion (about 218.2 percent) from approximately $984.4 billion in FY 2019 to about $3.1 trillion in FY 2020 due to a combined slight decrease in receipts and a significant increase in outlays in FY 2020. The $42.2 billion (1.2 percent) decrease in receipts can be attributed primarily to lower net individual and corporation income tax receipts and excise taxes, partially offset by higher social insurance and retirement receipts and deposits of earnings by the Federal Reserve. Outlays increased $2.1 trillion (47.3 percent). Contributing to the dollar increase over FY 2019 were higher outlays for Medicare, Defense, Medicaid, Social Security, Treasury and SBA.[11]

Treasury's September 2020 MTS is the source of receipts, spending, and deficit information for this 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 federal budget is divided into approximately 20 categories, or budget functions, as a means of organizing federal spending by primary purpose (e.g., National Defense, Transportation, and Health). Multiple entities may contribute to one or more budget functions, and a single budget function may be associated with only one entity. For example, DOD, DHS, DOE, and multiple other entities administer programs that are critical to the broader functional classification of National Defense. DOD, OPM, and many other entities also administer Income Security programs (e.g., retirement benefits, housing, financial assistance). By comparison, the Medicare program is a budget function category unto itself and is administered exclusively at the federal level by HHS. Federal spending information by budget function and other categorizations may be found in the September 2020 MTS.[12]

The government's largely accrual-based net operating cost increased by $2.4 trillion (164.7 percent) to $3.8 trillion during FY 2020. As explained below, net operating costs are affected by both changes in revenues and costs.

Table 3 provides a summary of the items reported in the *Reconciliation of Net Operating Cost and Budget Deficit,* which articulates the relationship between the government's accrual-based net operating cost and the primarily cash-based budget deficit. From Table 3, the $696.9 billion net difference between the government's budget deficit and net operating cost for FY 2020, is mostly attributable to: 1) a $969.0 billion net increase in liabilities for federal employee and veteran benefits payable; 2) a $91.1 billion increase in net taxes receivable; 3) a $44.9 billion timing difference between when credit reform costs are recorded in the budget versus net operating cost; and 4) a $150.7 billion net change in Other Assets, attributed mostly to advances and prepayments for certain COVID-19 related programs (see Note 10—Other Assets).

Table 3: Net Operating Cost vs. Budget Deficit

Dollars in Billions	2020	2019*
Net Operating Cost	**$ (3,828.8)**	**$ (1,446.3)**
Changes in:		
Federal Employee and Veteran Benefits Payable	$ 969.0	$ 458.0
Taxes Receivable, Net	$ (91.1)	$ (89.1)
Other Assets	$ (150.7)	$ 1.2
Timing Differences - Credit Reform Costs	$ 44.9	$ 45.3
Other, Net	$ (75.2)	$ 46.5
Subtotal - Net Difference:	$ 696.9	$ 461.9
Budget Deficit	**$ (3,131.9)**	**$ (984.4)**

*Restated (see Financial Statement Note 1.U)

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

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

[10] 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.

[11] 10/16/20 press release -- Joint Statement of Treasury Secretary Steven T. Mnuchin and OMB Director Russell Vought on Budget Results for FY 2020.

[12] Final MTS for FY 2020 through September 30, 2020 and Other Periods.

Financial Effects of the Federal Government's Pandemic Response

The financial effects of the government's response to the COVID-19 pandemic were broad, impacting many agencies in a variety of ways and to varying degrees. This section includes brief discussions of some of the more significant effects of the pandemic on the government's financial results for FY 2020. Please refer to Note 28—COVID-19 Activity and other disclosures in this *Financial Report*, as well as in the individual entities' financial statements for more information.

Costs and Revenues

The government's Statement of Operations and Changes in Net Position, much like a corporation's income statement, shows the government's "bottom line" and its impact on net position (i.e., assets net of liabilities, adjusted for unmatched transactions and balances). To derive the government's "bottom line" net operating cost, the Statement of Net Cost first shows how much it costs to operate the federal government, recognizing expenses when incurred, regardless of when payment is made (accrual basis). It shows the derivation of the government's net cost or the net of: 1) gross costs, or the costs of goods produced and services rendered by the government, 2) the earned revenues generated by those goods and services during the fiscal year, and 3) gains or losses from changes in actuarial assumptions used to estimate certain liabilities. This amount, in turn, is offset against the government's taxes and other revenue reported in the Statement of Operations and Changes in Net Position to calculate the "bottom line" or net operating cost.[13]

Table 4: Gross Cost, Revenues, Net Cost, and Net Operating Cost

Dollars in Billions		2020		2019*		Increase / (Decrease) $	%
Gross Cost	**$**	**(7,194.1)**	**$**	**(5,287.2)**	**$**	**1,906.9**	**36.1%**
Less: Earned Revenue	$	461.6	$	418.4	$	43.2	10.3%
Gain/(Loss) from Changes in Assumptions	$	(679.5)	$	(198.9)	$	480.6	241.6%
Net Cost	**$**	**(7,412.0)**	**$**	**(5,067.7)**	**$**	**2,344.3**	**46.3%**
Less: Tax and Other Revenues	**$**	**3,571.6**	**$**	**3,621.0**	**$**	**(49.4)**	**(1.4%)**
Unmatched Transactions and Balances	$	11.6	$	0.4	$	11.2	2,800.0%
Net Operating Cost	**$**	**(3,828.8)**	**$**	**(1,446.3)**	**$**	**2,382.5**	**164.7%**

*Restated (see Financial Statement Note 1.U)

Table 4 shows that the government's "bottom line" net operating cost increased $2.4 trillion (164.7 percent) during 2020 from $1.4 trillion to $3.8 trillion. This increase is due mostly to a $2.3 trillion (46.3 percent) increase in entity net costs, combined with a $49.4 billion (1.4 percent) decrease in tax and other revenues over the past fiscal year as discussed in the following.

Gross Cost and Net Cost

The Statement of Net Cost starts with the government's total gross costs of $7.2 trillion, subtracts 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, including federal employee and veteran benefits to derive its net cost of $7.4 trillion (See Chart 3), a $2.3 trillion (46.3 percent) increase over FY 2019.

Typically, the annual change in the government's net cost is impacted by a variety of offsetting increases and decreases across entities. For example, offsetting changes in net cost during FY 2020 included:

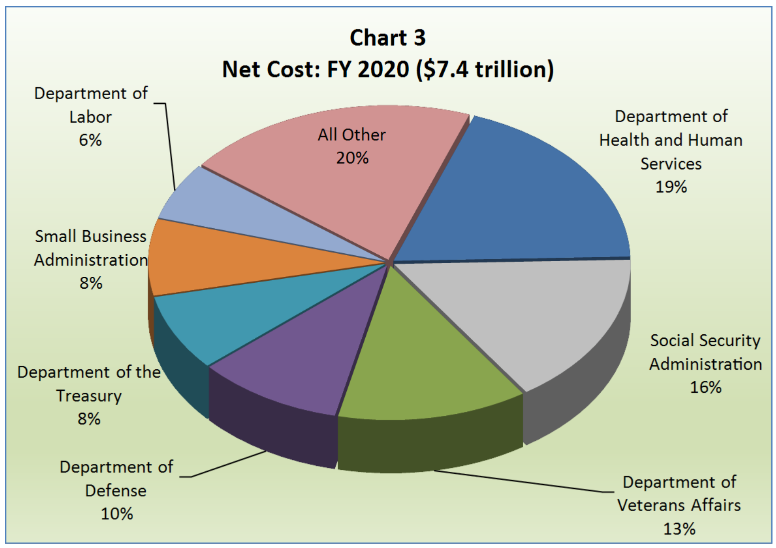
- As referenced earlier, the federal government's response to the COVID-19 pandemic had significant effects on agency and government-wide financial results. Congress appropriated $2.6 trillion as of September 30, 2020, which translated into substantial increases in costs across multiple agencies, including but not limited to:
  - The primary driver of a $559.1 billion increase in SBA net costs is a $527.8 billion increase in loan subsidy costs, including reestimates, attributable to the PPP and Debt Relief programs under the CARES Act. As noted earlier, the PPP provides loan forgiveness for amounts used for eligible expenses for payroll and benefit costs. Under the Debt Relief program, SBA pays six months of principal, interest, and any associated fees that borrowers owe for all current loans in regular servicing status in its 7(a), 504, and Microloan programs, as well as new 7(a), 504, and Microloans disbursed prior to September 27, 2020;
  - The $405.0 billion increase in Treasury net costs is largely due to payments issued to individuals pursuant to the CARES Act to help stimulate the economy through recovery rebates for individuals (also referred to

[13] As shown in Table 4, net operating cost includes an adjustment for unmatched transactions and balances, which represent unreconciled differences in intra-governmental activity and balances between federal entities. These amounts are described in greater detail in the Other Information section of this *Financial Report*.

as EIPs). In FY 2020, the IRS disbursed $274.7 billion of EIPs to eligible recipients in every state and territory and at foreign addresses. Treasury's net cost increase is also due in part from Coronavirus relief fund payments made to affected states, local, territorial, and tribal governments. $80.6 billion of the $149.5 billion of such payments made was recognized as net costs in FY 2020. Treasury costs also include $28.2 billion of financial assistance payments to passenger air carriers, air cargo carriers, and contractors to provide payroll support to aviation workers during the pandemic;

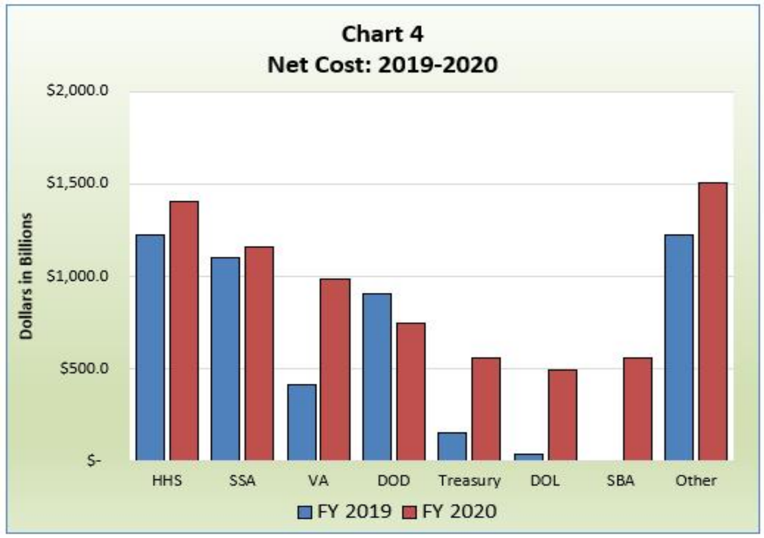
- $115.2 billion out of a total $184.8 billion net cost increase at HHS is primarily due to increases to the PHSSEF, which, as noted earlier, funds a wide array of pandemic response efforts, including, but not limited to: 1) Provider Relief Fund, which provides payments to assist eligible health care providers for health care related expenses or lost revenues attributed to the pandemic, 2) SNS, and 3) vaccine, therapeutic and diagnostic research and development; and
- A significant portion of the $452.7 billion increase at DOL is attributable to a $461.4 billion increase in Income Maintenance programs costs, primarily due to unemployment benefits authorized by the CARES Act. These programs include the FPUC program, which provided an additional $600 of weekly unemployment benefits and the PUA program, which provides temporary benefits for individuals who are not eligible for regular/traditional UI, respectively.

• 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 $679.5 billion in FY 2020, a loss increase (and a corresponding net cost increase) of $480.6 billion compared to FY 2019. The primary entities that administer programs impacted by these assumptions – typically federal employee pension and benefit programs – are the OPM, VA, and DOD. These entities recorded losses and gains from changes in assumptions in the amounts of $89.9 billion loss, $602.7 billion loss, and $17.4 billion gain, 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 2020, changes in net cost at OPM ($67.3 billion increase), VA ($567.4 billion increase), and DOD ($163.4 billion decrease), were impacted by the corresponding changes in gains or losses from assumption changes at these entities.



• While most of the $163.4 billion decrease in DOD net costs is primarily due to a $156.4 billion loss decrease (net gain) from changes in assumptions as referenced above, the majority of DOD's net costs included military operations, readiness, and support; procurement; military personnel; and R&D, which collectively decreased slightly.

- $184.8 billion and $56.4 billion increases at HHS and SSA, respectively, were due to pandemic response at HHS as discussed above as well as to cost increases of the benefit programs that these entities administer (HHS – Medicare and Medicaid programs, SSA – OASDI programs).
- As referenced above, VA net costs increased $567.4 billion due largely to changes in benefits program experience and assumptions, including, but not limited to an increase in veterans who first became eligible for benefits during FY 2020.
- DHS costs increased by $49.7 billion due to costs associated with disaster responses to COVID-19, hurricanes, and wildfires.

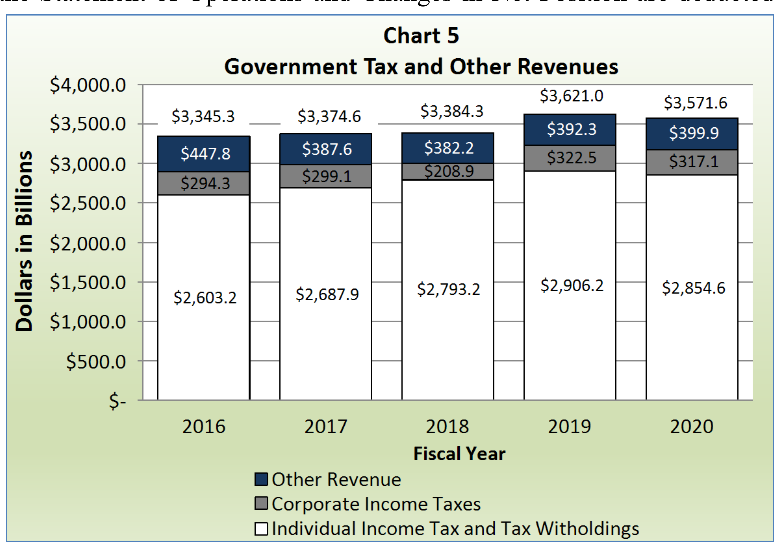


- A $32.5 billion decrease in interest on debt held by the public due largely to a decrease in average interest rates on outstanding debt held by the public.

Chart 3 shows the composition of the government's net cost. In FY 2020, 80 percent of the federal government's total net cost came from only seven agencies: HHS, SSA, VA, DOD, Treasury, DOL, and SBA. The other more than 150 entities included in the government's FY 2020 Statement of Net Cost accounted for a combined 20 percent of the government's total net cost for FY 2020. Chart 4 shows the two-year trend in these costs, illustrating the significant impact that the pandemic had on certain agency costs as summarized above. Aside from pandemic relief costs, as discussed above, HHS and SSA net costs for FY 2020 ($1.4 trillion and $1.2 trillion, respectively) are attributable to major social insurance programs administered by these entities. VA net costs of $985.0 billion support health, education and other benefits programs for our nation's Veterans. DOD net costs of $745.0 billion relate primarily to operations, readiness, and support; personnel; research; procurement; and retirement and health benefits. Treasury net costs of $560.7 billion support a broad array of programs that promote conditions for sustaining economic growth and stability, protecting the integrity of our Nation's financial system, and effectively managing the U.S. government's finances and resources. SBA net costs of $559.0 billion support agency programs and services that enable the establishment and vitality of small businesses and by providing assistance in the economic recovery of communities after disasters.

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 5 shows that total tax and other revenue decreased by $49.4 billion or 1.4 percent to $3.6 trillion for FY 2020. This net decrease was due to primarily to a $51.6 billion decrease in individual tax revenue, compared with an offsetting, comparatively smaller decreases and increases in corporate and other tax revenue, respectively.[14] Taxes receivable increased $91.1 billion during FY 2020 principally due to increased unpaid transition taxes on foreign earnings pursuant to the TCJA, coupled with a decrease in the related allowance for uncollectible taxes receivable due to a change in the methodology for estimating collectability, and the CARES Act Section 2302 provision allowing employers to defer payment of FICA Social Security taxes. Earned revenues from Table 4 are not considered "taxes and other revenue" and, thus, are not shown in Chart 5. Individual income tax and tax withholdings and corporate income taxes accounted for about 79.9 percent and 8.9 percent of total revenue, respectively in FY 2020; other revenues from Chart 5 include Federal Reserve earnings, excise taxes, unemployment taxes, and customs duties.



[14] FY 2020 Treasury's financial statements, p. 42

As previously shown in Table 4, the decrease in tax and other revenue combined with the increase in net cost, yielded a $2.4 trillion increase to the government's bottom line net operating cost to $3.8 trillion for FY 2020.

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 5). 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 5: Assets and Liabilities

Dollars in Billions	**2020**	**2019***	Increase / (Decrease) **$**	**%**
Assets				
Cash & Other Monetary Assets	$ 1,926.9	$ 524.6	$ 1,402.3	267.3%
Direct Loans and Loan Guarantees Receivable, Net	$ 1,577.4	$ 1,425.8	$ 151.6	10.6%
Inventories & Related Property, Net	$ 379.7	$ 355.7	$ 24.0	6.7%
General Property, Plant & Equipment, Net	$ 1,145.0	$ 1,106.9	$ 38.1	3.4%
Other	$ 921.7	$ 579.0	$ 342.7	59.2%
Total Assets	**$ 5,950.7**	**$ 3,992.0**	**$ 1,958.7**	**49.1%**
Less: Liabilities, comprised of:				
Federal Debt and Interest Payable	$ (21,082.9)	$ (16,861.0)	$ 4,221.9	25.0%
Federal Employee & Veteran Benefits Payable	$ (9,409.3)	$ (8,440.3)	$ 969.0	11.5%
Other	$ (2,251.7)	$ (1,643.5)	$ 608.2	37.0%
Total Liabilities	**$ (32,743.9)**	**$ (26,944.8)**	**$ 5,799.1**	**21.5%**
Unmatched Transactions and Balances	$ (3.1)	$ (14.7)	**$ (11.6)**	**(78.9%)**
Net Position	**$ (26,796.3)**	**$ (22,967.5)**	**$ 3,828.8**	**16.7%**

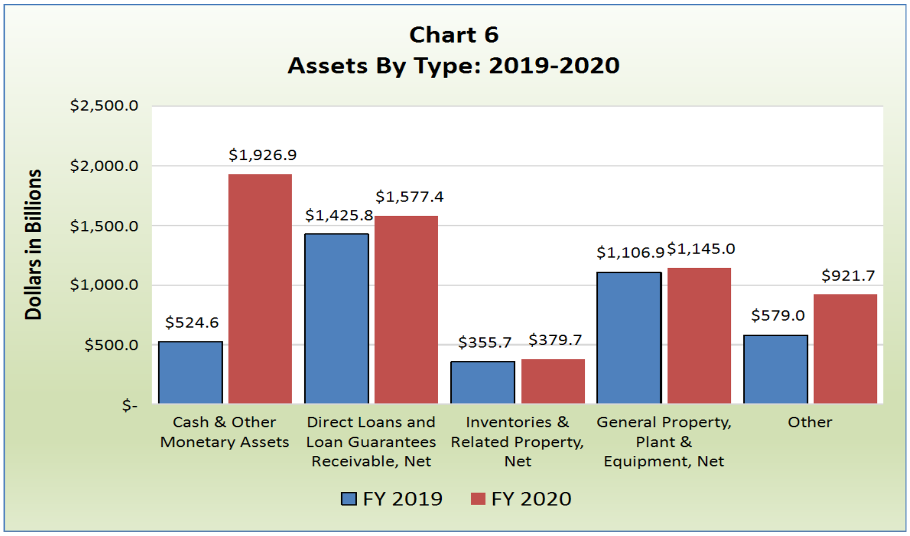
*Restated (see Financial Statement Note 1.U)

Assets

From Table 5, as of September 30, 2020, more than three-fourths of the government's $6.0 trillion in reported assets is comprised of: 1) cash and monetary assets ($1.9 trillion), 2) net loans receivable ($1.6 trillion), 3) and net PP&E ($1.1 trillion).[15] Chart 6 compares the balances of these and other balance sheet amounts as of September 30, 2020 and 2019, some of which were substantially impacted by the pandemic response.

Cash and monetary assets ($1.9 trillion) is comprised largely of the operating cash of the U.S. government. Operating cash held by Treasury increased $1.4 trillion (371 percent) to $1.8 trillion during FY 2020 largely due to Treasury maintaining an elevated cash balance to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19--related outflows (see Note 2—Cash and Monetary Assets).

The federal government's direct loans and loan guarantee programs are used to promote the nation's welfare by making financing available to segments of the population not served adequately by non-federal institutions, or otherwise providing for certain activities or investments. For those unable to afford credit at the market rate, federal credit programs provide subsidies in the form of direct loans offered at an interest rate lower than the market rate. For those to whom non-federal financial institutions are reluctant to grant credit because of the high risk involved, federal credit programs guarantee the payment of these non-federal loans and absorb the cost of defaults. For example, Education supports individuals engaged in education programs through a variety of student loan, grant and other assistance programs. USDA administers loan programs to support the nation's farming and agriculture community. HUD loan programs support affordable homeownership, as well as the construction and rehabilitation of housing projects for the elderly and persons with disabilities. SBA loan programs enable the establishment and vitality of small businesses and assist in the economic recovery of communities after disasters. Significant changes to the federal government's direct loans and loan guarantees receivable and loan guarantees liability, as discussed in Note 4, include, but are not limited to:



- Education's Federal Direct Student Loan Program accounted for $1.1 trillion (69.8 percent) of total net direct loans and loan guarantees receivable. During FY 2020, Education's net loans receivable decreased by $32.4 billion, largely the result of net upward loan subsidy reestimates combined with loan modifications that increased the subsidy allowance by $97.7 billion, offset by increases in loans outstanding and accrued interest receivable. This change was due to a CARES Act provision and subsequently a Presidential Memorandum which provided support for student loan borrowers by temporarily suspending nearly all federal student loan payments, which increased costs to the government. In addition, all federal wage garnishments and collections actions for borrowers with federally held loans in default were halted.
- SBA's credit program receivables comprise business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs, offset by an allowance for related program subsidy costs. These receivables were valued at $182.9 billion as of FY 2020, stemming from a $173.2 billion increase in direct disaster loans primarily funded by the CARES Act. SBA's liability for loan guarantees increased $510.7 billion due to guarantees made under the PPP program.

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 69.0 percent of the government's reported PP&E of $1.1 trillion as of September 30, 2020.

"Other" Assets of $921.7 billion in Table 5 and Chart 6 includes: 1) $218.6 billion in "Advances and Prepayments" and 2) $108.4 billion of "Investments in SPVs". The $150.6 billion increase in this amount during FY 2020 is largely attributable to HHS and Treasury. HHS had an increase due to issuance of the COVID-19 AAP program and PHSSEF advances for personal protection equipment and test kits for COVID-19. Treasury provided Coronavirus Relief Fund financial assistance payments until such payments are either used by the recipients on or before December 31, 2021 (as extended – see Note 10) or returned unused to Treasury (see Note 10—Other Assets).

[15] 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 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 25—Stewardship Land and Heritage Assets.

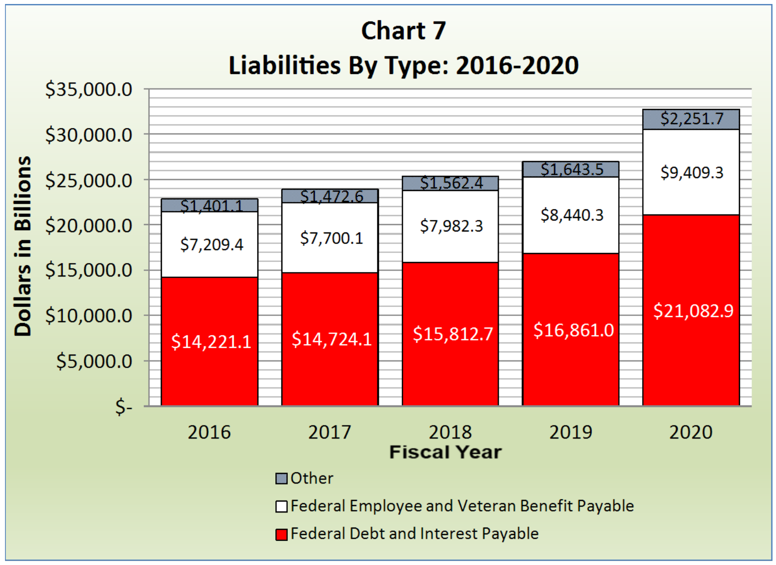
In addition, in response to the COVID-19 pandemic, under Section 4003 of the CARES Act, Treasury holds equity investments in SPVs established through the FRBNY and FRBB for the purpose of enhancing the liquidity of the U.S. financial system. These non-federal investment holdings are reported at their fair value on the Balance Sheet, and changes in the valuation of these investments are recorded on the Statement of Net Cost. See Note 8—Investments in Special Purpose Vehicles, and Note 28—COVID-19 Activity, as well as Treasury's FY 2020 financial statements for additional information.

Please refer to Note 28—COVID-19 Activity, as well as the FY 2020 entities financial statements for additional information about the pandemic's effects on the federal government's costs and revenues over the past fiscal year.

In addition, as indicated earlier, Note 29—Subsequent Events, discusses the financial effects of significant events that occurred following the end of the fiscal year, but prior to issuance of this *Financial Report*. For example, On December 27, 2020, the President signed into law the *Consolidated Appropriations Act, 2021* (P.L. 116-120). Effective January 9, 2021, this statue eliminates Treasury's ability to make new loans and investments under Section 4003 of the CARES Act (SPVs). These and other subsequent events and their effects are discussed in Note 29.

Liabilities

As indicated in Table 5 and Chart 7, of the government's $32.7 trillion in total liabilities, the largest liability is federal debt and interest payable, the balance of which increased by $4.2 trillion (25.0 percent) to $21.1 trillion as of September 30, 2020.



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 $969.0 billion (11.5 percent) during FY 2020, to about $9.4 trillion. This total amount is comprised of $2.7 trillion in benefits payable for the current and retired civilian workforce, and $6.7 trillion for the military and veterans. OPM administers the largest civilian pension plan, covering about 2.8 million current employees and 2.7 million annuitants and survivors. The military pension plan covers about 2.1 million current military personnel (including active service, reserve, and National Guard) and approximately 2.3 million retirees and survivors.

Federal Debt

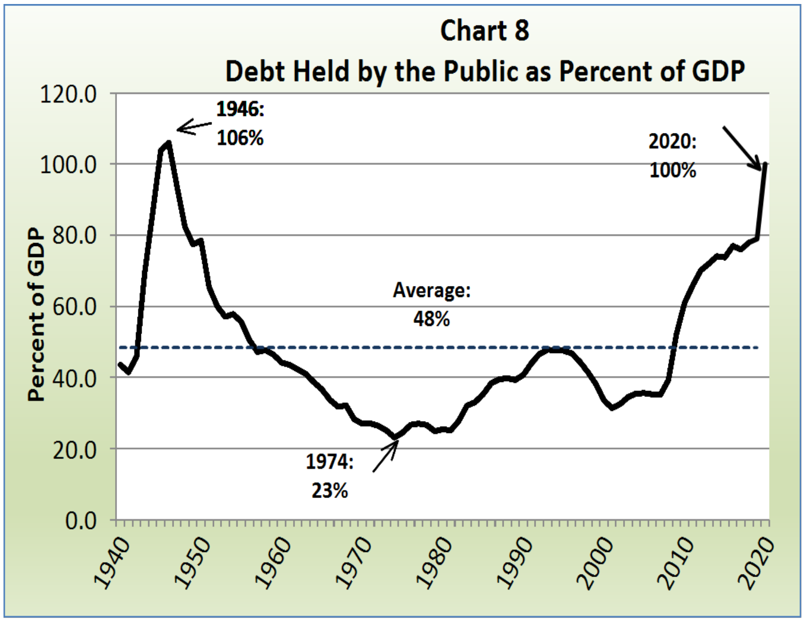
The budget surplus or deficit is the difference between total federal spending and receipts (e.g., taxes) in a given year. The government borrows from the public (increases federal debt levels) to finance deficits. During a budget surplus (i.e., when receipts exceed spending), the government typically 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.

The government's federal debt and interest payable (Balance Sheet liability), which is comprised of publicly-held debt and accrued interest payable, increased $4.2 trillion (25.0 percent) to $21.1 trillion as of September 30, 2020. 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, FRBs, 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 mature and new debt is issued to take its place. In FY 2020, new borrowings were $19.0 trillion, and repayments of maturing debt held by the public were $14.8 trillion, both increases from FY 2019.

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 August 2, 2019 through July 31, 2021. 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.

In addition to debt held by the public, the government has about $6.0 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 ($2.9 trillion) and Medicare ($221.2 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 Note 12). 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). At the end of FY 2020, debt subject to the statutory limit was $26.9 trillion[16] (see sidebar).

The federal debt held by the public measured as a percent of GDP (debt-to-GDP ratio) (Chart 8) 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 8 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 1993-1995, to 31 percent in 2001.
- 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 last economic and fiscal 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 debt was 100 percent of GDP at the end of FY 2020 (compared to 79 percent at the end of FY 2019 and as reported in the FY 2019 *Financial Report*).[17] From Chart 8, since 1940, the average debt-to-GDP ratio is 48 percent.

[16]During FYs 2019 and 2018, Treasury faced two delays in raising the statutory debt limit that required it to depart from its normal debt management procedures and to invoke legal authorities to avoid exceeding the statutory debt limit. During these periods, extraordinary actions taken by Treasury have resulted in federal debt securities not being issued to certain federal government accounts with the securities being restored including lost interest to the affected federal government accounts subsequent to the end of the delay period. The first delay occurred beginning on December 9, 2017 and ending on February 9, 2018, with the enactment of the BBA of 2018 (P.L. 115-123) which suspended the statutory debt limit through March 1, 2019. The second delay in raising the statutory debt limit occurred beginning on March 2, 2019 and ending on August 2, 2019, with the enactment of the BBA of 2019 (P.L. 116-37) which suspended the statutory debt limit through July 31, 2021.

[17]Joint Statement of Treasury Secretary Steven T. Mnuchin and OMB Director Russell Vought on Budget Results for FY 2020.

The Economy in FY 2020

Table 6: National Economic Indicators*	FY 2020	FY 2019
Real GDP Growth	-2.8%	2.1%
Personal Consumption Expenditures	-2.8%	2.5%
Average monthly payroll job change (thousands)	-789	164
Unemployment rate (percent, end of period)	7.8%	3.5%
Consumer Price Index (CPI)	1.4%	1.7%
CPI, excluding food and energy	1.7%	2.4%
Real Disposable Personal Income	5.7%	2.0%
Real Average Hourly Earnings	3.2%	2.3%

* Some FY2019 data may differ from the FY2019 Financial Report due to updates and revisions.

A review of U.S. economic performance can help place the discussion of the government's financial statements in a broader context. Yet, in the latest fiscal year, further consideration of the effects of an external shock, the COVID-19 global pandemic, and the U.S. government's response, is also warranted.

The economy ended FY 2019 on a firm footing, with the unemployment rate at a half-century low, strong wage growth, and a pace of job creation more than sufficient to account for new entrants to the labor force. Through the first five months of FY 2020, the pace of payroll job growth accelerated to 219,000 per month, and the unemployment stood at 3.5 percent, the half-century low seen at the end of FY 2019. In addition, the labor force participation rate climbed to a six-year high in February 2020, and housing sector activity became increasingly buoyant. By February 2020, business and consumer sentiment had advanced to multi-year highs as well.

However, the spread of the COVID-19 virus ended the longest recovery in U.S. history in February 2020 at 128 months. The economy contracted sharply in the second and third quarters of FY 2020 as state and local governments implemented stay-at-home orders and mandated closures of non-essential businesses to mitigate the impact of the pandemic on health care resources. Meanwhile, the U.S. government responded quickly with unprecedentedly bold measures to support American households and small businesses during the pandemic. By March 27, 2020 – or roughly two weeks after stay-at-home orders were issued, three record-setting economic aid packages were passed totaling roughly $2.6 trillion. The administration rapidly implemented the various measures, including EIPs, expanded eligibility for UI payments, and the PPP, which provided forgivable loans to small businesses to encourage employee retention. These measures boosted household liquidity, contributed to a rapid reduction in unemployment, and allowed small businesses to maintain viability until their local economies reopened. Due to the relaxation of stay-at-home orders and this robust response, the economy expanded in the final quarter of FY 2020 at the fastest quarterly rate in seventy years, accompanied by a brisk pace of payroll job growth and strong growth in wages.

As summarized in Table 6, U.S. economic growth slowed markedly over FY 2020 as a whole compared with FY 2019. Real (i.e., inflation-adjusted) GDP declined by 2.8 percent over the four quarters of FY 2020, following growth of 2.1 percent during the previous fiscal year. A temporary collapse in personal consumption expenditures lead the overall contraction in the latest fiscal year, and business fixed investment also declined sharply. However, residential investment, government spending, net exports, and private inventory investment all supported growth. Over the four quarters of FY 2020, consumer spending contracted by 2.8 percent after growing by 2.5 percent the previous fiscal year. Early in the latest fiscal year, business fixed investment had been constrained by ongoing headwinds, including slowing global growth, policy uncertainty, low oil prices, and disruptions at specific domestic companies. The onset of the pandemic also put investment plans on hold, such that business fixed investment declined 4.5 percent in FY 2020, after growing 2.7 percent in FY 2019. Residential investment, despite a temporary setback in mid-2020, led growth in the latest fiscal year, with a gain of 7.2 percent following a 1.2 percent contraction in FY 2019. A smaller increase in government spending in the latest fiscal year (a 0.3 percent rise for FY 2020 as a whole, following a 2.2 percent advance in FY 2019), masked the significant increase in federal government expenditures in April 2020 to support the economy. Net exports made an essentially neutral contribution to growth while inventory investment contributed positively to real GDP growth in FY 2020; in the previous fiscal year, each of these components had posed a small drag on growth.

Although labor market strength was evident in the first five months of FY 2020, the imposition of stay-at-home orders and mandated business closures reduced economic activity severely, and the unemployment rate jumped to a post-World War II high of 14.8 percent in April 2020. More than 22 million payroll jobs were lost over March and April, but in May, job creation resumed, far earlier than expected. By the end of FY 2020, the unemployment rate had fallen by 6.8 percentage points to 7.8 percent, and a total of 11.5 million jobs had been recovered.

Continuing the trend seen over FY 2019, headline inflation slowed, during FY 2020, reflecting lower oil prices, but also weaker aggregate demand. Core inflation (excludes food and energy), which had accelerated modestly during FY 2019, also slowed in the latest fiscal year. The CPI rose 1.4 percent over the twelve months of FY 2020, decelerating from the 1.7 percent pace during the previous fiscal year. Core inflation was 1.7 percent over the FY ending September 2020, decelerating from the 2.4 percent pace during FY 2019.

Relatively low inflation and stronger nominal DPI growth helped to boost purchasing power in real terms in FY 2020. Real DPI grew 5.7 percent over the twelve months of FY 2020, after growing by 2.0 percent during the previous fiscal year.

Nominal average hourly earnings grew at a consistently strong pace during the first half of FY 2020, and grew faster during the second half, reflecting the temporary unemployment of lower-wage workers. Slower inflation helped boost wages in real terms. Real average hourly earnings increased 3.0 percent during FY 2020, after rising 2.3 percent during the previous fiscal year. Growth of non-farm labor productivity also accelerated over the four quarters of FY 2020, rising by 4.0 percent after growing 1.7 percent during FY 2019.

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[18] for FY 2020 and FY 2019.

Fiscal Sustainability

A sustainable fiscal policy is defined 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 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 reached 100 percent at the end of FY 2020. The long-term fiscal projections in this report are based on the same economic and demographic assumptions that underlie the 2020 Social Security and Medicare Trustees' Reports, and those assumptions were developed prior to the COVID-19 pandemic and economic downturn. At this time, management cannot reasonably estimate the potential effects of COVID-19 on the projections or other sustainability measures (such as projected depletion dates for the Social Security and Medicare Hospital Insurance Trust Funds in Table 10 below), which could be significant. As discussed below, if current policy is left unchanged and based on this report's assumptions, the debt-to-GDP ratio is projected to rise to over 124 percent in 2030, and to 623 percent in 2095 and to even higher levels, thereafter. 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 amount to 5.4 percent 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. For example, the magnitude of spending cuts and/or revenue increases necessary to close the gap rises about 18.5 percent if reforms are delayed ten years, and a further 21.9 percent if reform is delayed 20 years.

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[19] 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 9 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, as well as the increased spending and temporary tax reductions enacted to stimulate the economy and support recovery. These elevated primary deficits resulted in a sharp increase in the ratio of debt to GDP, which rose from 39 percent at the end of 2008 to 70 percent at the end of 2012. As an economic recovery took hold, the primary deficit ratio fell, averaging 2.1 percent of GDP over 2013 through 2019, The primary deficit-to-GDP ratio again spiked in 2020, rising to 13.3 percent of GDP in 2020, due to increased spending to address the COVID-19 pandemic and lessen the economic impacts of stay-at-home and social distancing orders on individuals, hard-hit industries, and small businesses.

The primary deficit ratio is projected to fall to 6.0 percent in 2021 and then shrink to 2.9 percent in 2023 as the economy grows and spending due to legislation enacted in response to the COVID-19 pandemic decreases. After 2023, however, increased spending for Social Security and health programs due to the ongoing retirement of the baby boom generation and

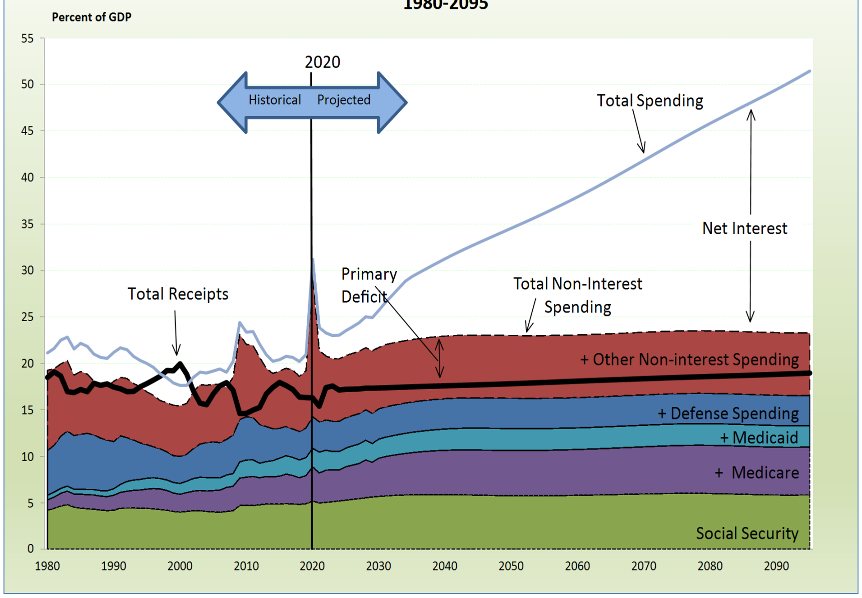
[18] For the purposes of the SLTFP and this analysis, spending is defined in terms of outlays. In the context of federal budgeting, spending can either refer to: 1) budget authority – the authority to commit the government to make a payment; 2) obligations – binding agreements that will result in either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

[19] 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 SNAP).

increases in the price of health care services is projected to result in increasing primary deficit ratios that reach 4.4 percent of GDP in 2030. The primary deficit ratio peaks at 5.4 percent in 2042, gradually decreases beyond that point as aging of the population continues at a slower pace, and reaches 4.3 percent of GDP in 2095.

Primary deficit trends are heavily influenced by tax receipts. Receipts as a share of GDP were markedly depressed in 2009 through 2012 because of the recession and tax reductions enacted as part of the ARRA and the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010*. The share subsequently increased to 18.0 percent of GDP by 2015, before falling below the 30-year average of 17.1 percent in 2018, after enactment of the TCJA.

Chart 9: Historical and Current Policy Projections for Receipts, Non-interest Spending, Net Interest, and Total Spending 1980-2095



Receipts were 16.3 percent of GDP in 2020. After 2024, receipts grow slightly more rapidly than GDP over the projection period as increases in real incomes cause more taxpayers and a larger share of income to fall into the higher individual income tax brackets.

On the spending side, the non-interest spending share of GDP, which was 29.6 percent in 2020, is projected to fall to 20.5 percent in 2024. After 2024, the non-interest spending share of GDP is projected to rise gradually from 20.8 percent in 2025 to 23.5 percent of GDP in 2078, and ends at 23.3 percent in 2095, the end of the projection period. Beginning in 2025, these increases are principally due to faster growth in Medicare, Medicaid, and Social Security spending (see Chart 9). Over the next 20 years, the spending shares of GDP of Social Security and Medicare are projected to increase by about 0.9 and 1.5 percentage points, respectively, from 2021 to 2040. The spending share of GDP for Medicaid stays roughly the same over that period. After 2040, the Social Security and Medicaid spending share of GDP remains relatively stable, while the Medicare spending share of GDP continues to increase through 2082, albeit at a slower rate, due to projected increases in health care costs and population aging.

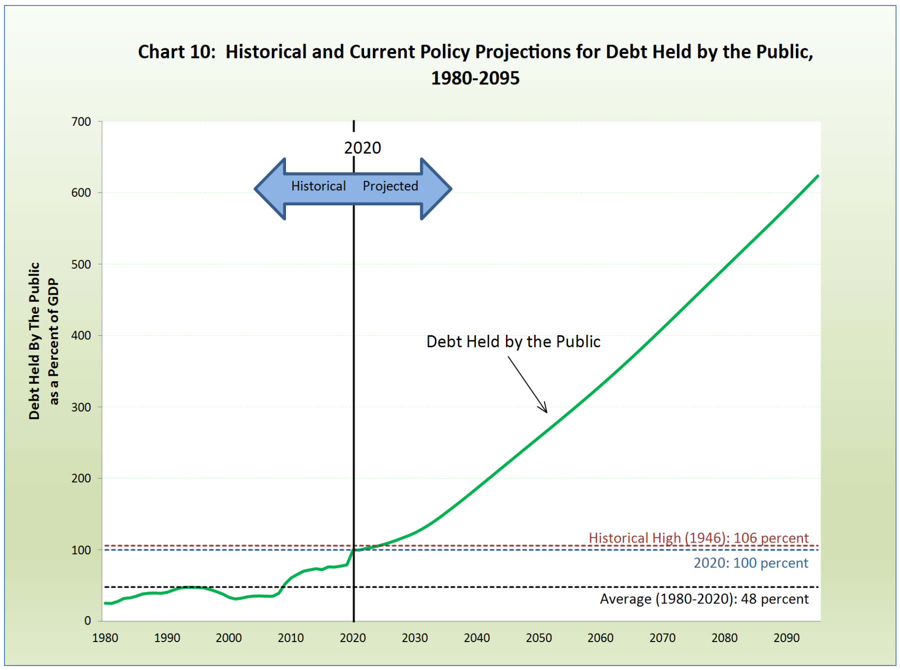
On a PV basis, deficit projections reported in the FY 2020 *Financial Report* increased in both present-value terms and as a percent of the current 75-year PV of GDP. As discussed in Note 24, the largest factors affecting the projections were actual budget results for FY 2020 and the budget estimates published in the FY 2021 President's Budget. This includes lower individual income tax receipts and higher spending for mandatory programs other than Social Security, Medicare, and Medicaid. Other factors affecting the change in these projections included updates of economic and demographic assumptions which increases the imbalance by 0.3 percent of the 75-year present value of GDP ($8.1 trillion), including lower population growth, which lowers wage projections and decreases individual income tax and social insurance receipts; the effect of new Social Security, Medicare, and Medicaid program-specific actuarial assumptions and the change in reporting period - the effect of shifting calculations from 2020 through 2094 to 2021 through 2095.

One of the most important assumptions underlying the projections is the future growth of health care costs. As discussed in Note 23, 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 established cost controls 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 2020 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 23, the Medicare projections are subject to much uncertainty about the ultimate effects of these provisions to reduce health care cost growth. 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. The most recent Social Security and Medicare Trustees' Reports were released in April 2020, and the economic and demographic assumptions do not reflect the effects of the COVID-19 pandemic, increasing the uncertainty surrounding this year's long-term fiscal projections. At this time, management cannot reasonably estimate the potential effects of COVID-19 on the projections or other sustainability measures (such as projected depletion dates for the Social Security and Medicare Hospital Insurance Trust Funds in Table 10), which could be significant. See Note 24—Long-Term Fiscal Projections for additional information.

As discussed in Note 24 for the FY 2020 report, other key assumptions include, but are not limited to the following. For receipts, individual income taxes are based on the share of individual income taxes of salaries and wages in the FY 2021

President's Budget, and the salaries and wages projections in the Social Security 2020 Trustees' Report. That baseline accords with current policy as defined above, including the continuation of individual income and estate and gift tax provisions of the TCJA and the tendency of effective tax rates to increase as growth in income per capita outpaces inflation. Congressional action is required to make these changes. Similar to spending, the temporary receipt effects of legislation enacted in response to the COVID-19 pandemic are reflected through 2030 based on CBO estimates. Corporate income tax receipts are assumed to be the same share of GDP as projected in the President's Budget in the short term, which incorporates the expected effects of the TCJA, and then grow with GDP over the long term. For discretionary spending, the projections assume that discretionary spending stays within statutory caps that apply to 2021 under the 2019 BBA. Congressional action is required to fund this assumed discretionary spending. Similar to mandatory spending, discretionary spending from supplemental appropriations enacted in response to the COVID-19 pandemic is reflected through 2030, based on CBO estimates. GDP, interest, and other economic and demographic assumptions are the same as those that underlie the most recent Social Security and Medicare Trustees' Report projections, adjusted for historical revisions that occur annually. See Note 24—Long-Term Fiscal Projections for additional information about the assumptions used in this analysis.

The primary deficit-to-GDP projections in Chart 9, projections for interest rates, and projections for GDP together determine the debt-to-GDP ratio projections shown in Chart 10. That ratio was 100 percent at the end of FY 2020 and under current policy is projected to exceed the historic high of 106 percent in 2025, rise to 200 percent by 2042 and reach 623 percent by 2095. 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.[20] The continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable.



These debt-to-GDP projections are higher than the corresponding projections in both the 2019 and 2018 *Financial Reports*. For example, the last year of the 75-year projection period used in the FY 2018 *Financial Report* is 2093. In the FY 2020 *Financial Report*, the debt-to-GDP ratio for 2093 is projected to be 605 percent, which compares with 467 and 530 percent projected for that same year in the FY 2019 *Financial Report* and the FY 2018 *Financial Report,* respectively.[21]

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 2095 to remain at its level in 2020. The projections show that projected primary deficits average 4.8 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 0.6 percent of GDP, 5.4 percentage points higher than the projected PV of receipts less non-interest spending shown in the basic financial statement. Hence, the 75-year fiscal gap is estimated to equal 5.4 percent of GDP. This amount is, in turn, equivalent to 30.2 percent of 75-year PV receipts and 23.8 percent of 75-year PV non-interest spending. The fiscal gap was estimated at 3.8 percent in the 2019 *Financial Report*.

In these projections, closing the fiscal gap requires running substantially 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 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.

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[20] 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.

[21] See the Note 23 of the *FY 2019 Financial Report of the U.S. Government* for more information about changes in the long term fiscal projections between FYs 2018 and 2019.

Table 7	
Cost of Delaying Fiscal Reform	
Period of Delay	**Change in Average Primary Surplus**
Reform in 2021 (No Delay)	5.4 percent of GDP between 2021 and 2095
Reform in 2031 (Ten-Year Delay)	6.4 percent of GDP between 2031 and 2095
Reform in 2041 (Twenty-Year Delay)	7.8 percent of GDP between 2041 and 2095

Table 7 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 5.4 percent of GDP on average between 2021 and 2095 (i.e., some combination of reducing spending and increasing revenue by a combined 5.4 percent of GDP on average over the 75-year projection period). Table 7 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 6.4 percent of GDP on average between 2031 and 2095. Similarly, delaying reform by 20 years requires primary surplus increases of 7.8 percent of GDP on average between 2041 and 2095. The differences between the required primary surplus increases that start in 2031 and 2041 (6.4 and 7.8 percent of GDP, respectively) and that which starts in 2021 (5.4 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 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*.

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.[22] 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.

The SOSI projections are based on the same economic assumptions that underlie the Social Security Trustees' Report, and those assumptions were developed using data as of January 1, 2020, prior to the economic downturn. At this time, management cannot reasonably estimate the potential effects of COVID-19 on the SOSI or other sustainability measures (such as projected depletion dates for Social Security and Medicare Hospital Insurance Trust Fund in Table 10 below), which could be significant.

Table 8 summarizes amounts reported in the SOSI, showing that net social insurance expenditures are projected to be \$65.5 trillion over 75 years as of January 1, 2020 for the "Open Group," an increase of \$6.4 trillion over net expenditures of \$59.1 trillion projected in the 2019 *Financial Report*.[23] The current-law 2020 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.[24] 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

[22] *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

[23] '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.

[24] 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.

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 8. For the FYs 2020 and 2019 SOSI, the amounts eliminated totaled $40.9 trillion and $36.8 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).

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 non-marketable 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 8: Social Insurance Future Expenditures in Excess of Future Revenues

Dollars in Trillions	2020	2019	Increase / (Decrease) $	%
Open Group (Net):				
Social Security (OASDI)	$ (19.7)	$ (16.8)	$ 2.9	17.3%
Medicare (Parts A, B, & D)	$ (45.7)	$ (42.2)	$ 3.5	8.3%
Other	$ (0.1)	$ (0.1)	$ -	0.0%
Total Social Insurance Expenditures, Net (Open Group)	**$ (65.5)**	**$ (59.1)**	$ 6.4	10.8%
Total Social Insurance Expenditures, Net (Closed Group)	**$ (87.0)**	**$ (80.4)**	$ 6.6	8.2%
Social Insurance Net Expenditures as a % of Gross Domestic Product (GDP)*				
Open Group				
Social Security (OASDI)	(1.2%)	(1.1%)		
Medicare (Parts A, B, & D)	(3.0%)	(3.0%)		
Total (Open Group)	**(4.2%)**	**(4.1%)**		
Total (Closed Group)	**(5.6%)**	**(5.6%)**		

Source: Statement of Social Insurance (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 2020 & 2019 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 percent of GDP. As a result, totals may not equal the sum of components due to rounding.

Table 9 identifies the principal reasons for the changes in projected social insurance amounts during 2020 and 2019.

Table 9: Changes in Social Insurance Projections		
Dollars in Trillions	2020	2019
Net Present Value (NPV) - Open Group (Beginning of the Year)	**$ (59.1)**	**$ (54.0)**
Changes In:		
Valuation Period	$ (2.2)	$ (1.9)
Demographic data, assumptions, and methods	$ 3.3	$ 0.8
Economic data, assumptions, and methods[1]	$ (1.8)	$ (1.0)
Law or policy	$ (0.6)	$ -
Methodology and programmatic data[1]	$ 0.2	$ 0.5
Economic and other healthcare assumptions[2]	$ (5.4)	$ (3.0)
Change in projection base[2]	$ 0.1	$ (0.5)
Net Change in Open Group measure	$ (6.4)	$ (5.1)
NPV - Open Group (End of the Year)	**$ (65.5)**	**$ (59.1)**

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, 2020) as disclosed in Note 23 —Social Insurance. Note 23 is compiled from disclosures included in the financial reports of those entities administering these programs, including SSA and HHS. See Note 23 for additional information.

- Change in valuation period (affects both Social Security and Medicare): This change replaces a small negative net cash flow for 2019 with a much larger negative net cash flow for 2094. As a result, the PV of the estimated future net cash flows decreased (became more negative) by $2.2 trillion.
- Changes in demographic data, assumptions, and methods (affects both Social Security and Medicare): There were two changes to ultimate demographic assumptions compared to prior valuation: the ultimate total fertility rate was lowered; and the ultimate disability incidence rate was lowered, and the near-term assumed disability incidence rates are somewhat lower in the current valuation. In addition to this ultimate demographic assumption change, the starting demographic value and the way these value transition to the ultimate assumptions were changed. Overall, changes to these assumptions caused the PV of the estimated future net cash flows to increase (become less negative) by $3.3 trillion for Social Security and Medicare, respectively.
- Changes in economic data and assumptions (affects Social Security only): Several changes were made to the ultimate economic assumptions since the last valuation period. Lower assumed total-economy labor productivity growth and a lower assumed ultimate interest rate all contribute to lower projected cash flow while a change in projected ultimate inflation rates and an increase in the projected real wage differential partly offset the changes that have a negative effect. There was one notable change which was incorporating more recent projections of disability prevalence in the labor force participation model. Overall, changes to these assumptions caused the PV of the estimated future net cash flows to decrease (become more negative) by $1.8 trillion.
- Changes in law or policy (affects both Social Security and Medicare): For Social Security, between prior valuation and the current valuation one new law and one new regulation were enacted that are expected to have significant effects on the long-range cost. The ACA, which was enacted in 2010, specified an excise tax on employer-sponsored group health insurance premiums above a given level (commonly referred to as the "Cadillac" tax). On December 20, 2019, the ACA's excise tax provision was repealed. On February 25, 2020, SSA published a final rule in the Federal Register that eliminates the inability to communicate in English as an educational category in the disability determination and medical review process. Most of the provisions enacted as part of Medicare legislation since the prior valuation date had little or no impact on the program. Overall, the changes to these laws, regulations, and policies caused the PV of the estimated future net cash flows to decrease (become more negative) by $0.6 trillion for Social Security and Medicare.
- Changes in methodology and programmatic data (affects Social Security only). Several methodological improvements and updates of program-specific data are included in the current valuation, including, but not limited to: 1) the ultimate disability incidence rate was lowered from 5.2 per thousand exposed in the prior valuation to 5.0 in the current valuation; 2) as in the prior valuation, the current valuation uses a 10-percent sample of newly-entitled worker beneficiaries in a recent year to project average benefit levels of retired-worker and disabled-worker beneficiaries; and 3) The current valuation includes an improvement in the long-range model used for projecting the percentage of the population that has fully-insured status. Overall, changes in methodology and programmatic data caused the PV of the estimated future net cash flows to increase (become less negative) by $0.2 trillion.
- Changes in economic and other healthcare assumptions (affects Medicare only): The economic assumptions used in the Medicare projections are the same as those used for the OASDI (described above) and are prepared by the Office of the Chief Actuary at SSA. In addition to the economic assumptions changes described above, the healthcare assumptions are specific to the Medicare projections. Changes to these assumptions in the current valuation include: higher projected spending growth for Medicare Advantage beneficiaries; faster projected spending growth for physician-administered drugs under Part B; slower overall drug price increases and higher direct and indirect remuneration. The net impact of these changes caused the PV of the estimated future net cash flows to decrease (become more negative) by $5.4 trillion.

- Change in Projection Base (affects Medicare only): Actual income and expenditures in 2019 were different than what was anticipated when the 2019 Medicare Trustees' Report projections were prepared. Part A income and expenditures in 2019 were lower than anticipated based on actual experience. For both Part B and Part D, total income and expenditures were higher than estimated based on actual experience. The net impact of the Part A, B, and D projection base changes is an increase of $401 billion in the PV of the estimated future net cash flow, including combined trust fund assets. Actual experience of the Medicare Trust Funds between January 1, 2019 and January 1, 2020 is incorporated in the current valuation and is more than projected in the prior valuation. Overall, the net impact of the Part A, B, and D projection base change is an increase (become less negative) in the estimated future net cash flows by $0.1 trillion for Medicare.

As reported in Note 23, 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 23 includes an alternative projection to illustrate the uncertainty of projected Medicare costs. As indicated earlier, GAO disclaimed opinions on the 2020, 2019, 2018, 2017 and 2016 SOSI because of these significant uncertainties.

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 in the labor force and GDP.[25] According to the Medicare Trustees' Report, spending on Medicare is projected to rise from its current level of 3.7 percent of GDP to 6.0 percent in 2044 and to 6.5 percent in 2094.[26] As for Social Security, combined spending is projected to generally increase from its current level of 5.0 percent of GDP to about 5.9 percent by 2038, declining to 5.8 percent by 2053 and then generally increase to 5.9 percent by 2094. 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 10 summarizes additional current status and projected trend information, including years of projected depletion, for the Medicare Hospital Insurance and Social Security Trust Funds.

Table 10: Trust Fund Status

Fund	Projected Depletion	Projected Post-Depletion Trend
Medicare Hospital Insurance (HI)*	2026 (unchanged from FY 2019 Report)	In 2026, trust fund income is projected to cover 90 percent of benefits, decreasing to 78 percent in 2044, then returning to 90 percent by 2094.
Combined Old-Age Survivors and Disability Insurance (OASDI)**	2035 (unchanged from FY 2019 Report)	In 2035, trust fund income is projected to cover 79 percent of scheduled benefits, decreasing to 73 percent by 2094.

* Source: 2020 Medicare Trustees Report ** Source: 2020 OASDI Trustees Report

Projections assume full Social Security and Medicare benefits are paid after fund depletion contrary to current law.

Projections do not include the effects of the pandemic.

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*.

[25] A Summary of the 2020 Annual Social Security and Medicare Trust Fund Reports, page 4.

[26] Percent of GDP amounts are expressed in gross terms (including amounts financed by premiums and state transfers).

Financial Management

Government Expenditures

Results-Oriented Accountability for Grants

Nearly $800 billion is spent annually on grants and cooperative agreements. Grants managers, both internal and external to the government, report that approximately 40 percent of their time is spent using antiquated processes to monitor compliance with grant requirements rather than using data analytics to monitor grant results. To address these challenges, OMB and the federal grant-making agencies[27] have developed a long-term improvement strategy. The strategy includes standardizing the grants management business process and data, building shared IT infrastructure, establishing a standard risk management framework across grant programs, and ensuring that new grant programs are designed to reflect measurable goals.

To support the standardization of the business process and data and the building of shared IT infrastructure, OMB issued M-18-24, "Strategies to Reduce Grant Recipient Reporting Burden," and published Version 1.0 of the Grants Management Standard Data Elements. In addition, in December 2019, the *Grant Reporting Efficiency and Agreement Transparency Act* was enacted and, in August 2020, OMB published final changes to 2 CFR to require future information collection requests to adhere to the Grants Management Standard Data Elements. Also, concurrent with the release of OMB memo M-19-16, "Centralized Mission Support Capabilities for the Federal Government," OMB predesignated HHS as the Grants Management QSMO and throughout FY 2020 HHS worked with the federal grants community to modernize grants technology, promote interoperability of systems, reduce the number of grants management systems, and promote a risk-based, data-driven approach to managing federal grants. In January 2021, OMB announced that HHS was formally designated as the Grants Management QSMO.

To assess a grant applicant's capabilities, agencies need performance data and the ability to include performance in risk modeling. Consistent with a risk-based approach, agencies are required to audit only seven, not all twelve, of the twelve management requirements (e.g., allowable costs, eligibility, cash management) applicable to grant programs. Specifically, they are required to audit the seven areas deemed to pose the greatest risk or that produced the greatest number of audit findings in the past, as specified in the Compliance Supplement.[28] OMB issued an Addendum to the 2020 Compliance Supplement for the major COVID-19 programs, which seeks to also ensure compliance with subaward reporting under the *Federal Funding Accountability and Transparency Act*.

In addition, in FY 2020, OMB published the performance "playbook," which promotes a common understanding of performance practices to improve grant recipient and program performance and OMB developed a change management strategy focused on listening sessions with federal stakeholders, including the grants community.

Also, in FY 2020, OMB issued COVID-19 related grants guidance, including: OMB Memorandum M-20-11, Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19); OMB Memorandum M-20-17, Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations; OMB Memorandum M-20-20, Repurposing Existing Federal Financial Assistance Programs and Awards to Support the Emergency Response to the Novel Coronavirus (COVID-19)**;** and OMB Memorandum M-20-26, Extension of Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations**.**

Getting Payments Right

Preventing improper payments in the federal government is a management priority. To be successful in preventing improper payments, there must be a focus on systemic enhancements intended to make payments correctly the first time with an emphasis on reducing monetary loss. The federal government, through the CFO community, has identified five strategies to reduce monetary loss and prevent improper payments, which are: 1) Clarify and Streamline Requirements, 2) Identify Monetary Loss Root Causes, 3) Strategic Data Use (using data to prevent improper payments), 4) Mitigation Strategies (using non-data methods to prevent improper payments), and 5) Strengthen State Partnerships.

Starting in FY 2018, agencies with programs reporting more than $100 million in monetary loss began providing a quarterly scorecard on PaymentAccuracy.gov. These scorecards provide information on the actions taken and progress made

[27]The term "agency" is used in the Financial Management section of the Management's Discussion and Analysis rather than the term "entity," which is used throughout the rest of the *Financial Report*. SFFAS No. 47, *Reporting Entity*, defines the term "entity" for federal financial reporting purposes and addresses both component and government-wide financial reporting. The term entity is generally broader than "agency" because it refers to agencies, components of agencies, and the federal government as a whole. The term "agency" is used in this section because the laws, policies, and plans discussed in this section apply to "agencies" as defined in particular laws or policy guidance documents and because the laws, policies, and plans discussed in this section do not generally define the term "entity."

[28]The Compliance Supplement is an annually updated authoritative source for auditors that identifies compliance requirements that the federal government expects to be considered as part of an audit. Auditors use it to understand the federal program's objectives, procedures, and compliance requirements, as well as audit objectives and suggested audit procedures for determining compliance with the relevant federal program.

on preventing improper payments that would result in monetary loss to the government. Additional details on the programs' FY 2020 improper payment data can be found at https://paymentaccuracy.gov/. Beginning in FY 2020, PaymentAccuracy.gov began providing payment integrity information that had previously been reported in agencies financial statements. Information about program compliance, corrective actions, and accountability mechanisms is now available in a consistent format across all programs.

In FY 2021, OMB will continue to work with agencies, the CFOC, and other stakeholders to improve the identification of the root causes of improper payments that result in monetary loss and to promote data analytic methods that take a comprehensive view of an agency's payment lifecycle.

Efficient Use of Real Property Assets

The federal government owns a significant amount of real property assets worldwide, with a majority of its holdings located in the U.S. These real property holdings include assets that are classified by property type in the FRPP as: land, buildings, and structures. The FRPP defines land as acreage and a building as a constructed asset that is enclosed with walls and a roof that provides space for agencies to perform activities, store materials, or provide space for people to live or work. A structure is defined as any constructed asset that does not meet the building definition above (i.e., fence, tower, parking structure). Further information can be found in the FRPP Data Dictionary available at https://www.gsa.gov/policy-regulations/policy/real-property-policy/asset-management/federal-real-property-council-frpc/frpc-guidance-library.

Land

The federal government owns roughly 640 million acres, which represents about 28 percent, of all U.S. land. Four major federal land management agencies administer 610.1 million acres, or 95 percent, of this land. They are the BLM, Fish and Wildlife Service, and National Park Service in DOI; and the Forest Service in USDA. These lands are managed for many purposes, primarily related to conservation, preservation, recreation, and the extraction of natural resources such as timber, minerals, oil, and gas. Much of the land managed by DOI and USDA is public domain land and is generally intended to be retained by the government for use by future generations. This and other land that qualifies as stewardship land is not valued on the government-wide Balance Sheet, but is discussed in Note 25 and in agencies financial statements. In addition, DOD (excluding the Army Corps of Engineers) uses stewardship land for military bases, training ranges, and other military related functions.

Structures

The government owns structures that are affixed to the land and in many instances cannot easily be physically separated from the land; these include parking structures, power plants, power generating stations, dams, and space exploration structures. These structures are managed by agencies such as DOE, the Army Corps of Engineers, and NASA. The federal government charges fees for the use of some of these structures, which defray some of the costs of the assets. The receipt of such user fees (e.g., sales of electrical power) is recorded as revenue. Structures are generally reflected on the Balance Sheet at cost, net of depreciation, and any environmental or other liabilities associated with structures are reflected on the Balance Sheet in accordance with GAAP.

Buildings

A large portion of the government's real property inventory includes federally owned buildings, with the majority in the custodial care of DOD. In general, agencies hold and manage buildings for administrative use to achieve their mission. The government does not hold buildings or any real property assets for investment or land banking purposes. Buildings owned by the government (and the land associated with the buildings) are generally reflected on the Balance Sheet at cost, net of depreciation. As noted above with structures, any environmental or other liabilities associated with buildings (and the land underneath the buildings) are also reflected on the Balance Sheet in accordance with generally accepted accounting principles. Any buildings (or structures, including the land underneath the buildings or structures) that are not in service are included on the Balance Sheet at net realizable value. After the government identifies buildings or other real property for disposal, it carries out public or negotiated sales, demolitions, public benefit conveyances, and, on occasion, property exchanges.

The federal domestic building inventory is diverse and contains 272,000 owned and leased buildings totaling 2.7 billion square feet of space as of 2019. Several current real property initiatives being pursued are discussed below.

Transformation Efforts to Optimize the Use of Federal Real Property

OMB Memorandum M-18-21 requires all federal entities to designate senior real property officers to coordinate all aspects of their real property programs and to serve on the FRPC. The FRPC seeks to provide comprehensive government-wide strategic direction to help optimize the federal real property portfolio to achieve statutory missions while managing costs over the short, mid, and long-term. The FRPC is addressing current challenges such as the lack of a comprehensive strategic approach to asset management, funding challenges, poor data quality, and administratively burdensome and costly legislative disposal requirements. It seeks to revise the national strategy's policy framework, standardize the business processes and data, and diagnose and address root causes of current challenges.

On November 6, 2019, OMB issued Memorandum M-20-03, providing detailed guidance to agencies to implement the Capital Programming Guide in OMB Circular A-11 and to ensure that an agency's real property portfolio helps it efficiently achieve its mission. The Memo provides standards for agencies to use to develop a consistent methodology for allocating resources to real property. This resource allocation will occur as a part of the annual budget formulation process, with agencies systematically identifying their real property needs and assessing their existing real property assets. This process of reviewing real property holdings, acquisitions, and dispositions and linking clearly articulated long-term real property requirements to options that consider the life-cycle of real property is intended to allow agencies and policymakers to have the information necessary to optimize the federal real property portfolio. This should lead to the elimination of excess capacity, cost-effective long-term investments in real property, and annually updated information about the condition of existing property.

The strategic direction reflected in Memorandum M-20-03 builds on the results of the Reduce the Footprint policy, which was issued in 2015 and requires the CFO Act agencies to reduce the size of their federal real property portfolios by improving the use of government-owned buildings and by reducing the amount of leased space and the number of excess and underutilized properties. In March 2020, OMB issued Memorandum M-20-10 *Addendum to the National Strategy for the Efficient Use of Real Property* (Addendum), which goes beyond reducing office and warehouse space to optimizing the government's entire portfolio to achieve mission effectiveness and cost efficiency. The Addendum seeks to ensure that the federal government has the right type of property, in the right amount, at the right location, at the right cost, in the right condition, to support its diverse mission requirements. In addition, Implementation of the *Federal Assets Sale and Transfer Act of 2016* and the *Federal Property Management Reform Act of 2016* may result in a number of property disposals and aid in the efficient use of real property.

Leveraging Data as a Strategic Asset

DATA Act and USAspending.gov

The DATA Act amended the *Federal Funding Accountability and Transparency Act of 2006* by linking federal government contract, loan, and grant spending to federal programs and requiring that all federal spending be displayed on a website in searchable, downloadable, and machine-readable formats.

The USAspending.gov website, which Treasury launched in April 2018 in accordance with the DATA Act, allows users to examine more than $4 trillion in federal spending and identify communities, businesses and non-profit entities that have received federal funding. The data are provided by more than 100 federal agencies and is compiled by Treasury on a quarterly basis. The site allows users to explore the data and download reports that are tailored to their specific interests. The site also includes the Data Lab, which provides use cases, data visualizations, and analyses of federal spending and trends. The data are searchable in a machine-readable format and open application programming interface.

Under OMB Memorandum M-18-16, Management of Reporting Data Integrity Risk, Appendix A to OMB Circular A-123, agencies were required to develop and implement a data quality plan for FYs 2019 through 2021. The guidance also requires agencies to consider in their assurance statements all internal controls (including controls over DATA Act reporting). In November 2019, GAO noted (in GAO-20-75) that agencies had made significant progress in improving DATA Act data quality.

In April 2020, OMB issued Memorandum M-20-21 *Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19),* which expanded the use of the DEFC for tracking disasters and emergencies to data provided for USAspending.gov. Additionally, in FY 2021, agencies are required to report program activities at the award level and, beginning in FY 2022 agencies are directed to begin monthly reporting, including outlays at the award level.

Program Inventory

In December 2020, OMB launched the Federal Program Inventory Exploratory Pilot as an interim step in a multi-year effort to create a coherent and comprehensive government-wide program inventory. The goal of the inventory, as articulated in the Government Performance and Results Modernization of 2010, is to provide policymakers and the public "a coherent picture of all Federal programs, and the performance of the Federal Government as well as individual agencies." This coherent picture has become known as the Federal Program Inventory.

Financial Management Framework

Sharing Quality Financial Management Services

The federal financial management infrastructure (which includes grants) exists in a complex environment of legacy systems, customized tools built to unique requirements, lack of harmonized standards, and business processes that no longer leverage modern technology. The sharing of financial technology and services has been successful for smaller agencies as well as a cabinet-level department, with much opportunity remaining to expand the use and effectiveness of these types of arrangements. Specifically, agencies that provide financial management services to other agencies have done so efficiently and effectively for agencies with more limited financial systems requirements. However, when the service providers have attempted to provide similar services and share technology with agencies that have more complex requirements, the result has often been cost over-runs and the need for systems upgrades or customization. To address this, cross-agency work groups are exploring industry capabilities for optimal use of technology in federal financial management and coordinating the implementation of best practices across the government.

OMB issued M-19-16, "Centralized Mission Support Capabilities for the Federal Government," on April 26, 2019. In June of 2020, Treasury was officially designated as the QSMO for the financial management line of business and, along with OMB and GSA, will be working with agencies as they pursue the goals as outlined in M-19-16.

Financial Management Workforce

Federal agencies and OMB are committed to redefining the role of the federal government by prioritizing activities that advance the federal government financial workforce. The future workforce must enable senior leaders and front-line managers to align staff skills with evolving mission needs. This will require more nimble and agile management of the workforce, including reskilling and redeploying existing workers to keep pace with the current pace of change.

Under the CFOC, a cross-agency "Shape the Workforce" work group has been working to establish a systematic process for identifying and addressing gaps between the financial management workforce of today and the workforce needs of tomorrow. Through this process, CFO leadership will be able to identify the personnel required to meet organizational goals, conduct analyses to determine and close competency and skills gaps, develop strategies to address human capital needs, and assess the effectiveness of CFO office structures. In addition, the cross-agency work group is exploring options for consolidating recruitment efforts and streamlining the hiring process, leveraging technology to improve the financial management workforce, and developing new tools for retention and staff development.

Enterprise Risk Management

ERM is a tool used by agencies to systematically identify, assess, mitigate, manage, and prepare for risks that could interfere with an agency's ability to achieve its mission and goals. ERM promotes risk-informed decision making that allows resources to be prioritized and allocated based on risk and encourages agencies to target their limited resources to activities likely to produce the greatest improvement in program performance.

Using ERM techniques, federal agencies establish internal controls to address management challenges that cut across multiple agencies' functions and reduce associated risk to an acceptable level that aligns with the agency's risk appetite and tolerance. In this way, ERM integrates risk management and internal control processes. The 2016 update to OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, stresses the importance of applying ERM to all financial management activities, including charge cards and payment integrity. In 2019, the updated OMB Circular A-11, Part 6, integrated ERM into agency strategic planning and performance measurement processes. In 2020, Circular A-11 (sections 31.1 and 31.8) was updated to integrate ERM into the budget formulation process. In response to COVID-19, OMB updated M-20-21, *Risk-Based Financial Audits and Reporting Activities in Response to COVID-19,* to encourage agencies to use risk-based frameworks to achieve financial, audit, and payment integrity objectives. Also in 2020, the CFOC established an ERM Executive Steering Committee to identify and share ERM best practices, develop a federal ERM maturity model (a self-assessment tool used to assist in ERM implementation), promote ERM integration with mission and mission support functions, and facilitate constructive coordination with oversight entities.

Agency Financial Report Results

Audits

Since the passage of the CFO Act, the federal financial community has made significant progress in financial accounting and reporting. As shown in Table 11, for FY 2020, 22 of the 24 CFO Act agencies obtained an unmodified opinion from the independent auditors on their financial statements.[29] In addition, 48 auditor-identified material weaknesses were reported at the end of FY 2020 compared to 41 for FY 2019. Twenty-six of these are associated with DOD. The other 22 material weaknesses are associated with non-DOD agencies, which represents an increase from 16 reported in 2019, primarily because of the increase in new material weaknesses at SBA associated with implementation of programs implemented under the CARES Act and related legislation. 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 still continue to prevent the government as a whole from achieving an audit opinion.

[29] The 22 entities include HHS, which received an unmodified ("clean") opinion on all statements except the SOSI and the SCSIA.

Table 11: Agency Audit Results: FY 2020						
	Audit	Auditor-Reported Material Weaknesses				
Agency	Opinion	Beginning	New	Resolved	Consolidated	Ending
Department of Agriculture (USDA)	Unmodified	2	0	0	0	2
Department of Commerce (DOC)	Unmodified	0	0	0	0	0
Department of Defense (DOD)	Disclaimer	25	4	2	1	26
Department of Education (Education)	Unmodified	1	1	1	0	1
Department of Energy (DOE)	Unmodified	0	0	0	0	0
Department of Health and Human Services (HHS)*	Unmodified	0	0	0	0	0
Department of Homeland Security (DHS)	Unmodified	2	0	0	0	2
Department of Housing & Urban Development (HUD)	Unmodified	1	0	0	0	1
Department of the Interior (DOI)	Unmodified	1	1	1	0	1
Department of Justice (DOJ)	Unmodified	1	0	1	0	0
Department of Labor (DOL)	Unmodified	0	0	0	0	0
Department of State (State)	Unmodified	0	0	0	0	0
Department of Transportation (DOT)	Unmodified	0	0	0	0	0
Department of the Treasury (Treasury)	Unmodified	0	0	0	0	0
Department of Veterans Affairs (VA)	Unmodified	5	0	0	0	5
Agency for International Development (USAID)	Unmodified	0	0	0	0	0
Environmental Protection Agency (EPA)	Unmodified	1	0	0	0	1
General Services Administration (GSA)	Unmodified	0	0	0	0	0
National Aeronautics & Space Administration (NASA)	Unmodified	0	0	0	0	0
National Science Foundation (NSF)	Unmodified	0	0	0	0	0
Nuclear Regulatory Commission (NRC)	Unmodified	0	1	0	0	1
Office of Personnel Management (OPM)	Unmodified	1	0	0	0	1
Small Business Administration (SBA)	Disclaimer	1	7	1	0	7
Social Security Administration (SSA)	Unmodified	0	0	0	0	0
Totals		**41**	**14**	**6**	**1**	**48**

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

Agency Financial Management 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 2020, and the number of auditors reporting lack of substantial compliance with one or more of the three Section 803(a) FFMIA requirements increased to nine in FY 2020.

As suggested in the "Sharing Quality Financial Management Services" section above, 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. As the government's fiscal agent, Treasury has 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.

In 2020, Treasury was designated as the Financial Management systems QSMO and it is pursuing financial management improvement strategies that have government-wide implications. These strategies include standing up a financial management marketplace, developing system standards, and standardized processes, system requirements, and system interfaces. These efforts provide a path to the decommissioning of legacy systems and migration to updated systems, leveraging modernized technologies. Also, agencies are coordinating with Treasury QSMO to improve their financial management and financial reporting systems as described in their financial reports, budget requests, 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; these plans can be found in the agency financial statements. In addition, DOD's audit remediation efforts include issues related to real property, inventory and OM&S, government property in the possession of contractors, information technology access controls, reconciling DOD's fund balance with Treasury, internal controls over financial reporting, the Joint Strike Fighter program, and component audit support.

Agency Internal Controls

Federal managers are responsible for developing and maintaining effective internal controls. Internal controls help to 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)* 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* and contains multiple appendices that address one or more of the objectives of effective internal control.

- Appendix A provides for agencies to use a risk-based approach 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 effective estimation and remediation of improper payments; 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 the CFO Act agencies as of the issuance of this *Financial Report* was 48 for FY 2020 and 41 for FY 2019. Effective internal controls are a challenge at the agency level and at the government-wide level, with GAO reporting that at the government-wide level, material weaknesses resulted in ineffective internal control over financial reporting. While progress is being made at many agencies and across the government in identifying and resolving internal control deficiencies, additional work is needed.

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 nearly 30 years ago, but significant 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 publications 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,*
- *Economic Report of the President, and*
- *Trustees' Reports for the Social Security and Medicare Programs.*

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441 G St. N.W.
Washington, DC 20548

Comptroller General
of the United States

March 25, 2021

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

To operate as effectively and efficiently as possible, Congress, the administration, and federal managers must have ready access to reliable and complete financial and performance information—both for individual federal entities and for the federal government as a whole. Our report on the U.S. government's consolidated financial statements for fiscal years 2020 and 2019 discusses progress that has been made but also underscores that much work remains to improve federal financial management and that the federal government continues to face an unsustainable long-term fiscal path.

The federal government took unprecedented actions in response to the Coronavirus Disease 2019 (COVID-19) pandemic to protect public health and reduce economic impacts on individuals and businesses in fiscal year 2020. These efforts are reflected in the assets, liabilities, net cost, and the budget deficit reported in the U.S. government's consolidated financial statements for fiscal year 2020.

Significant assets as of September 30, 2020, resulting from the federal government's response to the COVID-19 pandemic include

- equity investments in special purpose vehicles of $108 billion, which the Federal Reserve established to enhance the liquidity of the U.S. financial system;
- advances of $173 billion to state, local, territorial, and tribal governments and Medicare providers;
- almost all of the $181 billion in disaster loans; and
- cash and other monetary assets of $1,927 billion, up from $525 billion as of September 30, 2019.[1]

In addition, loan guarantee liabilities increased to $520 billion as of September 30, 2020, from $22 billion as of September 30, 2019, primarily because of Paycheck Protection Program (PPP) lending established in response to the COVID-19 pandemic.

Major increases in net cost resulting from the federal government's response to the COVID-19 pandemic include costs related to small business loan guarantees, primarily PPP, of $527 billion; economic impact payments of $275 billion; and income maintenance program costs of $461 billion, primarily due to unemployment benefits. COVID-19 pandemic-related budget expenditures totaled $1.6 trillion during fiscal year 2020, increasing the budget deficit. Because of the ongoing deficit, increases in cash and other monetary assets, and COVID-19 pandemic-related spending, federal debt held by the public increased by $4.2 trillion during fiscal year 2020.

[1]As discussed in Note 2 of the *2020 Financial Report*, the increase in cash and other monetary assets was due to Treasury maintaining an elevated cash balance to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19-related outflow.

Subsequent to fiscal year 2020, further legislation was enacted containing provisions that provided additional relief to address the continued impact of the COVID-19 pandemic.[2] The effects of this subsequent legislation are not reflected in the U.S. government's consolidated financial statements for fiscal year 2020. The ultimate cost of these actions and any future actions in response to the pandemic and their impact on the federal government's financial condition will not be fully known for some time.

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

- Certain material weaknesses[3] in internal control over financial reporting and other limitations resulted in conditions that prevented us from expressing an opinion on the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019.[4] About 23 percent of the federal government's reported total assets as of September 30, 2020, and approximately 19 percent of the federal government's reported net cost for fiscal year 2020 relate to significant federal entities that received a disclaimer of opinion[5] on their fiscal year 2020 financial statements or whose fiscal year 2020 financial information was unaudited.[6]

- Significant uncertainties (discussed in Note 23 to the consolidated financial statements), primarily related to the achievement of projected reductions in Medicare cost growth, prevented us from expressing an opinion on the sustainability financial statements,[7] which consist of the 2020 and

[2]Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182 (Dec. 27, 2020); and American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (Mar. 11, 2021).

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

[4]The accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019, consist of the (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Budget Deficit, (4) Statements of Changes in Cash Balance from Budget and Other Activities, and (5) Balance Sheets, including the related notes to these financial statements. Most revenues are recorded on a modified cash basis.

[5]A disclaimer of opinion arises when the auditor is unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive and accordingly does not express an opinion on the financial statements.

[6]The Department of Defense received disclaimers of opinion on its fiscal year 2020 and 2019 financial statements. The Small Business Administration received a disclaimer of opinion on its fiscal year 2020 financial statements. The Department of Housing and Urban Development received a qualified opinion on its fiscal year 2019 financial statements. A qualified opinion arises when the auditor is able to express an opinion on the financial statements except for specific areas where the auditor was unable to obtain sufficient and appropriate evidence. As of the date of our audit report, the audited Schedules of the General Fund of the U.S. Government for fiscal year 2020 were not issued. The fiscal year 2019 Schedules of the General Fund were not audited to allow the Department of the Treasury sufficient time to develop and begin to implement a remediation plan to address the issues we identified as part of our audit of the fiscal year 2018 Schedules of the General Fund. Also, for fiscal years 2020 and 2019, the financial information for Security Assistance Accounts was unaudited.

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

2019 Statements of Long-Term Fiscal Projections;[8] the 2020, 2019, 2018, 2017, and 2016 Statements of Social Insurance;[9] and the 2020 and 2019 Statements of Changes in Social Insurance Amounts. About $45.7 trillion, or 70 percent, of the reported total present value of future expenditures in excess of future revenue presented in the 2020 Statement of Social Insurance relates to Medicare programs reported in the Department of Health and Human Services' 2020 Statement of Social Insurance, which received a disclaimer of opinion. A material weakness in internal control also prevented us from expressing an opinion on the 2020 and 2019 Statements of Long-Term Fiscal Projections.

- Material weaknesses resulted in ineffective internal control over financial reporting for fiscal year 2020.

- Material weaknesses and other scope limitations, discussed above, limited tests of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements for fiscal year 2020.

Overall, the federal government has made significant strides in improving financial management since key federal financial management reforms were enacted in the 1990s. Twenty-two of the 24 Chief Financial Officers Act of 1990 (CFO Act) agencies received unmodified ("clean") opinions on their respective entities' fiscal year 2020 financial statements, up from six CFO Act agencies that received clean audit opinions for fiscal year 1996.[10] In addition, accounting and financial reporting standards have continued to evolve to provide greater transparency and accountability over the federal government's operations, financial condition, and fiscal outlook. In August 2020, we highlighted the substantial progress made in federal financial management and identified several challenges that remain in fully achieving the vision of the CFO Act.[11] Areas where federal financial management can be enhanced include standardizing the responsibilities of chief financial officers, preparing government-wide and agency-level financial management plans, and better linking performance and cost information for decision-making.

While the U.S. government's consolidated financial statements provide a high-level summary of the financial position, financial condition, and operating results for the federal government as a whole, substantial benefits have been achieved as a result of agencies' preparation and audit of financial statements, including

[8]The 2020 and 2019 Statements of Long-Term Fiscal Projections present, for all the activities of the federal government, the present value of projected receipts and noninterest spending under current policy without change, the relationship of these amounts to projected gross domestic product (GDP), and changes in the present value of projected receipts and noninterest spending from the prior year. These statements also present the fiscal gap, which is the combination of noninterest spending reductions and receipts increases necessary to hold debt held by the public as a share of GDP at the end of the projection period to its value at the beginning of the period. The valuation date for the Statements of Long-Term Fiscal Projections is September 30.

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

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

[11]GAO, *Federal Financial Management: Substantial Progress Made since Enactment of the 1990 CFO Act; Refinements Would Yield Added Benefits*, GAO-20-566 (Washington, D.C.: Aug. 6, 2020).

- useful and necessary insight into government operations, including the agencies' financial conditions;
- increased federal agency accountability to Congress and citizens, including independent assurance about the reliability of reported financial information;
- greater confidence to stakeholders (governance officials, taxpayers, consumers, or regulated entities) that federal funds are being properly accounted for and assets are properly safeguarded;
- an assessment of the reliability and effectiveness of systems and related internal controls, including identifying control deficiencies that could lead to fraud, waste, or abuse;
- a focus on information security;
- early warnings of financial management issues; and
- identification of noncompliance with laws and regulations, which can present challenges to agency operations.

The preparation and audit of individual federal entities' financial statements have also identified numerous deficiencies, leading to corrective actions to strengthen federal entities' internal controls, processes, and systems. For instance, the Department of Housing and Urban Development took corrective actions to address deficiencies identified during its audits that enabled it to obtain a clean audit opinion on its fiscal year 2020 financial statements after receiving a qualified opinion on its fiscal year 2019 financial statements and receiving disclaimers of opinion on its financial statements for several years before that.

However, since the federal government began preparing consolidated financial statements over 20 years ago, three major impediments have continued to prevent us from rendering an opinion on the federal government's accrual-based consolidated financial statements: (1) serious financial management problems at the Department of Defense (DOD), (2) the federal government's inability to adequately account for intragovernmental activity and balances between federal entities, and (3) weaknesses in the federal government's process for preparing the consolidated financial statements. In addition, the Small Business Administration (SBA), which had substantial activity related to the COVID-19 pandemic response, received a disclaimer of opinion on its fiscal year 2020 financial statements, after years of receiving clean opinions.

DOD continues to take positive steps to improve its financial management, but faces long-standing issues. After many years of working toward financial statement audit readiness, DOD underwent full financial statement audits for fiscal years 2018 through 2020. These audits resulted in disclaimers of opinion, material weaknesses in internal control over financial reporting (25 in fiscal year 2019 and 26 in fiscal year 2020), and thousands of audit findings. Some of the material weaknesses—such as an inability to account for its property and equipment and ineffective information system controls—are examples of long-standing weaknesses that DOD has been unable to address.

DOD leadership identified a number of financial management-related benefits from these department-wide audits, as well as operational improvements. Specifically, DOD stated that some of the benefits of the audit process included the following:

- Inventories of real property resulted in improved accuracy of inventory records and redeployed maintenance costs.

- DOD enhanced its information technology efficiency by consolidating systems to reduce complexity, improve data flow, and improve internal controls. These efforts resulted in a savings of $19 million in recurring maintenance costs for legacy systems.

- Inventory cleanup initiatives identified almost $3 billion in materials that could be used for redeployment. As a result, DOD was able to use $50 million of this material to fill over 12,000 requisitions.

DOD has acknowledged that achieving a clean audit opinion will take time. In fiscal year 2020, DOD management prioritized certain critical areas (e.g., information technology, real property, and inventory) for improvement. DOD reported that the number of audit findings closed and material weaknesses downgraded from year to year is the objective measure of progress toward that goal. DOD will also track progress by the number of components moving from disclaimers of opinion to clean opinions. For fiscal year 2020, while the number of overall audit findings increased, two material weaknesses were downgraded; 24 percent of findings from prior year financial statement audits were closed; and the Defense Information Systems Agency, a component of DOD, received a clean opinion, after years of receiving disclaimers of opinion.

Various efforts are also under way to address the other two major impediments to an audit of the consolidated financial statements. Regarding the government's inability to adequately account for intragovernmental activity and balances between federal entities, during fiscal year 2020, the Department of the Treasury (Treasury) continued to provide information and assistance to significant component entities to aid in resolving their intragovernmental differences.[12] Treasury also issued additional guidance to federal entities related to accounting for intragovernmental transactions. Regarding weaknesses in the federal government's process for preparing the consolidated financial statements, in recent years, Treasury's corrective actions have included improving systems and implementing new processes for preparing the consolidated financial statements, enhancing guidance for collecting data from component entities, and implementing procedures to address certain internal control deficiencies detailed in our previously issued management report.[13] In addition to Treasury's and the Office of Management and Budget's (OMB) continued leadership, federal entities' strong and sustained commitment is critical to fully addressing these issues.

SBA's auditor reported that the urgent need for SBA to implement COVID-19 pandemic-related programs as quickly and efficiently as possible led to deficiencies in internal control processes. SBA's auditor identified several material weaknesses in internal control related to PPP and disaster loans under the Economic Injury Disaster Loan (EIDL) program. These weaknesses included control deficiencies in SBA's loan and loan guarantee approvals, reporting and estimating costs for loan guarantees, and overseeing service providers for both programs. SBA's auditor made 29 recommendations to address these material weaknesses and 17 recommendations to address other internal control deficiencies. We, along with SBA's Office of Inspector General (OIG), have also reported concerns with SBA's internal controls over PPP and EIDL. Since June 2020, we have made three recommendations to SBA related to its COVID-19 pandemic programs, including that SBA take steps to ensure program integrity and identify and respond to risks, including fraud. SBA's OIG has also highlighted the need for strong oversight of these programs. SBA's deficiencies related to PPP and

[12]The Office of Management and Budget (OMB) and Treasury have identified 40 federal entities that are significant to the U.S. government's fiscal year 2020 consolidated financial statements, including the 24 CFO Act agencies. See app. A of the *Fiscal Year 2020 Financial Report of the United States Government* for a list of the 40 entities.

[13]GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, GAO-20-586 (Washington, D.C.: Aug. 25, 2020).

EIDL limit the reliability of SBA's financial reporting and increase the risk of fraud and improper payments.

The material weaknesses underlying these three major impediments, as well as the new weaknesses identified at SBA, (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost, as well as the financial and nonfinancial performance, of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable, useful, and timely financial information to operate effectively and efficiently. We have made a number of recommendations to OMB, Treasury, and DOD to address these issues.[14] These entities have taken or plan to take actions to address these recommendations.

In addition to the material weaknesses referred to above, we identified two other material weaknesses. These are the federal government's inability to (1) determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them and (2) identify and resolve information security control deficiencies and manage information security risks on an ongoing basis. The fiscal year 2020 government-wide total of reported estimated improper payments was $206 billion. Our audit report presents additional details concerning these material weaknesses and their effect on the accrual-based consolidated financial statements and managing federal government operations. Until the problems outlined in our audit report are adequately addressed, they will continue to have adverse implications for the federal government and the American people.

The 2020 Statement of Long-Term Fiscal Projections and related information in Note 24 and in the unaudited Required Supplementary Information section of the *2020 Financial Report* show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path. GAO and the Congressional Budget Office (CBO) also prepare long-term federal fiscal simulations, which continue to show federal debt held by the public rising as a share of gross domestic product (GDP) in the long term.[15] This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable.

GAO, CBO, and the *2020 Financial Report*, although using somewhat different assumptions, all project that debt held by the public as a share of GDP will surpass its historical high (106 percent in 1946) in the next 4 to 10 years. Health care and Social Security remain key drivers of federal non-interest spending in the long-term projections. In addition, while interest rates are historically low, GAO, CBO, and the *2020 Financial Report* project growing debt will lead to higher spending on net interest (primarily interest on debt held by the public).

Congress and the administration have responded in an unprecedented manner to the COVID-19 pandemic and the resulting severe economic repercussions. This fiscal response and the economic repercussions generated a substantial increase in federal debt, further complicating our government's fiscal condition and outlook. Once the pandemic recedes and the economy substantially recovers,

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[14]See GAO-20-586. In addition, see GAO, *DOD Financial Management*, accessed Mar. 17, 2021, https://www.gao.gov/highrisk/dod_financial_management. Further, other auditors have made recommendations to DOD and SBA for improving its financial management. In addition, see GAO, *High Risk Area: Emergency Loans for Small Businesses*, accessed Mar. 17, 2021, https://www.gao.gov/highrisk/emergency-loans-small-businesses.

[15]For more information on GAO's simulations, see GAO, *America's Fiscal Future*, accessed on Mar. 17, 2021, https://www.gao.gov/americas_fiscal_future. For more information on CBO's simulations, see Congressional Budget Office, *The 2021 Long-Term Budget Outlook* (Washington, D.C.: Mar. 4, 2021).

Congress and the administration should quickly pivot to developing an approach to place the federal government on a sustainable long-term fiscal path.

Since 2017, we have stated that a fiscal plan is needed to ensure that the United States remains in a strong economic position to meet its social and security needs, as well as to preserve flexibility to address unforeseen events like public health emergencies. In developing a fiscal plan at the appropriate time, policymakers will need to consider the entire range of federal activities, both revenue (including tax expenditures) and spending (entitlement programs, other mandatory spending, and discretionary spending) that affect the debt.[16]

Congress's efforts to improve the federal government's long-term fiscal path could benefit from well-designed fiscal rules and targets. Fiscal rules and targets can help manage debt by controlling factors like spending and revenue as part of a long-term fiscal plan. A variety of rules and targets exist, each with its own advantages and drawbacks, and governments can use a combination of rules to help address the deficiencies of any one particular rule. To help Congress in designing any rules and targets, in September 2020, we identified a number of key considerations based on a literature review and interviews with experts on fiscal policy and fiscal rules.[17] We have also suggested that the long-term fiscal plan include fiscal rules and targets, such as a debt-to-GDP target.[18] As part of the fiscal plan, Congress should consider its medium- and long-term fiscal goals and align those goals with annual budgets to form a consistent strategy.

We have also recommended that Congress consider alternative approaches to the current debt limit as part of any long-term fiscal plan. The debt limit is a legal limit on the total amount of federal debt that can be outstanding at one time.[19] However, it does not restrict Congress's ability to pass spending and revenue legislation that affects the level of debt in the future, nor does it otherwise constrain fiscal policy. As currently structured, the debt limit is not a fiscal rule; it is a limit only on Treasury's authority to borrow in order to finance the decisions already enacted by Congress and the President.

The combination of the liquidity, depth, and safety of the U.S. Treasury market is unmatched in global markets. These characteristics make Treasury securities a unique and critical asset for a broad range of investors. Many investors accept low yields on Treasury securities because they are considered one of the safest assets in the world. This enables Treasury to keep borrowing costs low. By limiting Treasury's borrowing ability without restraining spending and revenue decisions, the debt limit as currently designed does not limit debt, but it does threaten investors' confidence in U.S. Treasury securities. Uncertainty over whether the debt limit will be raised or suspended leads to increased

[16]Tax expenditures, as defined by law, are provisions of the federal tax code that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the federal government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates. 2 U.S.C. § 622(3).

[17]GAO, *The Nation's Fiscal Health: Effective Use of Fiscal Rules and Targets*, GAO-20-561 (Washington, D.C.: Sept. 23, 2020).

[18]GAO, *The Nation's Fiscal Health: Information on the Spending and Revenue Implications of Potential Debt Targets*, GAO-21-211 (Washington, D.C.: Dec. 15, 2020).

[19]The debt limit is codified at 31 U.S.C. § 3101(b), as amended, and applies to federal debt issued pursuant to authority under 31 U.S.C. chapter 31. A very small amount of total federal debt is not subject to the debt limit. This amount primarily comprises unamortized discounts on Treasury bills and Zero Coupon Treasury bonds; debt securities issued by agencies other than Treasury, such as the Tennessee Valley Authority; and debt securities issued by the Federal Financing Bank. The Bipartisan Budget Act of 2019 temporarily suspended the debt limit through July 31, 2021. Pub. L. No. 116-37, § 301, 133 Stat. 1049, 1057 (Aug. 2, 2019), *reprinted in* 31 U.S.C. § 3101 note.

borrowing costs and disrupts the market for Treasury securities.[20] One cannot overstate the importance of preserving the confidence that investors have that debt backed by the full faith and credit of the United States will be honored.

Further, there are other risks, such as public health emergencies, cyberattacks, military engagements, and economic crises, that could affect the federal government's financial condition and its financial management in the future. These risks are not fully accounted for in the government's long-term fiscal projections. We discuss certain specific risks further in our annual report on the fiscal health of the federal government.[21] Some of the specific risks that could affect the federal government's financial condition include the following:

- Federal support of the housing finance market remains significant even though the market has largely recovered since the 2007 to 2009 financial crisis. In 2008, the federal government placed the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) under conservatorship and entered into preferred stock purchase agreements with these government-sponsored enterprises (GSE) to help ensure their financial stability. These agreements could affect the federal government's financial condition. At the end of fiscal year 2020, the federal government reported about $109 billion of investments in the GSEs, which is net of about $118 billion in valuation losses. The GSEs paid Treasury no cash dividends during fiscal year 2020 and $15 billion during fiscal year 2019, respectively. The reported maximum remaining contractual commitment to the GSEs, if needed, is about $254 billion.

- Disaster costs are projected to increase as extreme weather events become more frequent and intense because of climate change as observed and projected by the U.S. Global Change Research Program and the National Academies of Sciences, Engineering, and Medicine. Federal insurance programs are also likely to be affected by the increasing costs of weather and climate disasters. For example, as currently structured, the National Flood Insurance Program's premiums and dedicated resources are not, over the long term, sufficient to cover expected costs without borrowing from Treasury.[22] As of September 30, 2020, the Federal Emergency Management Agency (FEMA), which administers the National Flood Insurance Program, owed about $21 billion to Treasury for money borrowed to pay claims and other expenses. We have reported that FEMA is unlikely to collect enough in premiums in the future to repay this debt.[23]

- The U.S. Postal Service (USPS) continues to be in poor financial condition. USPS cannot fund its current level of services and meet its financial obligations from its current level of revenues. The fiscal year 2020 net loss of $9.2 billion marked its 14th consecutive year of net losses—totaling $87 billion. In addition, USPS has missed $63.3 billion in required payments for postal retiree health and pension benefits through fiscal year 2020, including $51.9 billion in missed payments for retiree

[20]See GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, GAO-15-476 (Washington, D.C.: July 9, 2015), and *Federal Debt Management: Treasury Should Strengthen Policies for Market Outreach and Analysis to Maintain Broad-Based Demand for Securities*, GAO-20-131 (Washington, D.C.: Dec. 5, 2019).

[21]GAO, *The Nation's Fiscal Health: After Pandemic Recovery, Focus Needed on Achieving Long-Term Fiscal Sustainability,* GAO-21-275SP (Washington, D.C.: Mar. 23, 2021).

[22]We have suggested an alternative way to record insurance commitments in the budget such that the federal government's commitment would be more fully recognized. See GAO, *Fiscal Exposures: Federal Insurance and Other Activities That Transfer Risk or Losses to the Government*, GAO-19-353 (Washington, D.C.: Mar. 27, 2019).

[23]GAO, *Flood Insurance: Comprehensive Reform Could Improve Solvency and Enhance Resilience*, GAO-17-425 (Washington, D.C.: Apr. 27, 2017).

health benefits and $11.4 billion in missed payments for pension benefits. USPS stated that it missed these payments to minimize the risk of running out of cash.

Every 2 years, GAO provides Congress with an update on its High Risk Series, which highlights federal entities and program areas that are at high risk because of their vulnerabilities to fraud, waste, abuse, and mismanagement or are most in need of broad reform. We issued our most recently updated High Risk Series on March 2, 2021.[24] GAO's High Risk Series includes most of the above-noted issues, such as DOD financial management, federal government information security, resolving the federal role in housing finance, the National Flood Insurance Program, and USPS financial viability. In addition, because of SBA's limited controls over PPP and EIDL approvals and the lack of finalized oversight plans to identify and respond to risks, we added SBA Emergency Loans for Small Businesses as a new high-risk area.

Our audit report on the U.S. government's consolidated financial statements would not be possible without the commitment and professionalism of inspectors general throughout the federal government who are responsible for annually auditing the financial statements of individual federal entities. We also appreciate the cooperation and assistance of Treasury and OMB officials as well as the federal entities' chief financial officers' flexibility, adaptability, and ability to issue their financial statements on a timely basis. We look forward to continuing to work with these individuals, the administration, and Congress to achieve the goals and objectives of federal financial management reform.

Our audit report begins on page 226. Our guide, *Understanding the Financial Report of the United States Government*, is intended to help those who seek to obtain a better understanding of the financial report and is available on GAO's website at https://www.gao.gov.[25]

[24]See GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, GAO-21-119SP (Washington. D.C., Mar. 2, 2021).

[25]GAO, *Understanding the Financial Report of the United States Government*, GAO-18-239SP (Washington, D.C.: Feb. 2018).

Our audit report was prepared under the direction of Robert F. Dacey, Chief Accountant, and Dawn Simpson, Director, Financial Management and Assurance. If you have any questions, please contact me on (202) 512-5500 or them on (202) 512-3406. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Gene L. Dodaro
Comptroller General
of the United States

cc: The Majority Leader of the Senate
The Minority Leader of the Senate
The Majority Leader of the House of Representatives
The Minority Leader of the House of Representatives

Financial Statements of the United States Government for the Fiscal Years Ended September 30, 2020, and 2019

The consolidated financial statements of the U.S. government were prepared using GAAP. These statements include the accrual-based financial statements and the sustainability financial statements, which are discussed in more detail below, and the related notes to the consolidated financial statements. Collectively, the accrual-based financial statements, the sustainability financial statements, and the notes represent basic information that is deemed essential for the consolidated financial statements to be presented in conformity with GAAP.

ACCRUAL-BASED FINANCIAL STATEMENTS

The accrual-based financial statements present historical information on what the federal government owns (assets) and owes (liabilities) at the end of the year, what came in (revenues) and what went out (net costs) during the year, and how accrual-based net operating costs of the federal government reconcile to the budget deficit and changes in its cash balance during the year. The following sections discuss each of the accrual-based financial statements.

Statements of Net Cost

These statements present the net cost of the government operations for FYs 2020 and 2019, including the operations related to funds from dedicated collections. Costs and earned revenues are categorized on the Statement of Net Cost by significant entity, providing greater accountability by showing the relationship of the entities' net cost to the government-wide net cost. Costs and earned revenues are presented in this *Financial Report* on an accrual basis, while the budget presents outlays and receipts, generally on a cash basis. The focus of the Budget of the U.S. is by entity. Budgets are prepared, defended, and monitored by entity. In reporting by entity, we are assisting the external users in assessing the budget integrity, operating performance, stewardship, and systems and controls of the government.

The Statements of Net Cost contain the following four components:

- Gross cost—is the full cost of all the departments and entities excluding (gain)/loss from changes in assumptions. These costs are assigned on a cause-and-effect basis, or reasonably allocated to the corresponding entities.
- Earned revenue—is exchange revenue resulting from the government providing goods and services to the public at a price.
- (Gain)/loss from changes in assumptions—is the gain or loss from changes in long-term assumptions used to measure the liabilities reported for federal civilian and military employee pensions, OPEB, and ORB, including veterans' compensation.
- Net cost—is computed by subtracting earned revenue from gross cost, adjusted by the (gain)/loss from changes in assumptions.

Individual entity net cost amounts will differ from the entity's financial statements primarily because of reallocations completed at the government-wide level which are listed below.

- Employee benefit costs.
- Intra-governmental eliminations, as adjusted for buy/sell costs and related revenues.
- Imputed costs.

Because of its specific function, most of the employee benefit costs originally associated with the OPM have been reallocated to the user entities for government-wide reporting purposes. The remaining costs for OPM on the Statements of Net Cost are the administrative operating costs, the expenses from prior costs from health and pension plan amendments, and the actuarial gains and losses, if applicable.

GSA is the primary provider of goods and services to federal entities. GSA's net cost is adjusted for its intra-governmental buy/sell costs and related revenues. The remaining costs for GSA on the Statements of Net Cost are administrative operating costs. With regard to intra-governmental buy/sell costs and related revenues, the amounts recognized by each entity are added to, and subtracted from, respectively, the individual entity non-federal net cost amounts.

In addition, the intra-governmental imputed costs recognized for the receipt of goods and services, financed in whole or part by the providing entities, are added to the individual entity non-federal net cost amounts. The most significant types of imputed costs that are recorded relate to post-retirement and health benefits, FECA, and Treasury's Judgment Fund. The consolidated Statements of Net Cost is intended to show the full cost for each entity, therefore, the amount of these imputed costs are added back to the reporting entities' gross cost line item and subtracted from the applicable administering entities' gross cost line item. These imputed costs have a net effect of zero on the Statements of Net Cost in the *Financial Report*.

The interest on securities issued by Treasury and held by the public is reported on Treasury's financial statements, but because of its importance and the dollar amounts involved, it is reported separately in these statements.

Statements of Operations and Changes in Net Position

These statements report the results of government operations, net operating costs, which include the results of operations for funds from dedicated collections. See Note 21—Funds from Dedicated Collections for additional information. They include non-exchange revenues, which are generated from transactions that do not require a government entity to give value directly in exchange for the inflow of resources. The government does not "earn" the non-exchange revenue. These are generated principally by the government's sovereign power to tax, levy duties, and assess fines and penalties. These statements also include the net cost reported in the Statements of Net Cost. They further include certain adjustments and unmatched transactions and balances that affect the net position.

Revenue

Inflows of resources to the government that the government demands or that it receives by donations are identified as non-exchange revenue. The inflows that it demands include individual income tax and tax withholdings, corporate income taxes, excise taxes, unemployment taxes, custom duties, and estate and gift taxes. The non-exchange revenue is recognized when collected and adjusted for the change in amounts receivable.

Individual income tax and tax withholdings include FICA/SECA taxes and other taxes.

Individual income tax and tax withholding and Corporate income tax include the TCJA, which imposed a one-time tax on previously unrepatriated foreign earnings at a reduced rate that taxpayers may elect to pay over an eight-year installment schedule.

Excise taxes consist of taxes collected for various items, such as airline tickets, gasoline products, distilled spirits and imported liquor, tobacco, firearms, and other items.

Other taxes and receipts include FRBs earnings, tax related fines, penalties and interest, and railroad retirement taxes.

Miscellaneous earned revenues consist of earned revenues received from the public with virtually no associated cost. These revenues include rents and royalties on the Outer Continental Shelf Lands resulting from the leasing and development of mineral resources on public lands.

Intra-governmental interest represents interest earned from the investment of surplus dedicated collections, which finance the deficit spending of all other fund's non-dedicated operations. These investments are recorded as intra-governmental debt holdings and are included in Note 12—Federal Debt and Interest Payable, in the table titled Intra-governmental Debt Holdings: Federal Debt Securities Held as Investments by Government Accounts. These interest earnings and the associated investments are eliminated in the consolidation process.

Net Cost of Government Operations

The net cost of government operations—gross cost (including gains/losses from changes in assumptions) less earned revenue—flows through from the Statements of Net Cost.

Intra-governmental Transfers

Intra-governmental transfers reflect budgetary and other financing sources for funds from dedicated collections, excluding financing sources related to non-exchange revenues, intra-governmental interest, and miscellaneous revenues. These intra-governmental transfers include appropriations, transfers, and other financing sources. These amounts are labeled as "other changes in fund balance" in Note 21—Funds from Dedicated Collections. Some transfers reflect amounts required by statute to be transferred from the General Fund to funds from dedicated collections.

Unmatched Transactions and Balances

Unmatched transactions and balances are adjustments needed to bring the change in net position into balance due primarily to unresolved intra-governmental differences. See Note 1.S—Unmatched Transactions and Balances for additional information.

The unmatched transactions are included in net operating cost to make the sum of net operating costs and adjustments to beginning net position for the year equal to the change in net position balance. The unmatched balances are included in the net position, funds other than those from dedicated collections on the Balance Sheet.

Net Operating Cost

The net operating cost equals revenue less net cost of government operations (that flows from the Statement of Net Cost) adjusted by unmatched transactions and balances. See Note 1.S—Unmatched Transactions and Balances for additional information.

Net Position, Beginning of Period

The net position, beginning of period, reflects the amount reported on the prior year's Balance Sheet as of the end of that fiscal year. The net position, beginning of period, is shown at the combined level by fund type for FY 2020 and adjusted through changes in accounting principle to report at a consolidated level by fund type. See Note 21—Funds from Dedicated Collections for additional information.

Adjustments to beginning net position may include corrections of material errors or changes in accounting principles. See Note 1.T—Changes in Accounting Principle and Note 1.U—Correction of Errors for additional information.

Net Position, End of Period

The net position, end of period, reflects the amount as of the end of the fiscal year. The net position for funds from dedicated collections is separately shown.

Reconciliations of Net Operating Cost and Budget Deficit

These statements reconcile the results of operations (net operating cost) on the Statements of Operations and Changes in Net Position to the budget deficit (result of outlays exceeding receipts during a particular fiscal year). The premise of the reconciliation is that the accrual and budgetary accounting basis share transaction data.

Receipts and outlays in the budget are measured primarily on a cash basis and differ from the accrual basis of accounting used in the *Financial Report*. Refer to Note 1.B—Basis of Accounting and Revenue Recognition for additional information on the accrual basis of accounting. These statements begin with the net results of operations (net operating cost) and report activities where the basis of accounting for the components of net operating cost and the budget deficit differ.

Some presentations of the budget deficit make the distinction between on-budget and off-budget totals. On-budget totals reflect the transactions of all government entities, except those excluded from the budget by law. Off-budget totals reflect the transactions of government entities that are excluded from the on-budget totals by law. Under current law, the off-budget totals include the Social Security trust funds and USPS. The budget deficit, as presented in the *Financial Report*, combines the on-budget and off-budget totals to derive consolidated totals for federal activity.

Components of Net Operating Cost Not Part of the Budget Deficit

This information includes the operating components, such as the changes in benefits payable for veterans, military and civilian employees, environmental and disposal liabilities, and depreciation expense, not included in the budget results.

Components of the Budget Deficit Not Part of Net Operating Cost

This information includes the budget components, such as the acquisition of capital assets (that are recorded as outlays in the budget when cash is disbursed and reflected in net operating cost through depreciation expense over the useful life of the asset) and increases in other assets that are not included in the operating results.

Statements of Changes in Cash Balance from Budget and Other Activities

The primary purpose of these financial statements is to report how the annual budget deficit relates to the change in the government's cash and other monetary assets, as well as federal debt and interest payable. It explains why the budget deficit normally would not result in an equivalent change in the government's cash and other monetary assets.

These statements reconcile the budget deficit to the change in cash and other monetary assets during the fiscal year. They also serve to explain how the budget deficits were financed. These statements show the adjustments for non-cash outlays included in the budget, and items affecting the cash balance not included in the budget, to explain the change in cash and other monetary assets.

The budget deficit is primarily financed through borrowings from the public. When receipts exceed outlays, the difference is a surplus. The budget treats borrowing and debt repayment as a means of financing, not as receipts and outlays. The budget records outlays for the interest on the public issues of Treasury debt securities as the interest accrues, not when the cash is paid.

Non-cash flow amounts in the budget related to loan financing account activity also reflect intra-governmental transactions such as interest expense paid or interest revenue received from Treasury, entity year-end credit reform subsidy reestimates, and the receipt of subsidy expense from program accounts. Cash flow from non-budget activities related to loan financing account activity includes all cash flows to and from the public, including direct loan disbursements/default payments to lenders, fees collected, principal and interest repayments, collections on defaulted guarantee loans, and sale proceeds of foreclosed property. The budget totals exclude the transactions of the financing accounts because they are not a cost to the government. However, since loan financing accounts record all credit cash flows to and from the public, they affect the means of financing a budget deficit.

Balance Sheets

The Balance Sheets show the government's assets, liabilities, and net position. When combined with stewardship information, this information presents a more comprehensive understanding of the government's financial position. The net position for funds from dedicated collections is shown separately.

Assets

Assets included on the Balance Sheets are resources of the government that remain available to meet future needs. The most significant assets that are reported on the Balance Sheets are direct loans and loan guarantees receivable, net, general PP&E, net; inventory and related property, net; and cash and other monetary assets. There are, however, other significant resources available to the government that extend beyond the assets presented in these Balance Sheets. Those resources include stewardship PP&E in addition to the government's sovereign powers to tax and set monetary policy.

Liabilities and Net Position

Liabilities are obligations of the government resulting from prior actions that will require financial resources. The most significant liabilities reported on the Balance Sheets are federal debt and interest payable and federal employee and veteran benefits payable. Liabilities also include environmental and disposal liabilities, benefits due and payable, loan guarantees liability, as well as insurance and guarantee program liabilities.

As with reported assets, the government's responsibilities, policy commitments, and contingencies are much broader than these reported Balance Sheet liabilities. They include the social insurance programs reported in the SOSI and disclosed in the unaudited RSI—Social Insurance section, fiscal long-term projections of non-interest spending reported in the SLTFP, and a wide range of other programs under which the government provides benefits and services to the people of this nation, as well as certain future loss contingencies.

The government has entered into contractual commitments requiring the future use of financial resources and has unresolved contingencies where existing conditions, situations, or circumstances create uncertainty about future losses. Commitments and contingencies that do not meet the criteria for recognition as liabilities on the Balance Sheets, but for which there is at least a reasonable possibility that losses have been incurred, are disclosed in Note 19—Commitments and Note 20—Contingencies.

Unmatched transactions and balances are adjustments needed to bring the change in net position into balance due primarily to unreconciled intra-governmental differences. See Note 1.S—Unmatched Transactions and Balances for additional information.

The unmatched transactions are included in net operating cost on the Statement of Operations and Changes in Net Position to make the sum of net operating costs and adjustments to beginning net position for the year equal to the change in net position balance. The unmatched balances are included in the net position, funds other than those from dedicated collections on the Balance Sheet and as a separate reconciling item on the face of the Balance Sheet.

The collection of certain taxes and other revenue is credited to the corresponding funds from dedicated collections that will use these funds to meet a particular government purpose. If the collections from taxes and other sources exceed the payments to the beneficiaries, the excess revenue is invested in Treasury securities or deposited in the General Fund; therefore, the trust fund balances do not represent cash. An explanation of the trust funds for social insurance is included in Note 21—Funds from Dedicated Collections. That note also contains information about trust fund receipts, disbursements, and assets.

Due to its sovereign power to tax and borrow, and the country's wide economic base, the government has unique access to financial resources through generating tax revenues and issuing federal debt securities. This provides the government with the ability to meet present obligations and those that are anticipated from future operations, and are not reflected in net position.

The net position is the residual difference between assets and liabilities and is the cumulative results of operations since inception. For detailed components that comprise the net position, refer to the section "Statement of Operations and Changes in Net Position."

SUSTAINABILITY FINANCIAL STATEMENTS

The sustainability financial statements are comprised of the SLTFP, covering all federal government programs, and the SOSI and the SCSIA, covering social insurance programs (Social Security, Medicare, Railroad Retirement, and Black Lung programs). The sustainability financial statements are designed to illustrate the relationship between projected receipts and expenditures if current policy is continued over a 75 year time horizon.[1] In preparing the sustainability financial statements, management selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy is sustainable. Current policy is based on current law, but includes several adjustments. In the SLTFP, notable adjustments to current law are: 1) projected spending, receipts, and borrowing levels assume raising or suspending the current statutory limit on federal debt; 2) continued discretionary appropriations are assumed throughout the projections period; 3) scheduled Social Security and Medicare Part A benefit payments are assumed to occur beyond the projected point of trust fund depletion; 4) many mandatory programs with expiration dates prior to the end of the 75-year projection period are assumed to be reauthorized; and 5) tax changes under the TCJA are assumed to continue beyond 2025, similar to the presentation in the FY 2021 President's Budget. In the Statement of Social Insurance, the one adjustment to current law is that scheduled Social Security and Medicare Part A benefit payments are assumed to occur beyond the projected point of trust fund depletions. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and, hence, sustainability. The projections do not reflect any adverse economic consequences resulting from continuously rising debt levels. A large number of factors affect the sustainability financial statements and future events and circumstances cannot be estimated with certainty. Therefore, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and actual results, and those differences may be material. The unaudited RSI section of this report includes PV projections using different assumptions to illustrate the sensitivity of the sustainability financial statements to changes in certain assumptions. The sustainability financial statements are intended to help citizens understand current policy and the importance and magnitude of policy reforms necessary to make it sustainable.

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

Statements of Long-Term Fiscal Projections

The SLTFP, including the corresponding Note and RSI, are intended to help readers of the government's financial statements assess the federal government's financial condition and how it has changed during the year and may change in the future. The statements and corresponding analysis are specifically designed to help readers assess whether future budgetary resources will be sufficient to sustain public services and to meet obligations as they come due, assuming that current policy for federal government services and taxation continues without change.

The SLTFP display the PV of 75-year projections by major category of receipts and non-interest spending. The projections show the extent to which future receipts of the government exceed or fall short of the government's non-interest spending and are presented both in terms of PV dollars and in terms of PV dollars as a percent of PV GDP. The projections reflect policies currently in place and are neither forecasts nor predictions. The projections are consistent with the projections for Social Security and Medicare presented in the SOSI and are based on the same economic and demographic assumptions that underlie the SOSI. The SLTFP display the fiscal gap, which is a summary measure of the change in receipts or non-interest spending that is necessary to reach a target ratio of debt held by the public to GDP at the end of the projection period. Note 24—Long-Term Fiscal Projections, explains the methods used to prepare the projections. Unaudited RSI further assesses the sustainability of current fiscal policy and provides results that are based on alternative assumptions to those used in the SLTFP.

As discussed further in Note 24, a sustainable policy is one where the debt-to-GDP ratio is stable or declining over the long term. Because GDP measures the size of the nation's economy in terms of the total value of all final goods and services that are produced in a year, the debt-to-GDP ratio is a useful indicator of the economy's capacity to support federal government's services.

[1] With the exception of the Black Lung program, which has a rolling 25-year projection period that begins on the September 30 valuation date each year.

Statements of Social Insurance and Changes in Social Insurance Amounts

SOSI provides estimates of the status of the most significant social insurance programs: Social Security, Medicare, Railroad Retirement, and Black Lung.[2] They are administered by SSA, HHS, RRB, and DOL, respectively. The SSA and HHS projections are based on the intermediate economic and demographic assumptions representing the Trustees' reasonable estimates of likely future economic and demographic conditions, as set forth in the applicable Social Security and Medicare Trustees' Reports as well as in the financial statements of HHS and SSA. RRB's projections are based on assumptions from the *27th Valuation on the Assets and Liabilities Under the Railroad Retirement Acts of December 31, 2016, the 2020 Annual Report on the Railroad Retirement System required by Section 502 of the Railroad Retirement Solvency Act of 1983*, as well as in RRB's financial statements and DOL's projections are based on assumptions disclosed in its financial statements.

Note 23—Social Insurance describes the social insurance programs, reports long-range estimates that can be used to assess the financial condition of the programs, and explains some of the factors that impact the various programs. The SOSI reports the General Fund transfers for the estimated future revenue of Medicare Part B and D which are consistent with the entities' financial statements and, by accounting convention, such General Fund transfers are eliminated in the consolidation of the SOSI at the government-wide level.

The SCSIA show two reconciliations: 1) change from the period beginning on January 1, 2019 to the period beginning on January 1, 2020; and 2) change from the period beginning on January 1, 2018 to the period beginning on January 1, 2019. It reconciles the changes (between the current valuation and the prior valuation) in the PV of estimated future revenue less estimated future expenditures for current and future participants (the open group measure) over the next 75 years (except Black Lung which has a rolling 25-year projection period through September 20, 2045). The reconciliation identifies several components of the changes that are significant and provides reasons for the changes in Note 23.

[2] In relation to the amounts presented in the SOSI and SCSIA, because the combined Railroad Retirement and Black Lung programs account for less than one-quarter of 1 percent of the statement totals, they are not material from the government-wide perspective.

United States Government
Statement of Net Cost
for the Year Ended September 30, 2020

(In billions of dollars)	Gross Cost	Earned Revenue	Subtotal	(Gain)/Loss from Changes in Assumption	Net Cost
Department of Health and Human Services	1,537.0	130.0	1,407.0	0.1	1,407.1
Social Security Administration	1,157.6	0.3	1,157.3	-	1,157.3
Department of Veterans Affairs	386.3	4.0	382.3	602.7	985.0
Department of Defense	802.2	39.8	762.4	(17.4)	745.0
Department of the Treasury	581.3	20.6	560.7	-	560.7
Small Business Administration	562.1	3.1	559.0	-	559.0
Department of Labor	493.2	-	493.2	-	493.2
Interest on Treasury Securities Held by the Public	371.1	-	371.1	-	371.1
Department of Agriculture	198.0	10.1	187.9	-	187.9
Office of Personnel Management	97.3	25.2	72.1	89.9	162.0
Department of Education	190.2	33.3	156.9	-	156.9
Department of Homeland Security	122.3	11.8	110.5	3.1	113.6
Security Assistance Accounts	154.8	42.8	112.0	-	112.0
Department of Transportation	108.8	1.1	107.7	-	107.7
Department of Energy	60.9	5.4	55.5	-	55.5
Department of Justice	39.1	1.8	37.3	-	37.3
Department of Housing and Urban Development	36.3	2.2	34.1	-	34.1
Department of State	34.6	2.8	31.8	1.1	32.9
National Aeronautics and Space Administration	22.3	0.2	22.1	-	22.1
Department of the Interior	23.0	2.4	20.6	-	20.6
Department of Commerce	19.4	3.9	15.5	-	15.5
U.S. Agency for International Development	13.8	-	13.8	-	13.8
Federal Communications Commission	13.9	0.4	13.5	-	13.5
Railroad Retirement Board	13.1	-	13.1	-	13.1
Environmental Protection Agency	9.1	0.4	8.7	-	8.7
U.S. Postal Service	79.2	71.7	7.5	-	7.5
National Science Foundation	7.3	-	7.3	-	7.3
Smithsonian Institution	1.5	0.5	1.0	-	1.0
Millennium Challenge Corporation	0.6	-	0.6	-	0.6
Export-Import Bank of the U.S.	0.8	0.4	0.4	-	0.4
U.S. Nuclear Regulatory Commission	0.9	0.7	0.2	-	0.2
National Credit Union Administration	0.3	0.2	0.1	-	0.1
U.S. International Development Finance Corporation	-	0.1	(0.1)	-	(0.1)
Farm Credit System Insurance Corporation	0.1	0.2	(0.1)	-	(0.1)
General Services Administration	0.3	0.8	(0.5)	-	(0.5)
Securities and Exchange Commission	2.2	3.3	(1.1)	-	(1.1)
Tennessee Valley Authority	8.8	10.1	(1.3)	-	(1.3)
National Railroad Retirement Investment Trust	0.1	1.8	(1.7)	-	(1.7)
Pension Benefit Guaranty Corporation	19.2	22.0	(2.8)	-	(2.8)
Federal Deposit Insurance Corporation	1.7	6.5	(4.8)	-	(4.8)
All other entities	23.4	1.7	21.7	-	21.7
Total	7,194.1	461.6	6,732.5	679.5	7,412.0

The accompanying notes are an integral part of these financial statements.

United States Government
Statement of Net Cost
for the Year Ended September 30, 2019

(In billions of dollars)	Gross Cost	Earned Revenue	Subtotal	(Gain)/Loss from Changes in Assumptions	Net Cost
Department of Health and Human Services	1,341.4	119.1	1,222.3	-	1,222.3
Social Security Administration	1,101.2	0.3	1,100.9	-	1,100.9
Department of Veterans Affairs	364.7	5.1	359.6	58.0	417.6
Department of Defense	813.6	44.2	769.4	139.0	908.4
Department of the Treasury	181.0	25.3	155.7	-	155.7
Small Business Administration	0.3	0.4	(0.1)	-	(0.1)
Department of Labor	40.5	-	40.5	-	40.5
Interest on Treasury Securities Held by the Public	403.6	-	403.6	-	403.6
Department of Agriculture	149.1	8.3	140.8	-	140.8
Office of Personnel Management	118.5	24.1	94.4	0.3	94.7
Department of Education	153.9	31.9	122.0	-	122.0
Department of Homeland Security	77.0	14.0	63.0	0.9	63.9
Security Assistance Accounts	38.6	-	38.6	-	38.6
Department of Transportation	82.2	1.1	81.1	-	81.1
Department of Energy	59.3	5.7	53.6	-	53.6
Department of Justice	40.8	3.5	37.3	-	37.3
Department of Housing and Urban Development	29.6	1.8	27.8	-	27.8
Department of State	33.9	4.6	29.3	0.7	30.0
National Aeronautics and Space Administration	21.0	0.2	20.8	-	20.8
Department of the Interior	21.1	2.6	18.5	-	18.5
Department of Commerce	13.8	3.6	10.2	-	10.2
U.S. Agency for International Development	12.2	0.1	12.1	-	12.1
Federal Communications Commission	11.2	0.4	10.8	-	10.8
Railroad Retirement Board	12.1	-	12.1	-	12.1
Environmental Protection Agency	8.8	0.3	8.5	-	8.5
U.S. Postal Service	77.5	70.2	7.3	-	7.3
National Science Foundation	7.3	-	7.3	-	7.3
Smithsonian Institution	1.5	0.4	1.1	-	1.1
Millennium Challenge Corporation	0.5	-	0.5	-	0.5
Export-Import Bank of the U.S.	(0.1)	0.5	(0.6)	-	(0.6)
U.S. Nuclear Regulatory Commission	0.8	0.7	0.1	-	0.1
National Credit Union Administration	0.4	0.2	0.2	-	0.2
Overseas Private Investment Corporation	(0.2)	0.1	(0.3)	-	(0.3)
Farm Credit System Insurance Corporation	0.1	0.2	(0.1)	-	(0.1)
General Services Administration	0.1	0.8	(0.7)	-	(0.7)
Securities and Exchange Commission	1.8	2.1	(0.3)	-	(0.3)
Tennessee Valley Authority	9.9	11.3	(1.4)	-	(1.4)
National Railroad Retirement Investment Trust	0.1	0.7	(0.6)	-	(0.6)
Pension Benefit Guaranty Corporation	35.7	27.8	7.9	-	7.9
Federal Deposit Insurance Corporation	0.4	5.0	(4.6)	-	(4.6)
All other entities	22.0	1.8	20.2	-	20.2
Total	5,287.2	418.4	4,868.8	198.9	5,067.7

The accompanying notes are an integral part of these financial statements.

United States Government
Statement of Operations and Changes in Net Position
for the Year Ended September 30, 2020 (Consolidated)

(In billions of dollars)	Funds other than those from Dedicated Collections	Funds from Dedicated Collections (Note 21)	Eliminations	Total
		2020		
Revenue (Note 18):				
Individual income tax and tax withholdings	1,570.8	1,283.8	-	2,854.6
Corporate income taxes	317.1	-	-	317.1
Excise taxes	40.8	52.2	-	93.0
Unemployment taxes	6.2	34.5	-	40.7
Customs duties	66.2	0.1	-	66.3
Estate and gift taxes	17.6	-	-	17.6
Other taxes and receipts	147.0	18.9	-	165.9
Miscellaneous earned revenues	16.3	0.1	-	16.4
Intra-governmental revenue	-	107.7	(107.7)	-
Total revenue	2,182.0	1,497.3	(107.7)	3,571.6
Net Cost of Government Operations:				
Net cost	5,328.9	2,083.1	-	7,412.0
Intra-governmental cost	107.7	-	(107.7)	-
Total net cost	5,436.6	2,083.1	(107.7)	7,412.0
Intra-governmental transfers	(555.6)	555.6	-	-
Unmatched transactions and balances (Note 1.S)	11.6	-	-	11.6
Net operating (cost)/revenue	(3,798.6)	(30.2)	-	(3,828.8)
Net position, beginning of period*	(26,484.6)	3,517.1	-	(22,967.5)
Adjustments to beginning net position				
Changes in accounting principle (Note 1.T)	12.5	(12.5)	-	-
Net operating (cost)/revenue	(3,798.6)	(30.2)	-	(3,828.8)
Net position, end of period	(30,270.7)	3,474.4	-	(26,796.3)

*Net position, beginning of period is presented above as combined in alignment with the FY 2019 presentation.

The accompanying notes are an integral part of these financial statements.

United States Government
Statement of Operations and Changes in Net Position
for the Year Ended September 30, 2019 (Restated)

(In billions of dollars)	Funds other than those from Dedicated Collections (Combined)	Funds from Dedicated Collections (Note 21) (Combined)	Eliminations	Consolidated
		2019		
Revenue (Note 18):				
Individual income tax and tax withholdings	1,687.6	1,218.6	-	2,906.2
Corporate income taxes	322.5	-	-	322.5
Excise taxes	42.1	60.7	-	102.8
Unemployment taxes	-	39.4	-	39.4
Customs duties	72.6	0.1	-	72.7
Estate and gift taxes	16.7	-	-	16.7
Other taxes and receipts	102.4	42.9	-	145.3
Miscellaneous earned revenues	12.0	3.4	-	15.4
Intra-governmental revenue	-	95.5	(95.5)	-
Total revenue	2,255.9	1,460.6	(95.5)	3,621.0
Net Cost of Government Operations:				
Net cost	3,237.5	1,830.2	-	5,067.7
Intra-governmental cost	95.5	-	(95.5)	-
Total net cost	3,333.0	1,830.2	(95.5)	5,067.7
Intra-governmental transfers	(406.0)	406.0	-	-
Unmatched transactions and balances (Note 1.S)	0.4	-	-	0.4
Net operating (cost)/revenue	(1,482.7)	36.4	-	(1,446.3)
Net position, beginning of period	(25,001.4)	3,480.7	-	(21,520.7)
Adjustments to beginning net position				
Changes in accounting principle	5.7	-	-	5.7
Correction of errors (Note 1.U)	(6.2)	-	-	(6.2)
Net operating (cost)/revenue	(1,482.7)	36.4	-	(1,446.3)
Net position, end of period	(26,484.6)	3,517.1	-	(22,967.5)

The accompanying notes are an integral part of these financial statements.

United States Government
Reconciliations of Net Operating Cost and Budget Deficit
for the Years Ended September 30, 2020, and 2019

(In billions of dollars)	2020	Restated 2019
Net operating cost	(3,828.8)	(1,446.3)
Components of net operating cost not part of the budget deficit		
Excess of accrual-basis expenses over budget outlays		
* Federal employee and veteran benefits payable		
Pension and accrued benefits	160.1	183.1
Veterans compensation and burial benefits	733.3	173.5
Post-retirement health and accrued benefits	22.0	55.0
Other benefits	53.6	46.4
Subtotal - federal employee and veteran benefits payable	969.0	458.0
* Insurance and guarantee program liabilities	4.8	24.3
* Environmental and disposal liabilities	7.3	18.1
* Accounts payable	7.1	11.3
* Benefits due and payable	32.7	12.5
* Other liabilities	57.9	31.4
Subtotal - excess of accrual-basis expenses over budget outlays	1,078.8	555.6
Amortized expenses not included in budget outlays		
Property, plant, and equipment depreciation expense	77.2	88.4
Other expenses that are not reported as budget outlays		
Property, plant, and equipment disposals and revaluations	(50.2)	(38.8)
Excess of accrual-basis revenue over budget receipts		
Accounts receivable, net	7.9	(4.0)
Taxes receivable, net	(91.1)	(89.1)
Other losses/(gains) and cost/(revenue) that are not budget receipts		
* Investments in government-sponsored enterprises	3.2	1.1
Subtotal - components of net operating cost not part of budget deficit	1,025.8	513.2
Components of the budget deficit that are not part of net operating cost		
Budget receipts not included in net operating cost		
Credit reform and other loan activities	44.9	45.3
Budget outlays not included in net operating cost		
Acquisition of capital assets	(65.1)	(66.0)
* Securities and investments	(3.6)	(6.1)
* Inventory and related property, net	(24.0)	(18.2)
* Other assets	(150.7)	1.2
Subtotal - components of the budget deficit that are not part of net operating cost	(198.5)	(43.8)
Adjustments to beginning net position	-	(0.5)
Unmatched transactions and balances	(11.6)	14.7
Other		
All other reconciling items	(118.8)	(21.7)
Budget deficit	(3,131.9)	(984.4)

* The amounts represent the year over year net change in the Balance Sheet line items.

The accompanying notes are an integral part of these financial statements.

United States Government
Statements of Changes in Cash Balance from Budget and Other Activities
for the Years Ended September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Cash flow from budget activities		
Total budget receipts	3,420.0	3,462.2
Total budget outlays	(6,551.9)	(4,446.6)
Budget deficit	(3,131.9)	(984.4)
Adjustments for non-cash outlays included in the budget		
Non-cash flow amounts in the budget related to federal debt securities		
Accrued interest	312.1	305.5
Net amortization	40.9	65.7
Other	63.1	(33.3)
Subtotal - adjustments for non-cash flow amounts in the budget related to federal debt securities	416.1	337.9
Non-cash flow amounts in the budget related to loan financing account activity		
Interest revenue on uninvested funds	23.3	7.1
Interest expense on entity borrowings	(57.6)	(43.2)
Downward reestimates/negative subsidy payments	(28.9)	(22.8)
Subsidy expense/upward reestimates	713.6	47.7
Subtotal - adjustments for non-cash flow amounts in the budget related to loan financing account activity	650.4	(11.2)
Total of adjustments for non-cash outlays included in the budget	1,066.5	326.7
Cash flow from activities not included in the budget		
Cash flow from non-budget activities related to federal debt securities		
Interest paid	(314.7)	(305.7)
Subtotal - cash flow from non-budget activities related to federal debt securities	(314.7)	(305.7)
Cash flow from non-budget activities related to loan financing account activity		
Loan disbursements/default payments	(492.5)	(214.3)
Fees	26.6	24.5
Principal & interest repayments	112.0	125.9
Other collections on defaulted loans receivable and sale of foreclosed property	4.3	4.5
Subtotal - cash flow from non-budget activities related to loan financing account activity	(349.6)	(59.4)
Cash flow from financing federal debt securities		
Borrowings	18,969.1	11,813.4
Repayments	(14,822.4)	(10,732.1)
Discount/premium	(32.5)	(60.4)
Subtotal - cash flow from financing federal debt securities	4,114.2	1,020.9
Total cash flow from activities not included in the budget	3,449.9	655.8
Other		
Total other	17.8	19.0
Change in cash and other monetary assets balance	1,402.3	17.1
Beginning cash and other monetary assets balance	524.6	507.5
Ending cash and other monetary assets balance	1,926.9	524.6

The accompanying notes are an integral part of these financial statements.

United States Government
Balance Sheets
as of September 30, 2020, and 2019

(In billions of dollars)	2020	Restated 2019
Assets:		
Cash and other monetary assets (Note 2)	1,926.9	524.6
Accounts receivable, net (Note 3)	321.2	238.0
Direct loans and loan guarantees receivable, net (Note 4)	1,577.4	1,425.8
Inventory and related property, net (Note 5)	379.7	355.7
General property, plant and equipment, net (Note 6)	1,145.0	1,106.9
Securities and investments (Note 7)	121.9	118.3
Investments in special purpose vehicles (Note 8)	108.4	-
Investments in government-sponsored enterprises (Note 9)	108.9	112.1
Other assets (Note 10)	261.3	110.6
Total assets	5,950.7	3,992.0
Stewardship property, plant and equipment (Note 25)		
Liabilities:		
Accounts payable (Note 11)	105.1	98.0
Federal debt and interest payable (Note 12)	21,082.9	16,861.0
Federal employee and veteran benefits payable (Note 13)	9,409.3	8,440.3
Environmental and disposal liabilities (Note 14)	602.7	595.4
Benefits due and payable (Note 15)	256.3	223.6
Loan guarantees liability (Note 4)	520.1	21.7
Insurance and guarantee program liabilities (Note 16)	199.3	194.5
Other liabilities (Note 17)	568.2	510.3
Total liabilities	32,743.9	26,944.8
Commitments (Note 19) and Contingencies (Note 20)		
Unmatched transactions and balances (Note 1.S)	3.1	14.7
Net Position:		
Funds from Dedicated Collections (Note 21)	3,474.4	3,517.1
Funds other than those from Dedicated Collections	(30,270.7)	(26,484.6)
Total net position	(26,796.3)	(22,967.5)
Total liabilities and net position*	5,950.7	3,992.0

*Total liabilities and net position equals Total liabilities, Total net position and Unmatched transactions and balances.

The accompanying notes are an integral part of these financial statements.

United States Government
Statements of Long-Term Fiscal Projections (Note 24)
Present Value of 75-Year Projections as of September 30, 2020 and 2019[1]

	In trillions of dollars			Percent of GDP[2]		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Receipts:						
Social Security payroll taxes	68.5	65.7	2.9	4.2	4.3	(0.1)
Medicare payroll taxes	22.9	22.1	0.9	1.4	1.4	-
Individual income taxes	164.4	161.7	2.7	10.0	10.6	(0.6)
Corporation income taxes	21.0	19.3	1.7	1.3	1.3	-
Other receipts	18.6	21.1	(2.5)	1.1	1.4	(0.2)
Total receipts	295.4	289.9	5.6	18.0	18.9	(1.0)
Non-interest spending:						
Social Security	95.2	88.7	6.5	5.8	5.8	-
Medicare Part A[3]	32.6	32.2	0.4	2.0	2.1	(0.1)
Medicare Parts B & D[4]	45.2	40.7	4.5	2.7	2.7	0.1
Medicaid	37.4	37.3	0.1	2.3	2.4	(0.2)
Other mandatory	58.5	45.4	13.1	3.6	3.0	0.6
Defense discretionary	53.6	48.1	5.5	3.3	3.1	0.1
Non-defense discretionary	52.4	46.6	5.9	3.2	3.0	0.1
Total non-interest spending	374.9	338.9	36.1	22.8	22.1	0.7
Receipts less non-interest spending	(79.5)	(49.0)	(30.5)	(4.8)	(3.2)	(1.6)
Fiscal gap[5]				(5.4)	(3.8)	(1.6)

[1]75-year present value projections for 2020 are as of 9/30/2020 for FYs 2021-2095; projections for 2019 are as of 9/30/2019 for FYs 2020-2094.
[2]The 75-year present value of nominal GDP, which drives the calculations above is $1,645.1 trillion starting in FY 2021, and was $1,531.8 trillion starting in FY 2020.
[3]Represents portions of Medicare supported by payroll taxes.
[4]Represents portions of Medicare supported by general revenues. Consistent with the President's Budget, outlays for Parts B & D are presented net of premiums.
[5]To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipt increases that amounts to 5.4 percent of GDP on average is needed (3.8 percent of GDP on average in 2019). See Note 24—Long-Term Fiscal Projections.

Totals may not equal the sum of components due to rounding.

The accompanying notes are an integral part of these financial statements.

United States Government
Statements of Social Insurance (Note 23)
Present Value of Long-Range (75 Years, except Black Lung) Actuarial Projections

(In trillions of dollars)	2020	2019	2018	2017	2016
Federal Old-Age, Survivors and Disability Insurance (Social Security):[11]					
Revenue (Contributions and Dedicated Taxes) from:					
Participants who have attained eligibility age (age 62 and over)	1.7	1.5	1.5	1.4	1.3
Participants who have not attained eligibility age	35.2	33.6	31.6	30.2	29.3
Future participants	37.0	35.3	31.8	30.5	29.7
All current and future participants	73.9	70.4	64.9	62.1	60.3
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age (age 62 and over)	(18.3)	(16.9)	(15.9)	(14.7)	(13.6)
Participants who have not attained eligibility age	(59.8)	(55.8)	(52.2)	(50.2)	(48.4)
Future participants	(15.5)	(14.5)	(13.0)	(12.6)	(12.4)
All current and future participants	(93.6)	(87.2)	(81.1)	(77.5)	(74.4)
Present value of future expenditures in excess of future revenue	(19.7)[1]	(16.8)[2]	(16.2)[3]	(15.4)[4]	(14.1)[5]
Federal Hospital Insurance (Medicare Part A):[11]					
Revenue (Contributions and Dedicated Taxes) from:					
Participants who have attained eligibility age (age 65 and over)	0.6	0.6	0.5	0.5	0.5
Participants who have not attained eligibility age	12.5	12.0	11.3	10.6	10.2
Future participants	12.5	11.8	11.0	10.6	10.0
All current and future participants	25.6	24.4	22.8	21.7	20.7
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age (age 65 and over)	(6.1)	(5.3)	(5.0)	(4.5)	(4.3)
Participants who have not attained eligibility age	(20.1)	(20.0)	(18.6)	(17.2)	(16.8)
Future participants	(4.2)	(4.5)	(3.9)	(3.5)	(3.4)
All current and future participants	(30.4)	(29.8)	(27.5)	(25.2)	(24.5)
Present value of future expenditures in excess of future revenue	(4.8)[1]	(5.4)[2]	(4.7)[3]	(3.5)[4]	(3.8)[5]
Federal Supplementary Medical Insurance (Medicare Part B):[11]					
Revenue (Premiums) from:					
Participants who have attained eligibility age (age 65 and over)	1.7	1.5	1.3	1.1	1.0
Participants who have not attained eligibility age	9.3	7.5	6.6	5.9	5.3
Future participants	2.5	1.9	1.5	1.4	1.2
General Fund transfers	33.1	28.8	25.1	22.4	20.0
All current and future participants	46.6	39.7	34.5	30.8	27.5
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age (age 65 and over)	(6.2)	(5.8)	(5.2)	(4.5)	(4.0)
Participants who have not attained eligibility age	(31.8)	(27.3)	(23.9)	(21.4)	(19.2)
Future participants	(8.6)	(6.6)	(5.4)	(4.9)	(4.3)
All current and future participants	(46.6)	(39.7)	(34.5)	(30.8)	(27.5)
Eliminations	(33.1)	(28.8)	(25.1)	(22.4)	(20.0)
Present value of future expenditures in excess of future revenue (after eliminations)[6]	(33.1)[1]	(28.8)[2]	(25.1)[3]	(22.4)[4]	(20.0)[5]

The accompanying notes are an integral part of these financial statements.

United States Government
Statements of Social Insurance (Note 23), continued
Present Value of Long-Range (75 Years, except Black Lung) Actuarial Projections

(In trillions of dollars)	2020	2019	2018	2017	2016
Federal Supplementary Medical Insurance (Medicare Part D):[11]					
Revenue (Premiums and State Transfers) from:					
Participants who have attained eligibility age (age 65 and over)	0.3	0.2	0.3	0.3	0.3
Participants who have not attained eligibility age	2.0	2.1	2.1	2.1	2.2
Future participants	0.9	0.9	0.8	0.8	1.0
General Fund transfers	7.8	8.0	7.9	7.6	8.7
All current and future participants	11.0	11.2	11.1	10.8	12.2
Expenditures for Scheduled Future Benefits for:					
Participants who have attained eligibility age (age 65 and over)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Participants who have not attained eligibility age	(7.0)	(7.2)	(7.2)	(6.9)	(7.6)
Future participants	(3.0)	(3.0)	(2.9)	(2.9)	(3.6)
All current and future participants	(11.0)	(11.2)	(11.1)	(10.8)	(12.2)
Eliminations	(7.8)	(8.0)	(7.9)	(7.6)	(8.7)
Present value of future expenditures in excess of future revenue (after eliminations)[6]	(7.8)[1]	(8.0)[2]	(7.9)[3]	(7.6)[4]	(8.7)[5]
Other:					
Present value of future expenditures in excess of future revenue [7]	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Total present value of future expenditures in excess of future revenue[8, 9, 10]	(65.5)	(59.1)	(54.0)	(49.0)	(46.7)

The accompanying notes are an integral part of these financial statements.

United States Government
Statements of Social Insurance (Note 23), continued
Present Value of Long-Range (75 Years, except Black Lung) Actuarial Projections

(In trillions of dollars)	2020	2019	2018	2017	2016
Social Insurance Summary[11]					
Participants who have attained eligibility age:					
Revenue (e.g., contributions and dedicated taxes)	4.3	3.8	3.6	3.3	3.1
Expenditures for scheduled future benefits	(31.6)	(29.1)	(27.2)	(24.8)	(23.0)
Present value of future expenditures in excess of future revenue	(27.3)	(25.3)	(23.6)	(21.5)	(19.9)
Participants who have not attained eligibility age:					
Revenue (e.g., contributions and dedicated taxes)	59.0	55.2	51.6	48.8	47.0
Expenditures for scheduled future benefits	(118.7)	(110.3)	(101.9)	(95.7)	(92.0)
Present value of future expenditures in excess of future revenue	(59.7)	(55.1)	(50.3)	(46.9)	(45.0)
Closed-group - Total present value of future expenditures in excess of future revenue	(87.0)	(80.4)	(73.9)	(68.4)	(64.9)
Future participants:					
Revenue (e.g., contributions and dedicated taxes)	52.9	49.9	45.1	43.3	41.9
Expenditures for scheduled future benefits	(31.4)	(28.6)	(25.2)	(23.9)	(23.7)
Present value of future revenue in excess of future expenditure	21.5	21.3	19.9	19.4	18.2
Open-group - Total present value of future expenditures in excess of future revenue	(65.5)	(59.1)	(54.0)	(49.0)	(46.7)

[1] The projection period for Social Security and Medicare is 1/1/2020-12/31/2094 and the valuation date is 1/1/2020.
[2] The projection period for Social Security and Medicare is 1/1/2019-12/31/2093 and the valuation date is 1/1/2019.
[3] The projection period for Social Security and Medicare is 1/1/2018-12/31/2092 and the valuation date is 1/1/2018.
[4] The projection period for Social Security and Medicare is 1/1/2017-12/31/2091 and the valuation date is 1/1/2017.
[5] The projection period for Social Security and Medicare is 1/1/2016-12/31/2090 and the valuation date is 1/1/2016.
[6] These amounts represent the PV of the future transfers from the General Fund to the SMI Trust Fund. These future intra-governmental transfers are included as income in both HHS' and the CMS's Financial Reports but, by accounting convention, are not income from the government-wide perspective of this report.
[7] Includes Railroad Retirement and Black Lung.
[8] These amounts do not include the PV of the financial interchange between the railroad retirement and social security systems, which is included as income in the Railroad Retirement Financial Report, but is not included from the government-wide perspective of this report. (See discussion of RRP in the unaudited RSI section of this report).
[9] Does not include interest expense accruing on the outstanding debt of the BLDTF.
[10] For information on the projection periods and valuation dates for the Railroad Retirement and Black Lung programs, refer to the financial statements of RRB and DOL, respectively.
[11] Current participants for the Social Security and Medicare programs are assumed to be the "closed-group" of individuals who are at least 15 years of age at the start of the projection period, and are participating as either taxpayers, beneficiaries, or both. Amounts shown exclude General Fund transfers for Medicare's Parts B and D.

The accompanying notes are an integral part of these financial statements.

United States Government
Statement of Changes in Social Insurance Amounts
for the Year Ended September 30, 2020 (Note 23)

(In trillions of dollars)	Social Security[1]	Medicare HI[1]	Medicare SMI[1]	Other[2]	Total
Net present value (NPV) of future revenue less future expenditures for current and future participants (the "open group") over the next 75 years, beginning of the year	(16.8)	(5.4)	(36.8)	(0.1)	(59.1)
Reasons for changes in the NPV during the year:					
Changes in valuation period	(0.6)	(0.2)	(1.4)	-	(2.2)
Changes in demographic data, assumptions, and methods	(0.4)	2.6	1.1	-	3.3
Changes in economic data, assumptions, and methods	(1.8)	-		-	(1.8)
Changes in law or policy	(0.3)	(0.5)	0.2	-	(0.6)
Changes in methodology and programmatic data	0.2	-	-	-	0.2
Changes in economic and other health care assumptions	-	(1.7)	(3.7)	-	(5.4)
Change in projection base	-	0.4	(0.3)	-	0.1
Net change in open group measure	(2.9)	0.6	(4.1)	-	(6.4)
Open group measure, end of year	(19.7)	(4.8)	(40.9)	(0.1)	(65.5)

[1] Amounts represent changes between valuation dates 1/1/2019 and 1/1/2020.

[2] Includes Railroad Retirement changes between valuation dates 10/1/2018 and 10/1/2019 and Black Lung changes between 9/30/2019 and 9/30/2020.

The accompanying notes are an integral part of these financial statements.

United States Government
Statement of Changes in Social Insurance Amounts
for the Year Ended September 30, 2019 (Note 23)

(In trillions of dollars)	Social Security[1]	Medicare HI[1]	Medicare SMI[1]	Other[2]	Total
Net present value (NPV) of future revenue less future expenditures for current and future participants (the "open group") over the next 75 years, beginning of the year	(16.2)	(4.7)	(33.0)	(0.1)	(54.0)
Reasons for changes in the NPV during the year:					
Changes in valuation period	(0.5)	(0.2)	(1.2)	-	(1.9)
Changes in demographic data, assumptions, and methods	0.4	-	0.4	-	0.8
Changes in economic data, assumptions, and methods	(1.0)	-	-	-	(1.0)
Changes in law or policy	-	-	-	-	-
Changes in methodology and programmatic data	0.5	-	-	-	0.5
Changes in economic and other health care assumptions	-	(0.3)	(2.7)	-	(3.0)
Change in projection base	-	(0.2)	(0.3)	-	(0.5)
Net change in open group measure	(0.6)	(0.7)	(3.8)	-	(5.1)
Open group measure, end of year	(16.8)	(5.4)	(36.8)	(0.1)	(59.1)

[1] Amounts represent changes between valuation dates 1/1/2018 and 1/1/2019.

[2] Includes Railroad Retirement changes between valuation dates 10/1/2017 and 10/1/2018 and Black Lung changes between 9/30/2018 and 9/30/2019.

The accompanying notes are an integral part of these financial statements.

United States Government Notes to the Financial Statements for the Fiscal Years Ended September 30, 2020, and 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

SFFAS No. 47 also provides guidance for identifying related parties and in determining what information to provide about related party relationships of such significance that it would be misleading to exclude such information (see Appendix A—Reporting Entity, for a more detailed discussion).

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

Under SFFAS No. 47 criteria, Fannie Mae and Freddie Mac were owned or controlled by the federal government as a result of a) regulatory actions (such as organizations in receivership or conservatorship) or b) other federal government intervention actions. Under the regulatory or other intervention actions, the relationship with the federal government is not expected to be permanent. These entities are classified as disclosure entities based on their characteristics as a whole (see Note 26—Disclosure Entities and Related Parties for additional information on these disclosure entities).

Also, under GAAP criteria, the FR System and SPVs are not consolidated into the government's consolidated financial statements (see Note 8 for additional information on SPVs and Note 26 for additional information concerning the FR System).

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

B. Basis of Accounting and Revenue Recognition

Consolidated Financial Statements

The consolidated financial statements of the government were prepared using GAAP, primarily based on FASAB's SFFASs. Intra-governmental transactions are eliminated in consolidation, except as described in the Other Information–Unmatched Transactions and Balances. See Note 1.S—Unmatched Transactions and Balances for additional information. The consolidated financial statements include accrual-based financial statements and sustainability financial statements, which are discussed in more detail below, and the related notes to the consolidated financial statements. Collectively, the accrual-based financial statements, the sustainability financial statements, and the notes represent basic information that is deemed essential for the financial statements and notes to be presented in conformity with GAAP.

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

Accrual-Based Financial Statements

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

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

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

Sustainability Financial Statements

The sustainability financial statements were prepared based on the projected PV of the estimated future revenue and estimated future expenditures, primarily on a cash basis, for a 75 year period.[1] They include the SLTFP, covering all federal government programs, and the SOSI and the SCSIA, covering social insurance programs (Social Security, Medicare, Railroad Retirement, and Black Lung programs). These estimates are based on economic as well as demographic assumptions presented in Notes 23—Social Insurance and 24—Long-Term Fiscal Projections. The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are designed to illustrate the relationship between receipts and expenditures, if current policy is continued. For this purpose, the projections assume, among other things, that scheduled social insurance benefit payments would continue after related trust funds are projected to be depleted, contrary to current law, and that debt could continue to rise indefinitely without severe economic consequences.

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

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

For FY 2020, consistent with SFFAS No. 57, *Omnibus Amendments 2019*, which rescinded SFFAS No. 8, *Supplementary Stewardship Reporting*, the Required Supplementary Stewardship Information section of the consolidated financial statements was eliminated. As a result, the information on stewardship investments in: 1) non-federal property; 2) human capital; and 3) R&D are no longer presented in the *Financial Report*.

SFFAS No. 58, *Deferral of the Effective Date of SFFAS 54*, *Leases* defers the effective date for SFFAS No. 54, *Leases* for three years and is effective upon issuance.

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

[1] With the exception of the Black Lung program, which has a rolling 25-year projection period that begins on the September 30 valuation date each year.

- FASAB issued SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials.* SFFAS No. 48 permits a reporting entity to apply an alternative valuation method in establishing opening balances and applies when a reporting entity is presenting financial statements or one or more line items addressed by this statement. SFFAS No. 48 was effective beginning in FY 2017. Early implementation was permitted. DOD did partially implement in 2016 and select component entities have continued to implement in 2017, 2018, 2019 and 2020. DOD has not declared full implementation yet; therefore, this standard continues to be partially implemented each year.
- FASAB issued SFFAS No. 50, *Establishing Opening Balances for General Property, Plant and Equipment*. SFFAS No. 50 permits a reporting entity to apply an alternative valuation method in establishing opening balances and applies when a reporting entity is presenting financial statements or one or more line items addressed by this statement. SFFAS No. 50 was effective beginning in FY 2017. Early implementation was permitted. DOD did partially implement in 2016 and select component entities have continued to implement in 2017, 2018, 2019 and 2020. DOD has not declared full implementation yet; therefore, this standard continues to be partially implemented each year.

New Standards Issued and Not Yet Implemented

FASAB issued the following new standards that are applicable to the *Financial Report*, but are not yet implemented at the government-wide level for FY 2020:

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

C. Accounts Receivable, Net

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

Accounts receivable also includes the amount of taxes receivable that consist primarily of uncollected tax assessments, penalties, and interest when taxpayers have agreed, or a court has determined, the assessments are owed. Taxes receivable do not include unpaid assessments when taxpayers or a court have not agreed that the amounts are owed (compliance assessments) or the government does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency (write-offs). Taxes receivable are reported net of an allowance for the estimated portion deemed to be uncollectible. The allowance for uncollectible amounts represents the difference between gross taxes receivable and the amounts estimated to be collectible. See Note 3—Accounts Receivable, Net for additional information.

D. Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability

Direct loans obligated and loan guarantees committed after FY 1991 are reported based on the PV of the net cash flows estimated over the life of the loan or guarantee. The difference between the outstanding principal of the direct loans and the

PV of their net cash inflows is recognized as a subsidy cost allowance. The PV of estimated net cash flows of the loan guarantees is recognized as a liability for loan guarantees.

The subsidy expense for direct or guaranteed loans disbursed during a fiscal year is the PV of estimated net cash flows for those loans or guarantees. For the fiscal year during which new direct or guaranteed loans are disbursed, the components of the subsidy expense of those new direct loans and loan guarantees are recognized separately among interest subsidy costs, default costs, fees and other collections, and other subsidy costs. Credit programs reestimate the subsidy cost allowance for outstanding direct loans and the liability for outstanding loan guarantees, by taking into account all factors that may have affected the estimated cash flows. Any adjustment resulting from the reestimates is recognized as a subsidy expense (or a reduction in subsidy expense).

Direct loans obligated and loan guarantees committed before FY 1992 are valued under two different methodologies within the government: the allowance-for-loss method and the present-value method. Under the allowance-for-loss method, the outstanding principal of direct loans is reduced by an allowance for uncollectible amounts; the liability for loan guarantees is the amount the entity estimates would more likely than not require future cash outflow to pay default claims. Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the PV of the expected net cash flows. The liability for loan guarantees is the PV of expected net cash outflows due to the loan guarantees. See Note 4—Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability for additional information.

E. Inventory and Related Property, Net

Inventory is tangible personal property that is 1) held for sale, principally to federal entities; 2) in the process of production for sale; or 3) to be consumed in the production of goods for sale or in the provision of services for a fee. OM&S is tangible personal property to be consumed in normal operations and stockpile materials are strategic and critical materials being held due to statutory requirements for use in national defense, conservation, or national emergencies.

SFFAS No. 3, *Accounting for Inventory and Related Property*, requires that inventories, OM&S, and stockpile materials to be valued using either historical cost or a method that reasonably approximates historical cost. Historical cost methods may include first-in-first-out, weighted average, and MAC. Any other valuation method may be used if the results reasonably approximate one of the historical cost methods. FASAB issued additional guidance SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, which permits a reporting entity to apply an alternative valuation method in establishing opening balances for inventory, OM&S, and stockpile materials and is intended to provide an alternative valuation method when historical records and systems do not provide a basis for valuation of opening balances in accordance with SFFAS No. 3.

As the largest contributor of inventory and related property, net; DOD values substantially all of its inventory available and purchased for resale using the MAC method as of September 30, 2020. OM&S are valued using various methods including MAC, standard price, historical cost, replacement price, and direct method. DOD uses both the consumption method (expensed when issued to an end user for consumption in normal operations) and the purchase method (expensed when purchased) of accounting for OM&S. Stockpile Materials are accounted for using MAC method. DOD continues to implement SFFAS No. 48, permitting alternative methods in establishing opening balances. See Note 5—Inventory and Related Property, Net, for additional information.

F. General Property, Plant, and Equipment, Net

General PP&E consists of tangible assets that have an estimated useful life of two or more years, are not intended for sale in the ordinary course of business and are intended to be used or available for use by the entity. These tangible assets may include land, land rights, assets acquired through capital leases, buildings and structures, furniture and fixtures, equipment, and vehicles.

SFFAS No. 6, *Accounting for Property, Plant, and Equipment* requires general PP&E to be recorded at cost. Cost shall include all costs incurred to bring the general PP&E to a form and location suitable for its intended use. General PP&E used in government operations are carried at acquisition cost, with the exception of some DOD equipment. FASAB issued additional guidance, SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment,* which states that a reporting entity may choose one of three alternative methods for establishing an opening balance for general PP&E. The alternative methods include: using deemed cost to establish opening balances of general PP&E, selecting between deemed cost and prospective capitalization of internal use software, and allowing an exclusion of land and land rights from opening balances with disclosure of acreage information and expensing of future acquisitions.

By excluding land and land rights from the opening balance of general PP&E future land and land right acquisitions is to be expensed. An entity electing to exclude land and land rights from its general PP&E opening balances must disclose, with a reference on the balance sheet to the related disclosure, the number of acres held at the beginning of each reporting period, the number of acres added during the period, the number of acres disposed of during the period, and the number of acres held at the end of each reporting period. DOD usually records general PP&E at the estimated historical cost. However, when applicable DOD will continue to adopt SFFAS No. 50.

Costs to acquire general PP&E, extend the useful life of existing general PP&E, or enlarge or improve its capacity, that exceed federal entities' capitalization thresholds is to be capitalized and depreciated or amortized. Depreciation and amortization expense is to be recognized on all capitalized general PP&E, except land and land rights of unlimited duration. In the case of constructed general PP&E, this is to be recorded as construction work in process until it is placed in service, at which time the balance is transferred to general PP&E. See Note 6—General Property, Plant, and Equipment, Net, for additional information.

For financial reporting purposes, heritage assets (excluding multi-use heritage assets) and stewardship land are not recorded as part of general PP&E. Since heritage assets are intended to be preserved as national treasures, it is anticipated that they will be maintained in reasonable repair and that there will be no diminution in their usefulness over time. Many assets are clearly heritage assets. For example, the National Park Service manages the Washington Monument, the Lincoln Memorial and the Mall. Heritage assets that are predominantly used in general government operations are considered multi-use heritage assets and are included in general PP&E. Stewardship land is also consistent with the treatment of heritage assets in that much of the government's land is held for the general welfare of the nation and is intended to be preserved and protected. Stewardship land is land owned by the government but not acquired for or in connection with general PP&E. Because most federal land is not directly related to general PP&E, it is deemed to be stewardship land and accordingly, it is not reported on the Balance Sheet. Examples of stewardship land include national parks and forests. For additional information on stewardship assets, see Note 25—Stewardship Property, Plant, and Equipment.

G. Securities and Investments

Most securities and investments are held by component entities that apply FASB standards and are not converted to FASAB standards in consolidation as permitted by SFFAS No. 47. Securities and investments are classified as held-to-maturity, available-for-sale, and trading. Held-to-maturity securities are reported at cost, net of unamortized premiums and discounts. Available-for-sale securities are reported at fair value. Trading securities are reported at fair value. The investment categories are classified by security type; Non-U.S. government, mortgage/asset backed, commercial, corporate and other bonds, unit trust and common stocks. Securities and investments are also classified using fair value measurement hierarchy levels 1, 2, 3, and "other" category. See Note 7—Securities and Investments for additional information.

H. Investments in Special Purpose Vehicles

Treasury invested in common stock warrants and equity investments in SPVs for the purpose of enhancing the liquidity of the U.S. financial system. These equity investments are reported at fair value. In addition to SPV investments, warrants are held for the purchase of common stock received as compensation from recipients of financial assistance to support ongoing employment of aviation workers during the pandemic under Section 4117 of the CARES Act. The warrants are assets of the U.S. government and Treasury is precluded from using the cash proceeds realized from the financial instruments received. These investment holdings are also reported at fair value.

The valuation to estimate the investment's fair value incorporates forecasts, projections, and cash flow analyses. Changes in valuation, including impairments, are deemed usual and recurring and thus are recorded as exchange transactions on the Statement of Net Cost and investments in SPVs on the Balance Sheet. See Note 8—Investments in Special Purpose Vehicles for additional information.

I. Investments in Government-Sponsored Enterprises

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

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

The potential liabilities to the GSEs, if any, are assessed annually and recorded at the gross estimated amount. For additional information on investments in GSEs, refer to Note 9—Investments in Government-Sponsored Enterprises.

J. Federal Debt and Interest Payable

Treasury securities are debt instruments issued to raise money needed to operate the federal government and pay off maturing obligations. Treasury issues these debt instruments to the public in the form of marketable bills, notes, bonds, TIPS and FRNs, and in the form of non-marketable securities including Government Account Series securities, U.S. Savings Securities, and State and Local Government Series securities. The amount of the debt, or principal, is also called the security's face value or par value. To accurately reflect the federal debt, Treasury records principal transactions with the public at par value at the time of the transaction. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long-term securities (term greater than one year) and the straight-line method for short-term securities (term of one year or less). In addition, the principal for TIPS is adjusted daily based on the Consumer Price Index for all Urban Consumers. Certain Treasury securities also pay interest. For marketable securities, Treasury issues notes and bonds that pay semi-annual interest based on the security's stated interest rate, while FRNs, which have interest rates that are indexed to the highest accepted discount rate of the most recent Treasury 13-week bill auction, pay interest quarterly based on the interest rate at the time of payment. TIPS, on the other hand, pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. However, for all security types accrued interest is recorded as an expense when incurred, instead of when paid. See Note 12—Federal Debt and Interest Payable for additional information.

K. Federal Employee and Veteran Benefits Payable

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

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

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

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

L. Environmental and Disposal Liabilities

Environmental and disposal liabilities are recorded at the estimated current cost of the cleanup plan, including the level of restoration to be performed, the current legal or regulatory requirements, and the current technology. Cleanup costs are the costs of removing, containing, or disposing of hazardous waste. Hazardous waste is a solid, liquid, or gaseous waste that, because of its quantity or concentration, presents a potential hazard to human health or the environment. Cleanup costs include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post-closure costs. Where technology does not exist to clean up radioactive or hazardous waste, only the estimable portion of the liability (typically monitoring and safe containment) is recorded. See Note 14—Environmental and Disposal Liabilities for additional information.

M. Insurance and Guarantee Program Liabilities

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

PBGC recognizes a single-employer program liability for probable plan terminations, which represents PBGC's best estimate of the losses, net of plan assets, and the PV of expected recoveries (from sponsors and members of their controlled group) for plans that are likely to terminate in the future. PBGC recognizes a multi-employer program liability for future financial assistance to insolvent plans and to plans deemed probable to becoming insolvent.

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

PBGC's exposure to losses from plan terminations and FDIC's exposure to losses from insured institutions that are classified as reasonably possible are disclosed in Note 20—Contingencies.

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

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

There are three categories of insurance programs: 1) exchange transaction insurance programs other than life insurance; 2) non-exchange transaction insurance programs; and 3) life insurance programs.

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

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

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

N. Deferred Maintenance and Repairs

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

O. Commitments

In the normal course of business, the government has several unfulfilled commitments that may require the use of its financial resources. Note 19—Commitments describes the components of the government's actual commitments that are disclosed due to their nature and/or their amount. They include long-term leases, undelivered orders, and other commitments. See Note 19—Commitments, for additional information.

P. Contingencies

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

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

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

A contingent liability should be disclosed if any of the conditions for liability recognition do not meet the above criteria and there is at least a reasonable possibility that a loss may be incurred. See Note 20—Contingencies for additional information.

Q. Social Insurance

A liability for social insurance programs (Social Security, Medicare, Railroad Retirement, Black Lung, and Unemployment) is recognized for any unpaid amounts currently due and payable to beneficiaries or service providers as of the reporting date, see Note 15—Benefits Due and Payable. No liability is recognized for future benefit payments not yet due. For additional information, see Note 23—Social Insurance and the unaudited RSI—Social Insurance section.

R. Funds from Dedicated Collections

Generally, funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources, often supplemented by other financing sources that remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes, and must be accounted for separately from the government's general revenues. The three required criteria for a fund from dedicated collections are:

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

For additional information on funds from dedicated collections, see Note 21—Funds from Dedicated Collections.

S. Unmatched Transactions and Balances

The reconciliation of the change in net position requires that the difference between ending and beginning net position equals the difference between revenue and cost, plus or minus prior-period adjustments. In FY 2020, a change has been made to the Unmatched Transactions and Balances to include unmatched intra-governmental balances on the Balance Sheet and only include unmatched intra-governmental current year transactions on the Statement of Operations and Changes in Net Position to reconcile the change in net position to ensure beginning and ending net position equals the difference between revenue and cost, plus or minus prior-period adjustments.

The unmatched transactions and balances are needed to bring the net position on the Balance Sheet and Statement of Operations and Changes in Net Position into balance. The primary factors affecting this out of balance situation are:

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

As intra-governmental transactions and balances reduce to immaterial amounts, the corresponding individual lines in the "Unmatched Transactions and Balances" table are adjusted to remove the differences for the fiscal year. Please refer to the table of "Unmatched Transactions and Balances" in Other Information (Unaudited) for examples of the individual lines. Materiality for these adjustments is considered in the absolute value, when at or below $0.1 billion.

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

T. Changes in Accounting Principle

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

Adjustments to beginning net position in FY 2020 for changes in accounting principle was $12.5 billion between the Funds from Dedicated Collections and Funds other than those from Dedicated Collections due to Note 21—Funds from Dedicated Collections applying SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds.* SFFAS No. 43 is not a new standard but does allow a reporting methodology change between combined (excluding eliminations between Funds from Dedicated Collections) and consolidated (including eliminations between Funds from Dedicated Collections) when deemed necessary. The reporting methodology was changed from combined in FY 2019 to consolidated in FY 2020. See Note 21—Funds from Dedicated Collections for additional information.

U. Correction of Errors

Correction of errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time financial statements were prepared. When preparing comparative financial statements, if the material error occurred in the prior period presented and the effect is known, then the affected line items of the prior period are restated.

In FY 2019, DOD followed SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principle* and corrected an error that increased its assets and net position by $7.3 billion. For FY 2019, restatements were made that decreased the correction of errors line on the Statement of Operations and Changes in Net Position by $13.5 billion to ($6.2) billion. The unmatched transactions and balances line on the Statement of Operations and Changes in Net Position was adjusted by $1.2 billion to $0.4 billion to remove unmatched amounts reported on the Balance Sheet. On the Balance Sheet a line was added called unmatched transactions and balances in the amount of $14.7 billion.

The following lines were impacted by the restatement: 1) on the Balance Sheet, net position for Funds other than those from Dedicated Collections; total net position; and total liabilities and net position; 2) on the Statement of Operations and Changes in Net Position Funds other than those from Dedicated Collections and Total columns, unmatched transactions and balances, net operating cost, and net position, end of period; 3) on the Reconciliation of Net Operating Cost and Budget Deficit, net operating cost, adjustments to beginning net position, and unmatched transactions and balances; and 4) the Unmatched Transactions and Balances table in Other Information (unaudited).

V. Changes in Presentation

Changes in presentation are done to improve clarity of the presentation of the *Financial Report* and include changes since the prior year that are not the result of correction of errors or changes in accounting principles. The adjustments to beginning net position on the FY 2019 Statement of Operation and Changes in Net Position was broken out between changes in accounting principle and correction of errors to conform to the FY 2020 presentation. Unfunded leave was previously reported in Note 17—Other Liabilities. In FY 2020 unfunded leave is reported in Note 13—Federal Employee and Veteran Benefits Payable. A change in presentation was identified in Note 3—Accounts Receivable, Net to conform to the FY 2020 presentation. Refer to the individual notes for additional information.

W. Fiduciary Activities

Fiduciary activities are the collection or receipt, as well as the management, protection, accounting, investment and disposition by the government of cash or other assets in which non-federal individuals or entities have an ownership interest that the government must uphold. Fiduciary cash and other fiduciary assets are not assets of the government and are not recognized on the Balance Sheet. See Note 22—Fiduciary Activities, for additional information.

X. Use of Estimates

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

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

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

The forecasted future cash flows used to determine credit reform amounts are sensitive to slight changes in model assumptions, such as general economic conditions, specific stock price volatility of the entities in which the government has an equity interest, estimates of expected default, and prepayment rates. Therefore, forecasts of future financial results have inherent uncertainty.

Estimates are also used to determine the fair value of investments in SPVs and GSEs. The fair value of the SPV preferred equity investments are estimated based on a discounted cash flow valuation methodology, whereby the primary input is the PV of the projected annual cash flows associated with these investments. The value of the GSEs senior preferred stock is estimated by first estimating the fair value of the total equity of each GSE (which, in addition to the senior preferred stock, is comprised of other equity instruments including common stock, common stock warrants, and junior preferred stock).

The fair value of the total equity is based on a discounted cash flow valuation methodology, whereby the primary input is the PV of the projected quarterly cash flows to equity holders. The fair value of the GSEs' other equity instruments are then deducted from its total equity, with the remainder representing the fair value of the senior preferred stock. For additional information on investments in SPVs and GSEs see Note 8—Investments in Special Purpose Vehicles and Note 9—Investments in Government-Sponsored Enterprises.

Treasury performs annual calculations, as of September 30, to assess the need for recording an estimated liability in accordance with SFFAS No. 5, *Accounting for Liabilities of The Federal Government,* and to the government's funding commitment to the GSEs under the SPSPAs. Treasury estimates and records the NPV of this potential liability, if any, based on the probable future occurrence of excess cash flows received above the full recovery of the costs associated with these programs. For additional information on investments in GSEs and the amended SPSPAs, see Note 9—Investments in Government-Sponsored Enterprises.

Y. Credit Risk

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

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

Z. Treaties and Other International Agreements

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

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

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

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

Some treaties and other international agreements fall under the second category, and involve a present obligation, and therefore result in liability recognition. Such present obligation may relate to the U.S. government providing financial and in-kind support, including assessed contributions, voluntary contributions, grants, and other assistance to international organizations in which it participates as a member. Examples of such agreements include those that establish international organizations under which the U.S. government undertakes obligations to pay assessed dues to the organization; grant agreements under which the U.S. government provides foreign assistance funds to other countries; and claims settlement agreements under which the U.S. government agrees to pay specific sums of money to settle claims. For additional information related to treaties and other international agreements that fall under the second category, refer to Note 19—Commitments.

The last category encompasses those treaties or other international agreements which result in contingencies that may require recognition or disclosure in the financial statements. Such contingencies may stem from commitments in a treaty or other international agreement to provide goods, services, or financial support when a future event occurs, or from litigation, claims, or assessments forged by other parties to the agreement. For additional information related to treaties and other international agreements that fall under the last category, refer to Note 20—Contingencies.

AA. Public-Private Partnerships

Federal P3s are risk-sharing arrangements or transactions with expected lives greater than five years between public and private sector entities. Such arrangements or transactions provide a service or an asset for government and/or general public use where in addition to the sharing of resources, each party shares in the risks and rewards of said arrangements or transactions. The P3s that are deemed material to the consolidated financial statements and have met the criteria of SFFAS No. 49, *Public-Private Partnerships*, are disclosed. See Note 27—Public-Private Partnerships for additional information.

Note 2. Cash and Other Monetary Assets

Cash and Other Monetary Assets as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Unrestricted cash:		
Cash held by Treasury for government-wide operations	1,769.8	376.1
Other	5.0	4.5
Restricted	40.8	44.7
Total cash	1,815.6	425.3
International monetary assets	83.3	73.3
Gold and silver	11.1	11.1
Foreign currency	16.9	14.9
Total cash and other monetary assets	1,926.9	524.6

Unrestricted cash includes cash held by Treasury for government-wide operations (Operating Cash) and all other unrestricted cash held by the federal entities. Operating Cash represents balances from tax collections, federal debt receipts, and other various receipts net of cash outflows for federal debt repayments and other payments. Treasury checks outstanding are netted against Operating Cash until they are cleared by the FR System. Other unrestricted cash not included in Treasury's Operating Cash balance includes balances representing cash, cash equivalents, and other funds held by entities, such as undeposited collections, deposits in transit, demand deposits, amounts held in trust, and imprest funds. Operating Cash held by Treasury increased by $1,393.7 billion (an increase of approximately 371 percent) in FY 2020 due to Treasury maintaining an elevated cash balance to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19 related outflows.

Restrictions on cash are due to the imposition on cash deposits by law, regulation, or agreement. Restricted cash is primarily composed of cash held by the SAA, which executes Foreign Military Sales. The SAA included $34.1 billion and $37.1 billion as of September 30, 2020, and 2019, respectively.

International monetary assets include the U.S. reserve position in the IMF and U.S. holdings of SDRs. The U.S. reserve position in the IMF had a U.S. dollar equivalent of $31.2 billion and $23.0 billion as of September 30, 2020, and 2019, respectively. Only a portion of the U.S. financial subscription to the IMF is made in the form of reserve assets; the remainder is provided in the form of a letter of credit. The balance available under the letter of credit totaled $85.0 billion and $89.7 billion as of September 30, 2020, and 2019 respectively. The total amount of SDR holdings of the U.S. was the equivalent of $51.7 billion and $50.1 billion as of September 30, 2020, and 2019, respectively. For more information regarding the U.S. participation in the IMF and SDRs, see Treasury's financial statements and Note 26—Disclosure Entities and Related Parties.

Gold is valued at the statutory price of $42.2222 per fine troy ounce. The number of fine troy ounces of gold was 261,498,927 as of September 30, 2020, and 2019. The market value of gold on the London Fixing was $1,887 and $1,485 per fine troy ounce as of September 30, 2020, and 2019, respectively. In addition, silver is valued at the statutory price of $1.2929 per fine troy ounce. The number of fine troy ounces of silver was 16,000,000 as of September 30, 2020, and 2019. The market value of silver on the London Fixing was $23.73 and $17.26 per fine troy ounce as of September 30, 2020, and 2019, respectively. Gold totaling $11.0 billion as of September 30, 2020, and 2019, was pledged as collateral for gold certificates issued and authorized to the FRBs by the Secretary of the Treasury. Gold certificates were valued at $11.0 billion as of September 30, 2020, and 2019. Treasury may redeem the gold certificates at any time. Please refer to the financial statements of Treasury for additional information regarding gold reserves and Treasury's liability for gold. Foreign currency is translated into U.S. dollars at the exchange rate at fiscal year-end. The foreign currency is maintained by Treasury's Exchange Stabilization Fund and various U.S. federal entities as well as foreign banks.

Note 3. Accounts Receivable, Net

Accounts Receivable, Net as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Accounts receivable:		
Gross accounts receivable	113.0	117.7
Allowance for uncollectible amounts	(35.0)	(31.8)
Accounts receivable, net	78.0	85.9
Taxes receivable:		
Gross taxes receivable	441.9	383.7
Allowance for uncollectible amounts	(198.7)	(231.6)
Taxes receivable, net	243.2	152.1
Total accounts receivable, net	321.2	238.0

Gross accounts receivable includes related interest receivable of $2.8 billion and $3.3 billion as of September 30, 2020, and 2019, respectively. Taxes receivable is listed separately above due to being the significant portion of total accounts receivable. Amounts for FY 2019 have been changed as a result of a mapping update to the individual lines Taxes receivable: Gross taxes receivable and Allowance for uncollectible amounts. Each line increased $2.2 billion resulting in a net zero impact to the total. This change in presentation was due to a mapping update of tax-related interest receivable, penalties, fines and administrative fees, and allowance for loss.

Treasury comprises approximately 74.0 percent of the government's reported accounts receivable, net, as of September 30, 2020. Treasury experienced a year-to-year increase of $91.7 billion primarily due to taxes receivable. This is principally due to a one-time tax on previously unrepatriated foreign earnings at lower rates that taxpayers may elect to pay over several years pursuant to the TCJA, coupled with a decrease in the related allowance for uncollectible taxes receivable due to a change in the methodology for estimating collectability, and the CARES Act Section 2302 provision allowing employers to defer payment of FICA Social Security taxes. Refer to Treasury's financial statements for additional information. The following list of entities comprise 99.1 percent of the government's accounts receivable, net, of $321.2 billion as of September 30, 2020. Please refer to the following entities' financial statements for additional information on gross accounts receivable and the related allowance for uncollectible amounts:

- Treasury
- HHS
- SSA
- DHS
- DOI
- DOD
- VA
- PBGC
- USDA
- DOE
- OPM
- FDIC
- DOL
- TVA
- NCUA
- USPS
- HUD
- FCC
- FTC
- CFTC

Note 4. Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability

Direct Loans and Loan Guarantees Receivable, Net as of September 30, 2020

(In billions of dollars)	Direct Loans and Loan Guarantees Receivable, Gross	Interest Receivable	Foreclosed Property	Subsidy Cost Allowance	Direct Loans and Loan Guarantees Receivable, Net	Subsidy Expense (Income) for the Fiscal Year
Federal Direct Student Loans - Education	1,224.8	92.1	-	(216.4)	1,100.5	100.9
Disaster Assistance Loans - SBA	185.3	1.8	-	(5.6)	181.5	5.4
Federal Family Education Loans - Education	84.8	24.1	-	(41.5)	67.4	2.2
Electric Loans - USDA	48.9	-	-	(2.9)	46.0	0.9
Rural Housing Services - USDA	23.6	1.2	-	(3.0)	21.8	-
Federal Housing Admin Loans and Other - HUD	42.3	17.8	0.9	(17.3)	43.7	-
All other programs	130.5	2.3	0.6	(16.9)	116.5	0.1
Total direct loans and loan guarantees receivable	1,740.2	139.3	1.5	(303.6)	1,577.4	109.5

Direct Loans and Loan Guarantees Receivable, Net as of September 30, 2019

(In billions of dollars)	Direct Loans and Loan Guarantees Receivable, Gross	Interest Receivable	Foreclosed Property	Subsidy Cost Allowance	Direct Loans and Loan Guarantees Receivable, Net	Subsidy Expense (Income) for the Fiscal Year
Federal Direct Student Loans - Education	1,164.9	83.3	-	(124.4)	1,123.8	61.5
Disaster Assistance Loans - SBA	9.6	-	-	(1.3)	8.3	0.1
Federal Family Education Loans - Education	90.2	22.3	-	(35.7)	76.8	5.8
Electric Loans - USDA	49.2	0.1	-	(2.3)	47.0	(0.3)
Rural Housing Services - USDA	23.6	1.1	0.1	(2.8)	22.0	0.3
Federal Housing Admin Loans and Other - HUD	37.4	14.1	1.3	(16.7)	36.1	(0.1)
All other programs	123.1	2.1	1.1	(14.5)	111.8	(0.3)
Total direct loans and loan guarantees receivable	1,498.0	123.0	2.5	(197.7)	1,425.8	67.0

Loan Guarantees Liability as of September 30, 2020, and 2019

(In billions of dollars)	Principal Amount of Loans Under Guarantee		Principal Amount Guaranteed by the U.S.		Loan Guarantees Liability		Subsidy Expense (Income) for the Fiscal Year	
	2020	2019	2020	2019	2020	2019	2020	2019
Federal Housing Administration Loans - HUD	1,544.4	1,524.6	1,379.7	1,366.2	(6.2)	2.5	(20.6)	(24.7)
Veterans Housing Benefit Programs - VA	816.0	712.3	206.3	179.7	7.3	7.5	(2.3)	(2.1)
Small Business Loans - SBA	646.0	129.7	621.7	105.8	512.7	2.0	526.8	(1.0)
Federal Family Education Loans - Education	128.9	141.6	128.9	141.6	0.9	5.2	(3.5)	6.9
Rural Housing Services - USDA	127.9	124.1	115.0	111.6	0.7	(0.2)	0.7	(0.1)
All other guaranteed loan programs	93.9	92.7	88.8	87.9	4.7	4.7	(0.2)	(1.2)
Total loan guarantees liability	3,357.1	2,725.0	2,540.4	1,992.8	520.1	21.7	500.9	(22.2)

The government has two types of loan programs: direct loans and loan guarantees. One major type of loan is direct loans such as the Education Federal Direct Student Loans. The second type is loan guarantee programs, such as the HUD's FHA Loans program. While a loan guarantee is considered a liability, a loan guarantee program may also have a loan guarantee receivable. At a foreclosure of guaranteed loans, a federal guarantor may acquire the loans involved and record a guaranteed loan receivable. The acquired loans are recognized at the present value of their estimated net cash inflows from selling the loans or from collecting payments from the borrowers, discounted at the original discount rate adjusted for the interest rate reestimate.

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.

The amount of the long-term cost of post-1991 direct loans and loan guarantees outstanding equals the subsidy cost allowance for direct loans and the liability for loan guarantees (including defaulted guaranteed loans) as of September 30. The amount of the long-term cost of pre-1992 direct loans and loan guarantees equals the allowance for subsidy amounts (or PV allowance) for direct loans and the liability for loan guarantees. The long-term cost is based on all direct loans and guaranteed loans disbursed in this fiscal year and previous years that are outstanding as of September 30. It includes the subsidy cost of these loans and guarantees estimated as of the time of loan disbursement and subsequent adjustments such as modifications, reestimates, amortizations, and write-offs.

Net direct loans and loan guarantees receivable includes related interest and foreclosed property. Foreclosed property is property that is transferred from borrowers to a federal credit program, through foreclosure or other means, in partial or full settlement of post-1991 direct loans or as a compensation for losses that the government sustained under post-1991 loan guarantees. Please refer to the financial statements of DOT, HUD, USDA, and VA for additional information regarding foreclosed property.

The total subsidy expense/(income) is the cost of direct loans and loan guarantees recognized during the fiscal year. It consists of the subsidy expense/(income) incurred for direct and guaranteed loans disbursed during the fiscal year, for modifications made during the fiscal year of loans and guarantees outstanding, and for upward or downward reestimates as of the end of the fiscal year of the cost of loans and guarantees outstanding. This expense/(income) is included in the Statements of Net Cost.

Loan Programs

The majority of the loan programs are provided by Education, HUD, SBA, USDA, and VA. For additional information regarding the direct and guaranteed loan programs listed in the tables above, please refer to the financial statements of the entities.

Education has two major loan programs, authorized by Title IV of the *Higher Education Act of 1965*. The first program is the William D. Ford Federal Direct Loan Program (referred to as the Direct Loan Program), which was established in FY 1994. The Direct Loan Program offered four types of educational loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. With this program, the government makes loans directly to students and parents through participating institutions of higher education. Direct loans are originated and serviced through contracts with private vendors. Education disbursed approximately $117.4 billion in Direct Loans to eligible borrowers in FY 2020 and approximately $130.7 billion in FY 2019. The second program is the FFEL Program. This program was established in FY 1965, and is a guaranteed loan program. Like the Direct Loan Program, it offered four types of loans: Stafford, Unsubsidized Stafford, PLUS for parents and/or graduate or professional students, and consolidation loans. The *Student Aid and Fiscal Responsibility Act*, which was enacted as part of the *Health Care Education and Reconciliation Act of 2010* (P.L. 111-152), eliminated the authority to guarantee new FFEL after June 30, 2010. The CARES Act provided support for student loan borrowers by temporarily suspending nearly all federal student loan payments. In addition, all federal wage garnishments and collections actions for borrowers with federally held loan in default were halted. During FY 2020, Education net loans receivable decreased by $32.4 billion, partly the result of net upward loan subsidy reestimates combined with CARES Act and Presidential Memorandum related upward loan modifications that increased the subsidy allowance by $97.7 billion, offset by increases in loans outstanding and accrued interest receivable.

HUD's Office of Housing plays a vital role for the nation's homebuyers, homeowners, renters, and communities through its nationally administered programs. It includes FHA who provides over $1.4 trillion in mortgage insurance on mortgages for single family homes, multifamily properties, and healthcare facilities. Due to COVID-19 the CARES Act provides borrowers with federally backed mortgage loans a temporary foreclosure moratorium and a right to forbearance of loan payments for homeowners experiencing financial hardship. In FY 2020, FHA's subsidy expense was influenced by a change in the way FHA accounted for accounts receivable and accounts payable accruals related to post-1991 loan guarantees.

USDA's Rural Development offers both direct and guaranteed loans with unique missions to bring prosperity and opportunity to rural areas. The Rural Housing programs provide affordable, safe, and sanitary housing and essential community facilities to rural communities. Rural Utility programs help improve the quality of life in rural areas through a variety of loan programs for electric energy, telecommunications, and water and environmental projects.

The SBA provides guarantees that help small businesses obtain bank loans and licensed companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides a direct loan program that assists homeowners, renters and businesses recover from disasters. The CARES Act provides funding for SBA to offer low-interest economic injury disaster loans for working capital to small businesses suffering substantial economic injury as a result of COVID-19 that can be used to pay fixed debts, payroll, accounts payable and other bills that cannot be paid because of the disaster's impact. The CARES Act, under the PPP program, also provides incentives for small businesses to keep their workers on the payroll and debt relief for small business loan borrowers. The SBA will pay six months of principal, interest, and any associated fees owed by current small business loan borrowers as well as new small business loans disbursed prior to September 27, 2020. The loan guaranty PPP provides loan forgiveness for amounts used for eligible expenses for payroll and benefit costs, interest on mortgages, and rent and utilities. These receivables increased to $182.9 billion during FY 2020, stemming from a $173.2 billion increase in direct disaster loans primarily funded from the CARES Act. The loan guarantee liability for Small Business Loan Programs which includes the PPP also increased by $510.7 billion due to the CARES Act provisions. For additional information on each specific loan program refer to SBA's financial statement.

VA operates the following direct loan and loan guarantee programs: Vendee Loans, Acquired Loans, Native American Direct Loans, Housing Guaranteed Loans, Insurance Loans, and Loan Sale Guarantees. The Home Loans program provides loan guarantees and direct loans to veterans, service members, qualifying dependents, and limited non-veterans to purchase homes and retain homeownership with favorable market terms. During FY 2020, the face value of outstanding principal on loans guaranteed by the VA increased by $103.7 billion. This increase was primarily due to $329.0 billion in new loans guaranteed by the VA, partially offset by $225.2 billion in guaranteed loan terminations.

For additional information regarding the CARES Act refer to the financial reports of SBA, Education, and HUD, Note 28—COVID-19 Activity, and Note 29—Subsequent Events.

Note 5. Inventory and Related Property, Net

Inventory and Related Property, Net as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Inventory purchased for resale	70.6	68.9
Inventory and operating material and supplies held for repair	57.8	73.3
Inventory—excess, obsolete, and unserviceable	0.6	0.8
Operating materials and supplies held for use	146.8	130.8
Operating materials and supplies held in reserve for future use	43.0	27.0
Operating materials and supplies-excess, obsolete, and unserviceable	3.1	3.1
Stockpile materials held in reserve for future use	55.1	50.6
Stockpile materials held for sale	7.5	7.7
Other related property	5.3	3.3
Allowance for loss	(10.1)	(9.8)
Total inventory and related property, net	379.7	355.7

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.

Inventory shall be categorized as one of the following:

- Held for sale or use – includes items for sale or transfer to either entities outside the federal government, or other federal entities.
- Held for repair – items that require servicing to make them suitable for sale or use.
- Excess – stock that exceeds the demand expected in the normal course of operations because the amount on hand is more than can be sold in the foreseeable future and that does not meet management's criteria to be held in reserve for future sale or use.
- Obsolete – Items that are no longer needed due to changes in technology, laws, customs, or operations.
- Unserviceable – damaged items that are more economical to dispose of than to repair.

OM&S consists of tangible personal property to be consumed in normal operations and shall be categorized as one of the above categories or in the additional listed category below:

- Held in reserve for future sale or use – items maintained because they are not readily available in the market or because there is more than a remote chance that they will eventually be needed.

Stockpile materials are strategic and critical materials held due to statutory requirements for use in national defense, conservation or national emergencies. They are not held with the intent of selling in the ordinary course of business. When stockpile materials are authorized to be sold, those materials shall be disclosed as stockpile materials held for sale.

Other related property consists of the following:

- Forfeited property consists of monetary instruments, intangible property, real property, and tangible personal property acquired through forfeiture proceedings; property acquired by the government to satisfy a tax liability; and unclaimed and abandoned merchandise. Please refer to the financial statements of DOJ and Treasury for additional information regarding forfeited property.
- Goods acquired under price support and stabilization programs are referred to as commodities. Commodities are items of commerce or trade having an exchange value. Please refer to the financial statements of USDA for additional information regarding commodities.

- Seized property includes monetary instruments, real property and tangible personal property of others in the actual or constructive possession of the custodial entity. For additional information on seized property, refer to the financial statements of DOJ and Treasury.
- Foreclosed property consists of any asset received in satisfaction of a loan receivable or as a result of payment of a claim under a guaranteed or insured loan (excluding commodities acquired under price support programs). For additional information on foreclosed property, see Note 4—Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability. Also refer to the financial statements of USDA, VA, and HUD for additional information regarding foreclosed property.

DOD comprises approximately 81.7 percent of the government's inventory and related property, net, as of September 30, 2020. DOD continues to implement SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, which permits alternative methods in establishing opening balances for inventory and related property.

The following entities comprise over 99.0 percent of the government's reported inventory and related property, net of $379.7 billion as of September 30, 2020. Refer to each entities' financial statements for additional information.

- DOD
- DOE
- Treasury
- HHS
- DHS

Note 6. General Property, Plant, and Equipment, Net

General Property, Plant, and Equipment, net as of September 30, 2020, and 2019

(In billions of dollars)	Cost	Accumulated Depreciation/ Amortization	Net	Cost	Accumulated Depreciation/ Amortization	Net
	2020			2019		
Buildings, structures, and facilities	791.4	487.9	303.5	775.8	469.7	306.1
Furniture, fixtures, and equipment	1,390.7	809.6	581.1	1,387.5	809.5	578.0
Construction in progress	201.8	N/A	201.8	171.6	N/A	171.6
Internal use software	56.8	35.4	21.4	51.5	32.1	19.4
Land	22.1	N/A	22.1	21.7	N/A	21.7
Other general property, plant, and equipment	38.0	22.9	15.1	31.7	21.6	10.1
Total general property, plant, and equipment, net	2,500.8	1,355.8	1,145.0	2,439.8	1,332.9	1,106.9

Note: "N/A" indicates not applicable.

DOD comprises approximately 69.0 percent of the government's reported general PP&E, as of September 30, 2020. DOD continues to implement SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment* which permits alternative methods in establishing opening balances for general PP&E and has elected to exclude land and land rights. The total acreage excluded was 23,521,368 as of September 30, 2020 and 20,926,485 as of September 30, 2019.

The following entities comprise over 90.0 percent of the government's reported general PP&E net of $1,145.0 billion as of September 30, 2020. Please refer to the entities' financial statements for additional information.

- DOD
- DOE
- GSA
- DOC
- Treasury
- HHS
- DOI
- USPS
- DHS
- USDA
- SSA
- NASA
- VA
- TVA
- State
- DOJ
- DOT

Certain PP&E are multi-use heritage assets, see Note 25—Stewardship Property, Plant, and Equipment for additional information on multi-use heritage assets.

Note 7. Securities and Investments

Securities and Investments as of September 30, 2020, and 2019

(In billions of dollars)	2020 Cost	2020 Adjustment	2020 Book Value	2019 Cost	2019 Adjustment	2019 Book Value
Held-to-Maturity						
Debt securities:	0.1	-	0.1	0.1	-	0.1
Equity securities:	3.5	-	3.5	3.6	-	3.6
Total held-to-maturity (net investment)	3.6	-	3.6	3.7	-	3.7
Available-for-Sale:						
Debt securities:	1.3	0.2	1.5	2.4	0.1	2.5
Total available-for-sale (fair value)	1.3	0.2	1.5	2.4	0.1	2.5
Trading Securities:						
Debt securities:						
Non-U.S. government	9.4	0.1	9.5	13.0	0.4	13.4
Commercial	0.4	-	0.4	0.3	-	0.3
Mortgage/asset backed	5.7	0.2	5.9	5.1	0.2	5.3
Corporate and other bonds	23.2	2.9	26.1	16.5	1.5	18.0
All other debt securities	1.7	6.4	8.1	6.2	4.8	11.0
Equity securities:						
Unit trust	13.8	7.9	21.7	13.6	7.8	21.4
Common stocks	2.1	0.2	2.3	2.3	0.1	2.4
All other equity securities	18.1	1.1	19.2	15.3	0.2	15.5
Total trading securities (fair value)	74.4	18.8	93.2	72.3	15.0	87.3

	Total 2020	Total 2019
Total securities and investments categorized as held-to-maturity, available-for-sale or trading	98.3	93.5
Total NRRIT securities and investments (fair value)	23.6	24.8
Total securities and investments	121.9	118.3

Certain significant consolidated entities apply financial accounting and reporting standards issued by FASB and such entities, as permitted by SFFAS No. 47, *Reporting Entity* are consolidated into the U.S. government's consolidated financial statements without conversion to financial and reporting standards issued by the FASAB. PBGC, NRRIT, TVA, and Smithsonian Institution securities and investments are recorded at fair value and have been categorized based upon a fair value hierarchy, in accordance with FASB ASC Section 820, Fair Value Measurement.

Fair Value Measurement

Fair value is a market-based measurement. For some assets, observable market transactions or market information might be available. For other assets, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same to estimate the price at which an orderly transaction to sell the asset between market participants at the measurement date under current market conditions.

When a price for an identical asset is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset, including assumptions about risk. As a result, a reporting entity's intention to hold an asset is not relevant when measuring fair value.

The measurement of fair value of an asset is categorized with different levels of fair value hierarchy as follows:

- Level 1—Unadjusted quoted prices in active markets for identical assets that the reporting entity can access at the measurement date.
- Level 2—Inputs other than quoted prices included with Level 1 that are observable for the asset, either directly or indirectly.
- Level 3—Unobservable inputs for the asset.
- Other —The category contains certain investments that are measured at fair value using NAV per share useful method and have not been categorized in the fair value hierarchy. Investments in "other" represent certain commingled funds, partnerships, real estate and real estate investment trusts which are considered trading securities.

Securities and Investments as of September 30, 2020

(In billions of dollars)	Level 1	Level 2	Level 3	Other	Total
Fair Value:					
Pension Benefit Guaranty Corporation	4.4	46.3	-	24.7	75.4
National Railroad Retirement Investment Trust	13.0	3.6	-	7.0	23.6
Tennessee Valley Authority	2.8	2.9	0.1	5.2	11.0
Smithsonian Institution	0.4	-	-	1.8	2.2
Total fair value measurements	20.6	52.8	0.1	38.7	112.2
All other*:					
Total all other	-	-	-	9.7	9.7
Total securities and investments	20.6	52.8	0.1	48.4	121.9

*Levels not applicable due to entities in this category being FASAB reporters.

Securities and Investments as of September 30, 2019

(In billions of dollars)	Level 1	Level 2	Level 3	Other	Total
Fair Value:					
Pension Benefit Guaranty Corporation	3.7	39.7	-	27.0	70.4
National Railroad Retirement Investment Trust	13.6	4.7	-	6.5	24.8
Tennessee Valley Authority	2.8	3.1	-	4.7	10.6
Smithsonian Institution	0.4	-	-	1.5	1.9
Total fair value measurements	20.5	47.5	-	39.7	107.7
All other*:					
Total all other	-	-	-	10.6	10.6
Total securities and investments	20.5	47.5	-	50.3	118.3

*Levels not applicable due to entities in this category being FASAB reporters.

PBGC‘s “other” investments measured at NAV consists of real estate, private equity and pooled funds. PBGC’s investments are primarily categorized in the hierarchy of Level 2. PBGC’s Level 2 investments consist of securities lending collateral, fixed maturity, commercial paper, asset backed, pooled funds, corporate bonds and domestic equity securities.

NRRIT on behalf of the RRB, manages and invests railroad retirement assets that are to be used to pay retirement benefits to the nation’s railroad workers under the RRP. As an investment company, NRRIT is subject to different accounting standards that do not require the classifications presented in the Securities and Investments table above. NRRIT’s investments consists of certain U.S. Equity, Non-U.S. Equity and Global Fixed Income securities.

TVA’s investments consist of amounts held in the Nuclear Decommissioning Trust, Asset Retirement Trust, Supplemental Executive Retirement Plan, and Deferred Compensation Plan. These investments are primarily U.S. and international equities, real estate investment trusts, fixed income investments, high-yield fixed income investments, commodities, currencies, derivative instruments, and other investments. TVA’s qualified benefit pension plan is funded with qualified plan assets. These investments include global public equities, private equities, fixed income securities, public real assets, and private real assets.

Please refer to PBGC, NRRIT, TVA and Smithsonian Institution’s financial statements for additional information on these investments and fair value measurement.

Note 8. Investments in Special Purpose Vehicles

Investments in Special Purpose Vehicles as of September 30, 2020

(In billions of dollars)	**Gross Investments**	**Cumulative Valuation Gain (Loss)**	**Fair Value**
Corporate Credit Facilities	37.5	(0.1)	37.4
Main Street Lending Programs	37.5	(4.3)	33.2
Municipal Liquidity Facility	17.5	(0.2)	17.3
Term Assets Lending Facility	10.0	(0.1)	9.9
Commercial Paper Funding Facility	10.0	0.1	10.1
Total investments in Special Purpose Vehicles	112.5	(4.6)	107.9
Common stock warrants[1]			0.5
Total			108.4

[1]Investments in common stock warrants are included due to the nature of funding and purpose of financial assistance to provide payroll support to aviation workers during the pandemic. Common stock warrants gross investment cost is $.4 billion

In response to the COVID-19 pandemic, the government invested in SPVs established by the Federal Reserve Board through the FRBNY and FRBB for the purpose of enhancing the liquidity of the U.S. financial system. SPV investments are accounted for as equity investments at fair value, rather than as direct loans, as these instruments do not meet the criteria of SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*. Accordingly, changes in the fair value of these investments are recorded as gains or losses.

The fair value of SPV equity investments is determined by using available market pricing data, risk-free discount rates, market pricing of floating interest-rate swaps, and contractual instrument terms to estimate scenario-specific, risk-neutral cash flows for the SPVs. For determining market pricing data, active market prices for the CCF and TALF programs that own publicly traded securities, Bloomberg estimated prices for the MLF program which owns securities that do not have active market prices but have estimated prices in Bloomberg, or market prices for baskets of comparable publicly traded bonds for the MSF program, based on relevant bond attributes such as instrument credit rating, time to maturity, issuer industry, coupon rate, and call provisions. Contractual instrument terms and market derived, risk-neutral loss rates and, where applicable, market pricing of floating interest-rate swaps are used to estimate scenario specific, risk-neutral cash flows which are discounted using risk-free discount rates.

In deriving the fair value of SPV investments, Treasury relied upon market observed prices for SPV purchased assets and collateral, market prices for comparable assets, asset valuations performed by third parties, historical asset data, discussions with subject matter experts within Treasury, and other information pertinent to the valuation were relied on. Because the instruments are not publicly traded, there is no comparable trading information available. The fair valuations rely on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing.

Under SFFAS No. 47, *Reporting Entity* criteria, SPVs were owned or established by the federal government. The relationship with the federal government represents non-permanent intervention designed to help mitigate the economic impacts. These entities are classified as disclosure entities based on their characteristics as a whole. Accordingly, these entities are not consolidated into the U.S. government's consolidated financial statements; however, the value of the investments in these entities, changes in value, and related activity with these entities are included in the U.S. government's consolidated financial statements.

Corporate Credit Facilities LLC

On April 13, 2020, the FRBNY established the CCF as the SPV to facilitate both the PMCCF and the SMCCF programs in support of providing the flow of credit to employers through corporate bond and loan issuances. The FRBNY lends to the SPV on a recourse basis. The PMCCF purchases qualified bonds from eligible issuers and purchases portions of syndicated loans or bonds at issuance, giving issuers access to credit so that they are better able to maintain business operations and capacity during the period of disruption caused by COVID-19. The FRBNY loans are secured by all the assets of the SPV. The PMCCF buys bonds and loans of investment-grade companies, as well as certain companies that were investment-grade as of March 22, 2020. The SMCCF supports the flow of credit to employers by providing liquidity to the market for outstanding corporate bonds. The SMCCF purchases in the secondary market corporate bonds issued by investment-grade U.S. companies or certain U.S. companies that were investment-grade as of March 22, 2020, as well as U.S. listed exchange-traded funds whose investment objective is to provide broad exposure to the market for U.S. corporate bonds.

Main Street Lending Program

On May 18, 2020, the FRBB established the MSF to support lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic and have good post-pandemic prospects. The MSF program operates through five facilities: 1) the MSNLF; 2) the MSPLF; 3) the MSELF; 4) the Main Street NONLF; and 5) the Main Street NOELF. Using loans from the FRBB, the SPV purchases 95 percent participations in loans originated by eligible lenders, while the lender retains 5 percent. To qualify for MSF loans, potential borrowers must meet certain specified eligibility criteria and pass normal lender underwriting processes. Loans issued under the MSF program have a five-year maturity, principal payments are deferred for two years, and interest payments are deferred for one year. All loans are amortized in years 3-5 according to the following schedule: 15 percent, 15 percent, 70 percent. Eligible lenders may originate new loans (under MSNLF, MSPLF, and NONLF) or increase the size of (or "upsize") existing loans (under MSELF and NOELF) made to eligible borrowers.

Municipal Liquidity Facility LLC

On May 1, 2020, the FRBNY established the MLF SPV to help state and local governments manage cash flow pressures while continuing to serve households and businesses in their communities. The FRBNY lends to the MLF SPV, on a recourse basis, to allow the facility to purchase up to $500.0 billion of short-term notes directly from eligible U.S. states (including the District of Columbia), U.S. counties with a population of at least 500,000 residents, and U.S. cities with a population of at least 250,000 residents. Issuers must have been rated at least BBB-/Baa3, as of April 8, 2020, by two or more nationally recognized statistical rating organizations. The SPV purchases eligible notes directly from issuers at the time of issuance. The SPV charges an origination fee of 10 basis points.

Term Asset-Backed Securities Loan Facility II LLC

FRBNY established the TALF SPV on March 23, 2020, to support the flow of credit to consumers and businesses for purposes of stabilizing the U.S. financial system. The TALF facilitates the issuance of ABS backed by student loans, auto loans, credit card loans, loans guaranteed by the SBA, commercial mortgages, and certain other assets. Through loans from the FRBNY, the TALF SPV lends to holders of eligible ABS, an amount equal to the market value of the ABS less fees, and the loans will be secured at all times by the ABS. Eligible borrowers are U.S.-organized or U.S.-based businesses that maintain banking relationships with a primary dealer. Collateral valuations are reduced by haircuts ranging from 5 percent on credit card loans to 20 percent on static leveraged loans.

Commercial Paper Funding Facility II LLC

On March 30, 2020, the FRBNY established the CPFF LLC to provide liquidity to short-term funding markets by purchasing three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY makes loans to the SPV, on a recourse basis, to fund the SPV's purchase from eligible U.S. issuers of three-month U.S. dollar-denominated commercial paper through the FRBNY's primary dealers. This contribution is being used to cover potential losses incurred by FRBNY in connection with this program. Unlike the other SPVs, which were funded by a combination of CARES Act appropriated and Treasury borrowed funds, Treasury funded the CPFF contribution with core Exchange Stabilization Funds which were previously invested in overnight federal investments.

Common Stock Warrants

Common stock warrants provide Treasury with the right to purchase shares of common stock or receive a cash payment. The number of warrants required is equal to 10 percent of the principal amount of the note issued by the participant, divided by an exercise price. The exercise price for passenger air carriers is generally equal to the value of the shares as of market close on April 9, 2020. The exercise price of cargo air carriers is equal to the market value of the shares of market close on May 1, 2020. The warrants are exercisable for a five-year term. In accordance with the warrant agreement between Treasury and each recipient, Treasury acknowledges the warrants are not registered under the *Securities Act of 1933* and may not be sold without such registration or an exemption. Additionally, the warrants received do not entitle Treasury to any voting rights or other rights of a shareholder before the date of exercise. Common stock warrants are not considered to be SPVs but are included here due to the nature of their funding and purpose.

The SPVs invest certain funds in Treasury issued non-marketable SPV securities. As of September 30, 2020, the SPVs had invested $96 billion in Treasury issued SPV securities. Please see Note 12—Federal Debt and Interest Payable. For additional information regarding COVID-19 relief, CARES Act funding, and amendments of SPV agreements refer to Treasury's financial report, Note 28—COVID-19 Activity, and Note 29—Subsequent Events.

Note 9. Investments in Government-Sponsored Enterprises

Investments in GSEs as of September 30, 2020

(In billions of dollars)	Gross Investments	Cumulative Valuation Gain/(Loss)	Fair Value
Fannie Mae senior preferred stock	137.8	(79.5)	58.3
Freddie Mac senior preferred stock	83.9	(46.0)	37.9
Fannie Mae warrants common stock	3.1	5.2	8.3
Freddie Mac warrants common stock	2.3	2.1	4.4
Total investments in GSEs	227.1	(118.2)	108.9

Investments in GSEs as of September 30, 2019

(In billions of dollars)	Gross Investments	Cumulative Valuation Gain/(Loss)	Fair Value
Fannie Mae senior preferred stock	127.0	(78.3)	48.7
Freddie Mac senior preferred stock	77.3	(38.5)	38.8
Fannie Mae warrants common stock	3.1	12.9	16.0
Freddie Mac warrants common stock	2.3	6.3	8.6
Total investments in GSEs	209.7	(97.6)	112.1

Congress established Fannie Mae and Freddie Mac as GSEs to provide stability and increase liquidity in the secondary mortgage market and to promote access to mortgage credit throughout the nation. A key function of the GSEs is to purchase mortgages, package those mortgages into securities, which are subsequently sold to investors, and guarantee the timely payment of principal and interest on these securities.

Leading up to the financial crisis, increasingly difficult conditions in the housing market challenged the soundness and profitability of the GSEs, thereby threatening to undermine the entire housing market. In response Congress passed the *Housing and Economic Recovery Act of 2008* (P.L.110-289) in July 2008. This act created FHFA, with enhanced regulatory authority over the GSEs, and provided the Secretary of the Treasury with certain authorities intended to ensure the financial stability of the GSEs, if necessary. In September 2008, FHFA placed the GSEs under conservatorship and Treasury invested in the GSEs by entering into a SPSPA with each GSE. These actions were taken to preserve the GSEs' assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to market instability.

The purpose of such actions is to maintain the solvency of the GSEs 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. Draws under the SPSPAs result in an increased investment in the GSEs as further discussed below. Under SFFAS No. 47, *Reporting Entity* criteria, Fannie Mae and Freddie Mac were owned or controlled by the federal government only as a result of (a) regulatory actions (such as organizations in receivership or conservatorship) or (b) other federal government intervention actions. Under the regulatory or other intervention actions, the relationship with the federal government was and is not expected to be permanent. These entities are classified as disclosure entities based on their characteristics as a whole. Accordingly, these entities are not consolidated into the U.S. government's consolidated financial statements; however, the value of the investments in these entities, changes in value, and related activity with these entities are included in the U.S. government's consolidated financial statements. See Note 29—Subsequent Events for additional information.

Senior Preferred Stock Purchase Agreements

Under the SPSPAs, Treasury initially received from each GSE: 1) 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share; and 2) a non-transferable warrant for the purchase, at a nominal cost, of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. Under the amended SPSPAs, the quarterly dividend payment changed from a 10.0 percent per annum fixed rate dividend on the total liquidation preference (as discussed below) to an amount equivalent to the GSE's positive net worth above a capital reserve amount. The capital reserve amount, which was initially set at $3.0 billion for calendar year 2013, declined by $600 million at the beginning of each calendar year thereafter, and was scheduled to reach zero by calendar year 2018. On December 21, 2017, Treasury and FHFA modified the SPSPAs between Treasury and the GSEs to increase the capital reserve amount for each GSE back to $3 billion, effective with the December 2017 dividend payment. In exchange for the increase in the capital reserve, Treasury's liquidation preference in each GSE increased by $3 billion on December 31, 2017. On September 27, 2019, Treasury and FHFA agreed to increase the capital reserve amounts of Fannie Mae and Freddie Mac to $25 billion and $20 billion, representing an increase of $22 billion and $17 billion, respectively, over the prior reserve amount of $3 billion each. In exchange, Treasury's liquidation preference in each GSE will gradually increase up to the adjusted capital reserve amounts based on the quarterly earnings of each GSE. For the fiscal year ended September 30, 2020, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by $10.8 billion and $6.6 billion, respectively. As of September 30, 2019, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by $3.4 billion and $1.8 billion, respectively. The GSEs will not pay a quarterly dividend if their positive net worth is below the required capital reserve threshold. Treasury received no cash dividends for the fiscal year ended September 30, 2020 as the positive net worth was below the capital reserve amounts. Treasury did receive cash dividends of $15.3 billion during fiscal year ended September 30, 2019.

The SPSPAs, which have no expiration date, require that Treasury will disburse funds to either GSE if at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. Draws from Treasury under the SPSPAs are designed to ensure that the GSEs maintain positive net worth, with a fixed maximum amount available to each GSE under this agreement established as of December 31, 2012 (refer to the "Contingent Liability to GSEs" section below and Note 20—Contingencies). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead, it increases the liquidation preference of the initial 1,000,000 shares by the amount of the draw. The combined cumulative liquidation preference totaled $222 billion and $204 billion as of September 30, 2020 and 2019, respectively. There were no payments to the GSEs for the fiscal years ended September 30, 2020 and 2019. See Note 29—Subsequent Events for additional information.

Senior Preferred Stock and Warrants for Common Stock

In determining the fair value of the senior preferred stock and warrants for common stock, Treasury relied on the GSEs' public filings and press releases concerning their financial statements, as well as non-public, long-term financial forecasts, monthly summaries, quarterly credit supplements, independent research regarding preferred stock trading, independent research regarding the GSEs' common stock trading on the OTC Bulletin Board, discussions with each of the GSEs and FHFA, and other information pertinent to the valuations. Because the instruments are not publicly traded, there is no comparable trading information available. The fair valuations rely on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing.

The fair value of the senior preferred stock considers the amount of forecasted cash flows to equity. The fair valuations assume that a hypothetical buyer would acquire the discounted dividend stream as of the transaction date. The fair value of the senior preferred stock-as measured by unobservable inputs-increased as of September 30, 2020 when compared to September 30, 2019. Fannie Mae's senior preferred stock drove this increase primarily due to higher projected cash flows and a decrease in the market value of Fannie Mae's other equity securities that comprise its total equity, partially offset by a higher discount rate.

Factors impacting the fair value of the warrants include the nominal exercise price and the large number of potential exercise shares, the market trading of the common stock that underlies the warrants as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the warrants-as measured by observable inputs-decreased at the end of FY 2020, when compared to 2019, primarily due to decreases in the Level 1 fair value measurement of the market price of the underlying common stock of each GSE.

Estimation Factors

Treasury's forecasts concerning the GSEs may differ from actual experience. Estimated senior preferred values and future draw amounts will depend on numerous factors that are difficult to predict including, but not limited to, changes in government policy with respect to the GSEs, the business cycle, inflation, home prices, unemployment rates, interest rates, changes in housing preferences, home financing alternatives, availability of debt financing, market rates of guarantee fees, outcomes of loan refinancings and modifications, new housing programs, and other applicable factors.

Contingent Liability to GSEs

As part of the annual process undertaken by Treasury, a series of long-term financial forecasts are prepared to assess, as of September 30, the likelihood and magnitude of future draws to be required by the GSEs under the SPSPAs within the forecast time horizon. Treasury used 25-year financial forecasts prepared through years 2045 and 2044 in assessing if a contingent liability was required as of September 30, 2020 and 2019, respectively. If future payments under the SPSPAs are deemed to be probable within the forecast horizon, and Treasury can reasonably estimate such payment, Treasury will accrue a contingent liability to the GSEs to reflect the forecasted equity deficits of the GSEs. This accrued contingent liability will be undiscounted and will not take into account any of the offsetting dividends that could be received, as the dividends, if any, would be owed directly to the General Fund. Treasury will adjust such recorded accruals in subsequent years as new information develops or circumstances change. If future payments are reasonably possible, they are disclosed but not recorded as an accrued contingent liability.

Based on the annual forecasts as of September 30, 2020 and 2019, Treasury estimated there was no probable future funding draws. As of September 30, 2020, it is reasonably possible that a period of sustained economic and housing market volatility could potentially cause the GSEs to generate quarterly losses, and therefore, result in future funding draws against the funding commitment. Due to challenges quantifying future market volatility or the timing, magnitude, and likelihood of such events, the total amount of this reasonably possible future funding liability could not be estimated as of September 30, 2020 and 2019. There were no payments to the GSEs for fiscal year ended September 30, 2020 and 2019. At September 30, 2020 and 2019, the maximum remaining funding commitment to the GSEs for the remaining life of the SPSPAs was $254.1 billion. Subsequent funding draws will reduce the remaining commitments. Refer to Note 19—Commitments for a full description of other commitments and risks.

In assessing the need for an estimated contingent liability, Treasury relied on the GSEs' public filings and press releases concerning their financial statements, monthly business summaries, and quarterly credit supplements, as well as non-public, long-term financial forecasts, the FHFA House Price Index, discussions with each of the GSEs and FHFA, and other information pertinent to the liability estimates. The forecasts prepared in assessing the need for an estimated contingent liability as of September 30, 2020 include four potential wind-down scenarios, with varying assumptions regarding the continuation of the GSEs new business activities, including purchasing mortgage loans and issuing new guaranteed MBS. The forecasts as of September 30, 2020, also assumed the maintenance of the GSEs' retained mortgage portfolios below the $250 billion maximum permitted under the amended SPSPAs.

Regulatory Environment

To date, Congress has not passed legislation nor has FHFA taken action to end the GSEs' conservatorships. The GSEs continue to operate under the direction of their conservator, the FHFA. On March 27, 2019, the President issued a Memorandum that directed the Secretary of the Treasury to develop a plan for administrative and legislative reforms to achieve the following housing finance reform goals: 1) ending the conservatorships of the GSEs upon completion of specified reforms; 2) facilitating competition in the housing finance market; 3) establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the U.S.; and 4) providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. On September 5, 2019, Treasury released their Housing Reform Plan, which included recommended legislative and administrative reforms to achieve each of these goals.

The *Temporary Payroll Tax Cut Continuation Act of 2011* (P.L. 112-78) was funded by an increase of ten basis points in the GSEs' guarantee fees (referred to as "the incremental fees") which began in April 2012 and is effective through September 30, 2021. The incremental fees are remitted to Treasury and not retained by the GSEs and, thus, do not affect the profitability of the GSEs. For FYs 2020 and 2019, the GSEs remitted to Treasury the incremental fees totaling $4.2 billion and $3.9 billion, respectively.

Note 10. Other Assets

Other Assets as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Advances and prepayments	218.6	68.0
Regulatory assets	20.0	18.8
Investments in Multilateral Development Banks	8.2	7.8
FDIC receivable from resolution activity, net	1.4	2.8
Other	13.1	13.2
Total other assets	261.3	110.6

Advances and prepayments are assets that represent funds disbursed in contemplation of the future performance of services, receipt of goods, the incurrence of expenditures, or the receipt of other assets. These include advances to contractors, grantees, Medicare providers, and state, local, territorial, and tribal governments; travel advances; and prepayments for items such as rents, taxes, insurance, royalties, commissions, and supplies.

HHS and Treasury reflect the largest increases to advances and prepayments. HHS had an increase of $103.6 billion due to the expansion of the AAP program to all Medicare providers during the COVID-19 pandemic. AAP provides emergency funding and addresses cash flow issues when there is disruption in claims submission and/or claims processing. Treasury disbursed $149.5 billion of financial assistance payments from the Coronavirus Relief Fund to state, local, territorial, and tribal governments to cover eligible costs incurred as a result of the pandemic. As of September 30, 2020, $68.9 billion was remaining to be used by the recipients. As modified by the *Consolidated Appropriations Act, 2021*, these payments are available to be used by recipients until December 31, 2021 or returned unused to Treasury.

With regard to regulatory assets, the DOE's PMAs and TVA record certain amounts as assets in accordance with FASB ASC Topic 980, *Regulated Operations*. The provisions of FASB ASC Topic 980 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise. In order to defer incurred costs under FASB ASC Topic 980, a regulated entity must have the statutory authority to establish rates that recover all costs, and those rates must be charged to and collected from customers. If the PMAs' or TVA's rates should become market-based, FASB ASC Topic 980 would no longer be applicable, and all of the deferred costs under that standard would be expensed.

On behalf of the U.S., Treasury invests in certain MDBs, through subscriptions to capital, which allows the MDBs to issue loans at market-based rates to middle-income developing countries. These paid-in capital investments are non-marketable equity investments valued at cost.

The FDIC has the responsibility for resolving failed institutions in an orderly and efficient manner. The resolution process involves valuing a failing institution, marketing it, soliciting and accepting bids for the sale of the institution, determining which bid is least costly to the insurance fund, and working with the acquiring institution through the closing process. FDIC records receivables for resolutions that include payments by the DIF to cover obligations to insured depositors, advances to receiverships and conservatorships for working capital, and administrative expenses paid on behalf of receiverships and conservatorships.

Other items included in "other" are estimated future payments to contractors, purchased power generating capacity, deferred nuclear generating units, derivative assets, the balance of assets held by the experience rated carriers participating in the Health Benefits and Life Insurance Program (pending disposition on behalf of OPM), and the cost contribution to buildout the Nationwide Public Safety Broadband.

Note 11. Accounts Payable

Accounts Payable as of September 30, 2020, and 2019

(In billions of dollars)	**2020**	**2019**
Department of Defense	36.1	39.7
Department of Veterans Affairs	18.9	12.2
Department of the Treasury	4.4	3.6
Department of Energy	4.3	4.2
General Services Administration	4.0	3.8
Department of Education	3.8	3.8
Department of Agriculture	3.7	2.2
Department of Justice	3.7	4.2
Department of Homeland Security	3.1	2.4
Department of State	2.7	3.7
Department of Health and Human Services	2.6	1.2
U.S. Agency for International Development	2.5	2.3
Department of Commerce	2.4	2.2
U.S. Postal Service	2.1	1.8
All other	10.8	10.7
Total accounts payable	105.1	98.0

Accounts payable includes amounts due for goods and property ordered and received, services rendered by other than federal employees, cancelled appropriations for which the U.S. government has contractual commitments for payment, and non-debt related interest payable.

Note 12. Federal Debt and Interest Payable

Federal Debt and Interest Payable as of September 30, 2020, and 2019

(In billions of dollars)	2019	Net Change	2020	Average Interest Rate 2020	Average Interest Rate 2019
Treasury securities (public):					
Marketable securities:					
Treasury bills	2,376.4	2,651.7	5,028.1	0.2%	2.1%
Treasury notes	9,756.0	899.9	10,655.9	1.9%	2.2%
Treasury bonds	2,311.5	356.6	2,668.1	3.5%	3.9%
Treasury inflation-protected securities (TIPS)	1,454.7	67.7	1,522.4	0.7%	0.8%
Treasury floating rate notes (FRN)	424.1	54.2	478.3	0.3%	2.0%
Total marketable Treasury securities	16,322.7	4,030.1	20,352.8		
Nonmarketable securities	486.4	179.6	666.0	1.1%	2.2%
Net unamortized premiums/(discounts)	(42.7)	16.0	(26.7)		
Total Treasury securities, net (public)	16,766.4	4,225.7	20,992.1		
Agency securities:					
Tennessee Valley Authority	21.0	(1.2)	19.8		
All other agencies	0.1	-	0.1		
Total agency securities, net of unamortized premiums and discounts	21.1	(1.2)	19.9		
Accrued interest payable	73.5	(2.6)	70.9		
Total federal debt and interest payable	16,861.0	4,221.9	21,082.9		

Types of marketable securities:
Bills–Short-term obligations issued with a term of 1 year or less.
Notes–Medium-term obligations issued with a term of 2-10 years.
Bonds–Long-term obligations of more than 10 years.
TIPS–Term of more than 5 years.
FRN–Term of 2 years.

Federal debt securities held by the public outside the government are held by individuals, corporations, state or local governments, FRBs, foreign governments, and other non-federal entities. The above table details government borrowing primarily to finance operations and shows marketable and nonmarketable securities at face value less net unamortized premiums and discounts including accrued interest.

Securities that represent federal debt held by the public are issued primarily by Treasury and include:

- Interest-bearing marketable securities (bills, notes, bonds, inflation-protected, and FRN).

- Interest-bearing nonmarketable securities (Government Account Series held by fiduciary and certain deposit funds, foreign series, state and local government series, domestic series, and savings bonds).
- Non-interest-bearing marketable and nonmarketable securities (matured and other).

This fiscal year, Treasury expanded its domestic series to include a new special non-marketable Treasury security, known as a Special Purpose Vehicle (SPV) security. Treasury issued these securities to SPVs, which were established by the Federal Reserve to implement its emergency lending facilities under Section 13(3) of the Federal Reserve Act to respond to the COVID-19 pandemic. An SPV security is a demand deposit certificate of indebtedness for which interest accrues daily and is paid at redemption. As of September 30, 2020, the total amount of SPV securities outstanding was $96 billion.

Gross federal debt (with some adjustments) is subject to a statutory ceiling (i.e., the debt limit). Prior to 1917, Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress and the President first enacted a statutory 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 debt limit increases.

During FY 2019, Treasury faced a delay in raising the statutory debt limit that required it to depart from its normal debt management procedures and to invoke legal authorities to avoid exceeding the statutory debt limit. During this period, extraordinary actions 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 federal government accounts subsequent to the end of the delay period. The delay in raising the statutory debt limit occurred from March 2, 2019 through August 1, 2019. On Friday, August 2, 2019, the *BBA of 2019* (P.L. 116-37) was enacted suspending the statutory debt limit through July 31, 2021.

As of September 30, 2020, and 2019, debt subject to the statutory debt limit was $26,920.4 billion and $22,686.6 billion, respectively. The debt subject to the limit includes Treasury securities held by the public and government guaranteed debt of federal agencies (shown in the table above) and intra-governmental debt holdings (shown in the following table).

Intra-governmental Debt Holdings: Federal Debt Securities
Held as Investments by Government Accounts as of September 30, 2020, and 2019

(In billions of dollars)	2019	Net Change	2020
Social Security Administration, Federal Old-Age and Survivors Insurance Trust Fund	2,804.4	6.8	2,811.2
Office of Personnel Management, Civil Service Retirement and Disability Fund	939.7	22.4	962.1
Department of Defense, Military Retirement Fund	827.4	88.9	916.3
Department of Defense, Medicare-Eligible Retiree Health Care Fund	254.2	14.7	268.9
Department of Health and Human Services, Federal Hospital Insurance Trust Fund	198.6	(64.9)	133.7
Federal Deposit Insurance Corporation, Deposit Insurance Fund	104.0	4.9	108.9
Social Security Administration, Federal Disability Insurance Trust Fund	96.5	0.7	97.2
Department of Health and Human Services, Federal Supplementary Medical Insurance Trust Fund	104.7	(17.2)	87.5
Department of Housing and Urban Development, FHA, Mutual Mortgage Insurance Capital Reserve Account	50.6	17.3	67.9
Department of Energy, Nuclear Waste Disposal Fund	54.0	0.7	54.7
Department of Labor, Unemployment Trust Fund	84.4	(33.9)	50.5
Office of Personnel Management, Employees Life Insurance Fund	48.2	0.9	49.1
Pension Benefit Guaranty Corporation	36.7	8.9	45.6
Office of Personnel Management, Postal Service Retiree Health Benefits Fund	44.6	(2.7)	41.9
Office of Personnel Management, Employees Health Benefits Fund	27.8	0.5	28.3
Department of State, Foreign Service Retirement and Disability Fund	19.3	0.7	20.0
National Credit Union Share Insurance Fund	15.3	1.3	16.6
U.S. Postal Service, Postal Service Fund	9.3	5.7	15.0
Pension Benefit Guaranty Corporation Deposit Fund	13.6	(0.7)	12.9
Department of Transportation, Highway Trust Fund	28.2	(16.1)	12.1
Department of the Treasury, Exchange Stabilization Fund	22.6	(11.4)	11.2
Department of Housing and Urban Development, Guarantees of Mortgage-Backed Securities Capital Reserve Account	15.7	(7.3)	8.4
Department of Transportation, Airport and Airway Trust Fund	15.0	(7.1)	7.9
All other programs and funds	95.4	3.2	98.6
Subtotal	5,910.2	16.3	5,926.5
Total net unamortized premiums/(discounts) for intra-governmental	73.1	(0.8)	72.3
Total intra-governmental debt holdings, net	5,983.3	15.5	5,998.8

Intra-governmental debt holdings represent the portion of the gross federal debt held as investments by government entities such as trust funds, revolving funds, and special funds.

Government entities that held investments in Treasury securities include trust funds that have funds from dedicated collections. For additional information on funds from dedicated collections, see Note 21─Funds from Dedicated Collections. These intra-governmental debt holdings are eliminated in the consolidation of these financial statements.

Note 13. Federal Employee and Veteran Benefits Payable

Federal Employee and Veteran Benefits Payable as of September 30, 2020, and 2019

	Civilian		Military		Total	
(In billions of dollars)	2020	2019	2020	2019	2020	2019
Pension benefits	2,214.1	2,094.1	1,799.3	1,759.2	4,013.4	3,853.3
Veterans compensation and burial benefits	N/A	N/A	3,863.1	3,129.8	3,863.1	3,129.8
Post-retirement health benefits	418.7	415.1	848.6	830.2	1,267.3	1,245.3
Veterans education and training benefits	-	-	133.1	105.9	133.1	105.9
Life insurance benefits	57.6	54.6	5.1	5.7	62.7	60.3
FECA benefits	30.6	29.6	7.8	8.2	38.4	37.8
Unfunded leave*	10.0	-	15.7	-	25.7	-
Liability for other benefits	1.6	1.4	4.0	6.5	5.6	7.9
Total federal employee and veteran benefits payable	2,732.6	2,594.8	6,676.7	5,845.5	9,409.3	8,440.3

Note: "N/A" indicates not applicable.

*In FY 2020, unfunded leave was moved from Note 17—Other Liabilities.

The government offers its employees retirement and other benefits, as well as health and life insurance. The liabilities for these benefits, which include both actuarial amounts and amounts due and payable to beneficiaries and health care carriers, apply to current and former civilian and military employees. Large fluctuations in actuarial amounts can result from changes in estimates to future outflows for benefits based on complex assumptions and cost models.

The TSP is a retirement related benefit that federal employees and federal entities contribute to the TSP. The FRTIB administers the TSP. The TSF maintains and holds in trust the assets of the TSP. The TSP is administered by an independent government entity, the FRTIB, which is charged with operating the TSP prudently and solely in the interest of the participants and their beneficiaries. Please refer to Note 22—Fiduciary Activities for additional information on the TSP.

OPM administers the largest civilian pension plan and post-retirement health benefits. DOD and VA administer the largest military pension and post-retirement health benefit plans. Other significant pension plans with more than $10 billion in actuarial accrued liability include those of the Coast Guard (DHS), Foreign Service (State), TVA, and HHS's Public Health Service Commissioned Corps Retirement System. Please refer to the financial statements of the entities listed for additional information regarding their pension plans and other benefits.

The actuarial accrued liability represents an estimate of the PV of the cost of benefits that have accrued, determined based on future economic and demographic assumptions. Actuarial accrued liabilities can vary widely from year to year, due to actuarial gains and losses that result from changes to the assumptions and from experience that has differed from prior assumptions.

In accordance with SFFAS No. 33, *Pension, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, entities are required to separately present gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, ORB, and OPEB on the Statement of Net Cost. SFFAS No. 33 also provides a standard for selecting the discount rate assumption for PV estimates of federal employee pension, ORB, and OPEB liabilities. The SFFAS No. 33 standard for selecting the discount rate assumption requires it be based on a historical average of interest rates on marketable Treasury securities consistent with the cash flows being discounted. Additionally, SFFAS No. 33 provides a standard for selecting the valuation date for estimates of federal employee pension, ORB, and OPEB liabilities that establishes a consistent method for such measurements.

To provide a sustainable, justifiable data resource for the affected entities, Treasury developed a new model and methodology for developing these interest rates in FY 2014. The model is based on the methodology used to produce the

HQM Yield Curve pursuant to the *Pension Protection Act of 2006*.[2] As of July 2014, Treasury began releasing interest rate yield curve data using this new Treasury's TNC yield curve, which is derived from Treasury notes and bonds. The TNC yield curve provides information on Treasury nominal coupon issues and the methodology extrapolates yields beyond 30 years through 100 years maturity. The TNC yield curve is used to produce a Treasury spot yield curve (a zero coupon curve), which provides the basis for discounting future cash flows.

Pension Benefits

Change in Pension Benefits

	Civilian		Military		Total	
(In billions of dollars)	2020	2019	2020	2019	2020	2019
Actuarial accrued pension liability, beginning of fiscal year	2,094.1	2,048.9	1,759.2	1,621.3	3,853.3	3,670.2
Pension expense:						
Prior (and past) service costs from plan amendments or new plans	-	-	-	-	-	-
Normal costs	44.4	44.0	37.2	32.3	81.6	76.3
Interest on liability	65.7	66.3	59.2	56.1	124.9	122.4
Actuarial (gains)/losses (from experience)	16.3	15.0	19.4	1.1	35.7	16.1
Actuarial (gains)/losses (from assumption changes)	88.7	12.5	(15.0)	108.9	73.7	121.4
Other	0.1	0.2	-	-	0.1	0.2
Total pension expense	215.2	138.0	100.8	198.4	316.0	336.4
Less benefits paid	(95.2)	(92.8)	(60.7)	(60.5)	(155.9)	(153.3)
Actuarial accrued pension liability, end of fiscal year	2,214.1	2,094.1	1,799.3	1,759.2	4,013.4	3,853.3

Significant Long-Term Economic Assumptions Used in Determining Pension Liability and the Related Expense

	Civilian				Military	
	2020		2019		2020	2019
	FERS	CSRS	FERS	CSRS		
Rate of interest	3.30%	2.70%	3.50%	2.90%	3.20%	3.40%
Rate of inflation	1.70%	1.70%	1.60%	1.60%	1.60%	1.80%
Projected salary increases	1.20%	1.20%	1.10%	1.10%	1.80%	1.80%
Cost of living adjustment	1.50%	1.70%	1.30%	1.60%	1.60%	1.80%

[2] Treasury's HQM resource is available at: https://www.treasury.gov/resource-center/economic-policy/corp-bond-yield/Pages/Corp-Yield-Bond-Curve-Papers.aspx.

Civilian Employees' Pension

OPM administers the largest civilian pension plan, which covers substantially all full-time, permanent civilian federal employees. This plan includes two components of defined benefits, the CSRS and the FERS. The basic benefit components of the CSRS and the FERS are financed and operated through the CSRDF, a trust fund. CSRDF monies are generated primarily from employees' contributions, federal entity contributions, payments from the General Fund, and interest on investments in Treasury securities. As of September 30, 2020, USPS has accrued, but not paid OPM, $11.4 billion in CSRS and FERS retirement benefit expenses since 2014. In order for USPS to preserve liquidity and to ensure the ability to fulfill its primary universal service mission was not placed at undue risk, USPS has not made any of the required payments for FERS or CSRS amortization. The cost of each year's payment, including defaulted payments, along with other benefit program costs, are included in USPS' net cost for that year in the consolidated Statements of Net Cost. The liability is not included on the government-wide balance sheet due to the USPS liability being eliminated with OPM receivable.

The actuarial liability for civilian pension and accrued benefits payable increased $120.0 billion. This increase is largely attributable to changes in actuarial assumptions: lower assumed interest rates and higher assumed salary increases and COLAs.

Military Employees' Pensions

The Military Retirement System consists of a funded, noncontributory, defined benefit plan for military personnel (Services of Army, Navy, Air Force, and the Marine Corps) with an entry date prior to January 1, 2018 and the BRS, generally for military personnel with an entry date on or after January 1, 2018. The defined benefit plan includes non-disability retired pay, disability retired pay, survivor annuity programs, and Combat-Related Special Compensation. The Service Secretaries may approve immediate non-disability retired pay at any age with credit of at least 20 years of active duty service. Reserve retirees must be at least 60 years old and have at least 20 qualifying years of service before retired pay commences; however, in some cases, the age can be less than 60 if the reservist performs certain types of active service. P.L. 110-181 provides for a 90-day reduction in the reserve retirement age from age 60 for every 3 months of certain active duty service served within a fiscal year for service after January 28, 2008 (not below age 50). There is no vesting of defined benefits before non-disabled retirement. There are distinct non-disability benefit formulas related to four populations within the Military Retirement System: Final Pay, High-3, Career Status Bonus/Redux, and the BRS enacted in the *National Defense Authorization Act for Fiscal Year 2016*, effective January 1, 2018. The BRS is a retirement benefit merging aspects of both a defined benefit annuity with a defined contribution account, through the TSP. The date an individual enters the military generally determines which retirement system they would fall under and if they have the option to select, via a one-time irrevocable election, their retirement system. Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 were grandfathered under the prior retirement system, Active Duty, National Guard and Reserve personnel meeting established criteria may have opted into BRS during calendar year 2018. Under the BRS, retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution. For additional information on these benefits, see DOD's Office of Military Compensation website https://militarypay.defense.gov.

The DOD Military Retirement Fund was established by P.L. 98-94 (currently Chapter 74 of Title 10, U.S.C.) and accumulates funds to finance, on an accrual basis, the liabilities of DOD military retirement and survivor benefit programs. This Fund receives income from three sources: monthly normal cost payments from the Services to pay for DOD's portion of the current year's service cost; annual payments from Treasury to amortize the unfunded liability and pay for the increase in the normal cost attributable to Concurrent Receipt (certain beneficiaries with combat-related injuries who are receiving payments from VA) per P.L. 108-136; and investment income.

The $40.1 billion increase in the Military Retirement Pension liability is primarily attributable to the ongoing cost of the plan: the cost of new accruals and interest on the liability, less benefits paid.

The VA also provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews. The pension program for veterans is not accounted for as a "federal employee pension plan" under SFFAS No. 5, *Accounting for Liabilities of the Federal Government* due to differences between its eligibility conditions and those of federal employee pensions. Therefore, a future liability for pension benefits is not recorded. VA pension liabilities are recognized when due and payable. The projected amounts of future payments for pension benefits (presented for informational purposes only) as of September 30, 2020, and 2019, was $110.6 billion and $100.2 billion, respectively.

Veterans Compensation and Burial Benefits

Change in Veterans Compensation and Burial Benefits

(In billions of dollars)	Compensation 2020	Compensation 2019	Burial 2020	Burial 2019	Total 2020	Total 2019
Actuarial accrued liability, beginning of fiscal year	3,122.7	2,949.1	7.1	7.2	3,129.8	2,956.3
Current year expense:						
Interest on the liability balance	106.8	103.8	0.2	0.3	107.0	104.1
Prior (and past) service costs from program amendments or new programs during the period	43.3	20.7	-	-	43.3	20.7
Actuarial (gains)/losses (from experience)	107.7	121.2	1.3	(0.1)	109.0	121.1
Actuarial (gains)/losses (from assumption changes)	574.9	20.9	0.5	-	575.4	20.9
Total current year expense	832.7	266.6	2.0	0.2	834.7	266.8
Less benefits paid	(101.1)	(93.0)	(0.3)	(0.3)	(101.4)	(93.3)
Actuarial accrued liability, end of fiscal year	3,854.3	3,122.7	8.8	7.1	3,863.1	3,129.8

Significant Economic Assumptions Used in Determining Veterans Compensation and Burial Benefits as of September 30, 2020, and 2019

	2020	2019
Rate of interest	3.23%	3.42%
Rate of inflation	2.16%	2.23%

The government compensates disabled veterans and their survivors. Veterans' compensation is payable as a disability benefit or a survivor's benefit. Entitlement to compensation depends on the veteran's disabilities incurred in or aggravated during active military service, death while on duty, or death resulting from service-connected disabilities after active duty.

Eligible veterans who die or are disabled during active military service-related causes, as well as their dependents, and dependents of service members who died during active military service, receive compensation benefits. In addition, service members who die during active military service and veterans who separated under other than dishonorable conditions are provided with a burial flag, headstone/marker, and grave liner for burial in a VA national cemetery or are provided a burial flag, headstone/marker and a plot allowance for burial in a private cemetery. These benefits are provided under 38 U.S.C., Part 2, Chapter 23 in recognition of a veteran's military service and are recorded as a liability in the period the requirements are met.

The liability for veterans' compensation and burial benefits payable is based on an actuarial estimate of future compensation and burial payments. The liability increased by $733.3 billion in FY 2020 primarily due to assumption changes and experience losses. As discussed in more detail in the following paragraph, the total loss from assumption changes of $575.4 billion was primarily due to a loss of $415.8 billion attributable to assumption updates based on experience studies. The total loss from assumption changes was also impacted by a decrease in the discount rate assumptions, which was somewhat offset by a decrease in COLA rate assumptions, and by changes in demographic assumptions such as mortality and future military separations. The major impact of experience losses of $109 billion was an increase in veterans who first became eligible for benefits during FY 2020.

In FY 2020, VA conducted in-depth experience studies to refine several assumptions that currently exist in the compensation and burial benefits liability models. Specifically, VA enhanced the degree of disability transition rates, veterans' withholding lag and veterans' termination rates. The use of these updated assumptions increased the compensation liability by approximately, $415.8 billion for FY 2020. The degree of disability transition rates caused the largest change on the compensation liability balance. This factor measures the rate at which individuals transition from one combined degree of disability to another during one fiscal year. The experience study indicated there was an increasing degree of transition to higher levels of disability rating as a result of new disability conditions being rated, the worsening of an existing disability, or combination of both. The updates in assumptions significantly increased the current year expenses and is included in the actuarial losses from assumption changes.

Several significant actuarial assumptions were used in the valuation of compensation and burial benefits to calculate the PV of the liability. A liability was recognized for the projected benefit payments to: 1) those beneficiaries, including veterans and survivors, currently receiving benefit payments; 2) current veterans who are expected in the future to become beneficiaries of the compensation program; and 3) a proportional share of those in active military service as of the valuation date who are expected to be future veterans and to become beneficiaries of the compensation program. Future benefit payments to survivors of those veterans in classes 1, 2, and 3 above are also incorporated into the projection. Additionally, on June 25, 2019, the President signed into law the *Blue Water Navy Vietnam Veterans Act of 2019* (P.L. 116-23) which extends the presumption of herbicide exposure, such as Agent Orange, to veterans who served in the offshore of the Republic of Vietnam between January 9, 1962 and May 7, 1975. The estimated cost of P.L. 116-23 was included as part of the prior service costs in the FY 2019 liability estimate. In FY 2020, there was an expansion of the coverage related to the P.L. 116-23, and this was included as part of the prior service costs in the FY 2020 liability estimate. The projected liability does not include any administrative costs.

The veterans' compensation and burial benefits liability is developed on an actuarial basis. It is impacted by interest on the liability balance, experience gains or losses, changes in actuarial assumptions, prior service costs, and amounts paid for costs included in the liability balance.

Post-Retirement Health Benefits

Change in Post-Retirement Health Benefits

	Civilian		Military		Total	
(In billions of dollars)	2020	2019	2020	2019	2020	2019
Actuarial accrued post-retirement health benefits liability, beginning of fiscal year....	415.1	403.3	830.2	787.0	1,245.3	1,190.3
Post-Retirement health benefits expense:						
Prior (and past) service costs from plan amendments or new plans....................	-	-	-	-	-	-
Normal costs	17.7	16.3	23.0	21.5	40.7	37.8
Interest on liability	14.4	14.3	29.4	28.6	43.8	42.9
Actuarial (gains)/losses (from experience)	(16.6)	6.4	(9.8)	(15.3)	(26.4)	(8.9)
Actuarial (gains)/losses (from assumption changes)	4.5	(9.0)	(2.4)	30.1	2.1	21.1
Total post-retirement health benefits expense	20.0	28.0	40.2	64.9	60.2	92.9
Less claims paid.....................................	(16.4)	(16.2)	(21.8)	(21.7)	(38.2)	(37.9)
Actuarial accrued post-retirement health benefits liability, end of fiscal year............	418.7	415.1	848.6	830.2	1,267.3	1,245.3

Significant Long-Term Economic Assumptions Used in Determining Post-Retirement Health Benefits and the Related Expense

	Civilian		Military	
	2020	2019	2020	2019
Rate of interest	3.40%	3.50%	3.30%	3.50%
Single equivalent medical trend rate	4.40%	4.40%	4.06%	4.25%
Ultimate medical trend rate	3.20%	3.10%	3.60%	4.05%

Civilian Employees' Post-Retirement Health Benefits

The post-retirement civilian health benefit liability is an estimate of the government's future cost of providing post-retirement health benefits to current employees and retirees. Although active and retired employees pay insurance premiums under the Federal Employee Health Benefits Program, these premiums cover only a portion of the costs. The OPM actuary applies economic and demographic assumptions to historical cost information to estimate the liability.

As of September 30, 2020, the USPS has accrued but not paid to the Postal Service Retiree Health Benefits Fund $51.9 billion in payments required under the *Postal Accountability and Enhancement Act of 2006* (P.L. 109-435, Title VIII). In order for USPS to preserve liquidity and to ensure the ability to fulfill its primary universal service mission was not placed at undue risk, USPS has not made these required payments. The cost for each year's payment, including defaulted payments, along with all other benefit program costs, are included in USPS' net cost for that year in the consolidated Statements of Net Cost. The liability is not included on the government-wide balance sheet due to the USPS liability being eliminated with the OPM receivable.

The post-retirement civilian health benefit liability increased $3.6 billion. This increase is due to the accruing cost of benefits and interest on the existing liability, largely offset by actuarial gains attributable to favorable plan experience.

Military Employees' Post-Retirement Health Benefits

Military retirees who are not yet eligible for Medicare (and their non-Medicare eligible dependents) are eligible for post-retirement medical coverage provided by DOD. Depending on the benefit plan selected, retirees and their eligible dependents may receive care from MTFs on a space-available basis or from civilian providers through TRICARE. This TRICARE coverage is available as Select (a preferred provider organization a health plan that contracts with medical providers to create a network of participating providers; member cost-shares are typically higher for services received out-of-network) and PRIME (a health maintenance organization a health plan that limits services to a specific network of medical personnel and facilities and usually by requiring referral by a primary-care physician for specialty care; coverage is also available for non-referred and out-of-network care, subject to higher cost-sharing). These post-retirement medical benefits are paid by the Defense Health Agency on a pay-as-you-go basis.

Since FY 2002, DOD has provided medical coverage to Medicare-eligible retirees (and their eligible Medicare-eligible dependents). This coverage, called TFL, is a Medicare Supplement plan which includes inpatient, outpatient and pharmacy coverage. Enrollment in Medicare Part B is required to maintain eligibility in TFL. Retirees with TFL coverage can obtain care from MTFs on a space-available basis or from civilian providers.

10 U.S.C., Chapter 56 created the DOD MERHCF, which became operative on October 1, 2002. The purpose of this fund is to account for and accumulate funds for the health benefit costs of Medicare-eligible military retirees, and their dependents and survivors who are Medicare eligible. The Fund receives revenues from three sources: interest earnings on MERHCF assets, Uniformed Services normal cost contributions, and Treasury contributions. The DOD Medicare-Eligible Retiree Health Care Board of Actuaries (the MERHCF Board) approves the methods and assumptions used in actuarial valuations of the MERHCF for the purpose of calculating the per capita normal cost rates (to fund the annual accrued benefits) and determining the unfunded liability amortization payment (Treasury contribution). The Secretary of Defense directs the Secretary of the Treasury to make DOD's normal cost payments. The MERHCF pays for medical costs incurred by Medicare-eligible beneficiaries at MTFs and civilian providers (including payments to U.S. Family Health Plans for grandfathered beneficiaries), plus the costs associated with claims administration.

DOD Office of the Actuary calculates the actuarial liabilities annually using assumptions and experience (e.g., mortality and retirement rates, health care costs, medical trend rates, and the discount rate). Actuarial liabilities are calculated for all DOD retiree medical benefits, including both the benefits funded through the MERHCF and the benefits for pre-Medicare retirees who are paid on a pay-as-you-go basis. Military post-retirement health and accrued benefits payable increased $18.4 billion. The increase is primarily attributable to the normal operation of the plan – the cost of benefit accruals and interest on the liability less benefits paid – offset by favorable plan experience. In particular, there was an actuarial gain to the use of lower medical trend rate assumption offset by actuarial losses due to updated demographic actuarial assumptions.

In addition to the health care benefits the federal government provides for civilian and military retirees and their dependents, the VA also provides medical care to veterans on an "as available" basis, subject to the limits of the annual appropriations. In accordance with 38 CFR 17.36(c), VA's Secretary makes an annual enrollment decision that defines the veterans, by priority, who will be treated for that fiscal year subject to change based on funds appropriated, estimated collections, usage, the severity index of enrolled veterans, and changes in cost. While VA expects to continue to provide medical care to veterans in future years, an estimate of such future benefits cannot be reasonably made. Accordingly, medical care expenses are recognized in the period the medical care services are provided and included on the Statement of Net Cost. For the FYs 2016 through 2020, the average medical care cost per year was $74.2 billion.

Veterans Education and Training Benefits

Change in Veterans Education and Training Benefits

(In billions of dollars)	2020	2019
Actuarial accrued liability, beginning of fiscal year	105.9	65.7
Current year expense:		
Interest on liability	3.8	1.5
Actuarial (gains)/losses (from experience)	9.4	12.7
Actuarial (gains)/losses (from assumption changes)	27.3	37.1
Total current year expense	40.5	51.3
Less benefits paid	(13.3)	(11.1)
Actuarial accrued liability, end of fiscal year	133.1	105.9

For eligible Veterans and their dependents, the VA provides four education/retraining type programs:

- Post 9/11 GI Bill
- VR&E
- Survivors' & Dependents' Educational Assistance
- Montgomery GI Bill-Active Duty

Based on the actuarial estimates of future payments, the total liability for the four education and training programs increased by $27.2 billion in FY 2020. The $27.2 billion increase is primarily attributable to experience losses and assumption changes. The addition of new projections for inclusion of future new enrollees for the Survivors' and Dependents Educational Assistance in its actuarial models significantly increased the current year expenses and is included in the actuarial losses from assumption changes.

In FY 2019, VA conducted an in-depth experience study to refine the impact of the potential new enrollee assumption to be used in the estimates. As a result of the in-depth study, VA's September 30, 2019 education and training liability includes an estimate of $48.3 billion for potential new enrollees who are eligible for Post-9/11 GI Bill and VR&E benefits.

In FY 2020, VA developed and implemented the Survivors' and Dependents' Educational Assistance liability valuation model for future new enrollees by completing an in-depth experience study for new enrollees who are eligible for benefits but have not used them. As a result, VA's September 30, 2020 Survivors' & Dependents' Educational Assistance liability now includes an estimate of $26.9 billion for future new enrollees. In addition, VA conducted experience studies for the Post 9/11 GI Bill, and VR&E programs, which decreased the education benefits liability by approximately $3.8 billion, and increased the education benefits liability by $1.9 billion, respectively. The addition of new projections for inclusion of future new enrollees and the enhancements in assumptions increased the current year expenses and is included in the actuarial losses from assumption changes.

For additional information regarding actuarial assumptions and the four education and training type programs, please refer to VA's financial statements.

Life Insurance Benefits

Civilian Employees' Life Insurance Benefits

Change in Civilian Life Insurance Benefits

(In billions of dollars)	2020	2019
Actuarial accrued life insurance benefits liability, beginning of fiscal year	54.6	54.9
Life insurance benefits expense:		
New entrant expense	0.5	0.5
Interest on liability	1.9	1.8
Actuarial (gains)/losses (from experience)	0.1	(0.4)
Actuarial (gains)/losses (from assumption changes)	1.0	(1.6)
Total life insurance benefits expense	3.5	0.3
Less costs paid	(0.5)	(0.6)
Actuarial accrued life insurance benefits liability, end of fiscal year	57.6	54.6

Significant Long-Term Economic Assumptions Used in Determining Life Insurance Benefits and the Related Expense

	Civilian	
	2020	2019
Rate of interest	3.10%	3.30%
Rate of increase in salary	1.20%	1.10%

One of the other significant employee benefits is the FEGLI Program. Employee and annuitant contributions and interest on investments fund a portion of this liability. The actuarial life insurance liability is the expected PV of future benefits to pay to, or on behalf of, existing FEGLI participants, less the expected PV of future contributions to be collected from those participants. The OPM actuary uses salary increase and interest rate yield curve assumptions that are generally consistent with the pension liability.

As of September 30, 2020, the total amount of FEGLI insurance in-force is estimated at $726.7 billion ($621.8 billion for employees and $104.9 billion for annuitants).

Veterans' Life Insurance Benefits

The largest veterans' life insurance programs consist of the following:

- National Service Life Insurance covers policyholders who served during World War II.
- Veterans' Special Life Insurance was established in 1951 to meet the insurance needs of veterans who served during the Korean Conflict and through the period ending January 1, 1957.
- Service-Disabled Veterans Insurance program was established in 1951 to meet the insurance needs of veterans who received a service-connected disability rating.

Death benefit liabilities consist of reserves for permanent plan and term policies as well as policy benefits for Veterans Mortgage Life Insurance. Disability income and waiver liabilities consist of reserves to fund the monthly payments to disabled insureds under the Total Disability Income Provision and the policy premiums waived for qualifying disabled veterans. Insurance dividends payable consists of dividends left on deposit with VA and dividends payable to policyholders.

Unpaid policy claims consists of insurance claims that are pending at the end of the reporting period, an estimate of claims that have been incurred but not yet reported, and disbursements in transit. The veteran's life insurance liability for future policy benefits as of September 30, 2020, and 2019, was $5.1 billion and $5.7 billion, respectively. For additional information on veteran's life insurance liability, please refer to VA's financial statements.

The VA supervises SGLI and Veterans Group Life Insurance programs that provide life insurance coverage to members of the uniformed armed services, reservists, and post-Vietnam Veterans as well as their families. VA has entered into a group policy with the Prudential Insurance Company of America to administer and provide the insurance payments under these programs. All SGLI insureds are automatically covered under the Traumatic Injury Protection program, which provides for insurance payments to veterans who suffer a serious traumatic injury in service.

The amount of insurance in-force is the total face amount of life insurance coverage provided by each administered and supervised program at the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. The supervised programs' policies and face values are not reflected in VA's liabilities because the risk of loss on these programs is assumed by Prudential and its reinsurers through the terms and conditions of the group policy. As a result, the information provided for the supervised programs is for informational purposes only and is unaudited. The face value for supervised programs as of September 30, 2020, and 2019, was $1,183.7 billion and $1,167.3 billion, respectively. The face value for administered programs as of September 30, 2020, and 2019, was $6.0 billion and $6.6 billion, respectively.

Federal Employees' Compensation Act Benefits

Workers' Compensation Benefits

DOL determines both civilian and military entities' liabilities for future workers' compensation benefits for civilian federal employees, as mandated by the FECA, for death, disability, medical, and miscellaneous costs for approved compensation cases, and a component for incurred, but not reported, claims. The FECA liability is determined annually using historical benefit payment patterns related to injury years to predict the future payments. The actuarial methodology provides for the effects of inflation and adjusts historical payments to constant dollars by applying wage inflation factors (COLA) and medical inflation factors (CPIM) to the calculation of projected benefits. DOL selects the COLA factors, CPIM factors, and discount rate by averaging the COLA rates, CPIM rates, and interest rates for the current and prior four years. In FY 2020, the COLA and CPIM averaging methodologies also considered updated information for the current year: for COLA, the information was provided by program staff; for CPIM, program staff obtained the information from the Bureau of Labor Statistics public releases for CPI. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year.

The COLAs and CPIMs used in the projections for FY 2020 are listed below in the table.

Fiscal Year	COLA	CPIM
2021	1.87%	3.21%
2022	2.14%	3.23%
2023	2.19%	3.60%
2024	2.23%	4.01%
2025+	2.30%	3.94%

DOL selected the interest rate assumptions whereby projected annual payments were discounted to PV based on interest rate assumptions on the TNC Yield Curve to reflect the average duration of income payments and medical payments. The average durations for income payments and medical payments were 15 years and 12.1 years, respectively. Based on averaging the TNC Yield Curves for the current and prior four years, the interest rate assumptions for income payments and medical payments were 2.414 percent and 2.303 percent, respectively.

For the COLAs, CPIMs, average durations, and interest rate assumptions used in the projections for FY 2019, refer to the FY 2019 *Financial Report.*

Unfunded Leave

Unfunded leave are the amounts recorded by an employer federal entity for unpaid leave earned that an employee is entitled to upon separation and that will be funded by future years' budgetary resources. As of September 30, 2020, unfunded leave total was $25.7 billion.

As of September 30, 2019, unfunded leave was previously reported in Note 17—Other Liabilities of $21.3 billion, but for FY 2020, unfunded leave is being reported in Federal Employee and Veteran Benefits Payable.

Liability for Other Benefits

Liability for other benefits includes several programs. The largest program is VA's Community Care Program, with an estimated liability of $1.9 billion as of September 30, 2020.

Note 14. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities as of September 30, 2020, and 2019

(In billions of dollars)	**2020**	**2019**
Department of Energy	512.3	505.3
Department of Defense	75.0	76.1
All other entities	15.4	14.0
Total environmental and disposal liabilities	602.7	595.4

During World War II and the Cold War, DOE (or predecessor entities) developed a massive industrial complex to research, produce, and test nuclear weapons. This included nuclear reactors, chemical-processing buildings, metal machining plants, laboratories, and maintenance facilities.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal.

Estimated cleanup costs at sites for which there are no current feasible remediation approaches are excluded from the estimates, although applicable stewardship and monitoring costs for these sites are included. DOE has not been required through regulation to establish remediation activities for these sites.

Estimating DOE's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of DOE's environmental cleanup and disposal will depend on a number of fundamental technical and policy choices, many of which have not been made. Some sites and facilities could be restored to a condition suitable for any desirable use or could be restored to a point where they pose no near-term health risks to the surrounding communities. Achieving the former condition of the sites and facilities would have a higher cost but these costs may be warranted in some cases or may be legally required. The environmental and disposal liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program. Congressional appropriations at lower-than anticipated levels or lack of Congressional approval, unplanned delays in project completions including potential delays due to COVID-19, unforeseen technical issues, obtaining regulatory approval, among other things, could cause increases in life-cycle costs.

DOE's environmental and disposal liabilities also include the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess material for sites. DOE is responsible for the post-closure activities at many of the closure sites as well as other sites. The costs for these post-closure activities are estimated for a period of 75 years after the balance sheet date, i.e., through 2095 in FY 2020 and through 2094 in FY 2019. While some post-cleanup monitoring and other long-term stewardship activities post-2095 are included in the liability, there are others DOE expects to continue beyond 2095 for which the costs cannot reasonably be estimated.

A portion of DOE's environmental and disposal liabilities at various field sites includes anticipated costs for facilities managed by DOE's ongoing program operations, which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model. Site specific estimates are used in lieu of the cost-estimating model, when available. Cost estimates for ongoing program facilities are updated each year. For facilities newly contaminated since FY 1997, cleanup costs allocated to future periods and not included in environmental and disposal liabilities amounted to $0.9 billion for both FYs 2020 and 2019. Please refer to the financial statements of DOE for additional information regarding DOE's environmental and disposal liabilities.

DOD must restore active installations, installations affected by base realignment and closure, and other areas formerly used as DOD sites. DOD also bears responsibility for disposal of chemical weapons and environmental costs associated with the disposal of weapons systems (primarily nuclear-powered aircraft carriers and submarines).

DOD follows the *Superfund Amendments and Reauthorization Act,* CERCLA, RCRA and other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require DOD to clean up contamination in coordination with regulatory entities, current owners of property damaged by DOD, and third parties that have a partial responsibility for the environmental restoration. Failure to comply with agreements and legal mandates puts the DOD at risk of incurring fines and penalties.

DOD uses engineering estimates and independently validated models to estimate environmental costs. The engineering estimates are based upon extensive data obtained during the remedial investigation/feasibility phase of the environmental project.

For general PP&E placed into service after September 30, 1997, DOD expenses associated environmental costs systematically over the life of the asset using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. DOD expenses the full cost to clean up contamination for stewardship PP&E at the time the asset is placed into service. DOD has expensed the costs for cleanup associated with general PP&E placed into service before October 1, 1997, except for costs intended to be recovered through user charges; for those costs, DOD has expensed cleanup costs associated with that portion of the asset life that has passed since it was placed into service. DOD systematically recognizes the remaining cost over the remaining life of the asset. The unrecognized portion of the estimated total cleanup costs associated with disposal of general PP&E was $4.3 billion for both FYs 2020 and 2019.

DOD is responsible for environmental restoration and corrective action for buried chemical munitions and agents; however, a reasonable estimate is indeterminable because the extent of the buried chemical munitions and agents is unknown. DOD is also unable to provide a complete estimate for the Formerly Utilized Sites Remedial Action Program. DOD has ongoing studies and will update its estimate as additional liabilities are identified. DOD has the potential to incur costs for restoration initiatives in conjunction with returning overseas DOD facilities to host nations. DOD continues its efforts to reasonably estimate required restoration costs.

Environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology. DOD is unaware of pending changes affecting its estimated cleanup costs. DOD revised estimates resulting from previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope.

Please refer to the financial statements of DOD for additional information regarding DOD’s environmental and disposal liabilities, including cleanup costs.

Note 15. Benefits Due and Payable

Benefits Due and Payable as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Federal Old-Age and Survivors Insurance	83.7	79.8
Grants to States for Medicaid	45.8	37.1
Federal Supplementary Medical Insurance (Medicare Parts B and D)	39.4	37.1
Federal Hospital Insurance (Medicare Part A)	30.8	34.4
Federal Disability Insurance	21.4	22.4
Unemployment Insurance	16.5	0.9
All other benefits programs	18.7	11.9
Total benefits due and payable	256.3	223.6

Benefits due and payable are amounts owed to program recipients or medical service providers as of September 30 that have not been paid. Most of the benefits due and payable relate to programs administered by HHS and SSA. For a description of the programs, see Note 23—Social Insurance and the unaudited RSI—Social Insurance section.

Note 16. Insurance and Guarantee Program Liabilities

Insurance and Guarantee Program Liabilities as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Insurance and Guarantee Program Liabilities:		
Defined Benefit Pension Plans - Pension Benefit Guaranty Corporation	187.3	181.1
Federal Crop Insurance - Department of Agriculture	7.7	8.9
National Flood Insurance Programs - Department of Homeland Security	2.8	3.4
Ginnie Mae's Mortgage-Backed Securities - Department of Housing and Urban Development	1.3	1.0
Other insurance and guarantee programs	0.2	0.1
Total insurance and guarantee program liabilities	199.3	194.5

The federal government incurs liabilities related to various insurance and guarantee programs as detailed in the table above. Note 20—Contingencies includes a discussion of contingencies and other risks related to significant insurance and guarantee programs. Insurance information, and related liability, concerning federal employee and veteran benefits is included in Note 13—Federal Employee and Veteran Benefits Payable. Social insurance and loan guarantees are not considered insurance programs under SFFAS No. 51, *Insurance Programs,* and are accounted for under SFFAS No. 17*, Accounting for Social Insurance*, and SFFAS No. 2*, Accounting for Direct Loans and Loan Guarantees*. Loan guarantees are disclosed in Note 4—Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability, and social insurance information is included primarily in the sustainability financial statements and in Note 23—Social Insurance.

Insurance and guarantee program liabilities are recognized for known losses and contingent losses to the extent that the underlying contingency is deemed probable and a loss amount is reasonably measurable. Please see Note 20—Contingencies for discussion on the meaning of "probable" depending on the accounting framework used by each significant consolidation entity. As discussed in Note 1.M—Insurance and Guarantee Program Liabilities, certain significant consolidation entities (i.e., PBGC, FDIC, and FCSIC) apply FASB standards, and such entities, as permitted by SFFAS No. 47, *Reporting Entity*, are consolidated into the U.S. government's consolidated financial statements without conversion to FASAB standards. PBGC administers the largest insurance and guarantee program liability, the Defined Benefit Pension Plans, and applies FASB standards.

As of September 30, 2020, and 2019, $187.3 billion and $181.1 billion, respectively, pertain to pension plans in PBGC's single-employer and multi-employer programs. As of September 30, 2020, PBGC's single-employer and multi-employer programs total is $120.4 billion and $66.9 billion, respectively. PBGC insures pension benefits for participants in covered defined benefit pension plans. The total increase of $6.2 billion in PBGC's liability for its two separate insurance programs is comprised of a) an increase of $7.3 billion in the single-employer plan liability; and b) a decrease of $1.1 billion in the multi-employer plan liability. As of September 30, 2020, and 2019, PBGC had total liabilities of $194.9 billion and $187.4 billion, and its total liabilities exceeded its total assets by $48.3 billion and $56.5 billion, respectively. Refer to PBGC's financial statements for additional information and to Note 20—Contingencies for additional information regarding insurance contingencies and exposure. On March 11, 2021, the President signed into law the *American Rescue Plan Act, 2021.* This legislation, among others, establishes a special financial assistance program for financially troubled multi-employer pension plans insured by PBGC. Management is currently assessing the effect of this legislation on PBGC's liabilities and contingency disclosures (including the estimated insolvency date for the multi-employer program), but the effect is not currently reasonably estimable. Please see Note 29—Subsequent Events for additional information.

As of September 30, 2020, and 2019, $7.7 billion and $8.9 billion, respectively, pertain to USDA's Federal Crop Insurance Program. The Federal Crop Insurance Program is administered by the FCIC, who provides insurance to reduce agricultural producers' economic losses due to natural disasters.

As of September 30, 2020, and 2019, $2.8 billion and $3.4 billion, respectively, pertain to the DHS NFIP. The NFIP insurance liability represents an estimate based on the loss and loss adjustment expense factors inherent to the NFIP Insurance Underwriting Operations, including trends in claim severity and frequency. The estimate is driven primarily by flooding activity in the U.S. and can vary significantly year over year depending on the timing and severity of flooding activity.

As of September 30, 2020, and 2019, $1.3 billion and $1.0 billion, respectively, pertain to Ginnie Mae's MBS program within HUD. Ginnie Mae's MBS program is an exchange transaction insurance program other than life insurance under SFFAS No. 51. Ginnie Mae's MBS program guarantees the timely payment of principal and interest on securities backed by pools of mortgage loans insured by FHA, Public and Indian Housing, and Rural Housing Service, or guaranteed by the VA.

Note 17. Other Liabilities

Other Liabilities as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Other deferred revenue	106.1	63.7
Other liabilities without related budgetary obligations	97.5	64.0
Liability for advances and prepayments	68.1	111.3
Other liabilities with related budgetary obligations	67.3	40.0
Allocation of special drawing rights	49.7	48.1
Contingent liabilities	46.5	50.9
Actuarial liabilities for Treasury-managed benefits program	45.8	35.1
Accrued funded payroll and leave	24.5	20.3
Other miscellaneous liabilities	62.7	76.9
Total other liabilities	568.2	510.3

Other liabilities are the amounts owed to the public and are not reported elsewhere in the balance sheet. Unfunded leave was previously reported as part of Other Liabilities, but for FY 2020 it is reported as part of Note 13—Federal Employee and Veteran Benefits Payable.

- Other deferred revenue are the amounts of revenue or income received but not yet earned not otherwise classified as advances or prepayments. Some examples include deferred project revenue funded in advance, funds received in advance under the terms of a settlement agreement, prepaid postage, and unearned fees, assessments, and surcharges. DOE and SAA are the largest contributors.
- Other liabilities without related budgetary obligations represent those unfunded liabilities for which Congressional action is needed before budgetary resources can be provided. The largest contributor to this category is DOE's contractor-sponsored pension plans and other post-retirement benefits. Also included are PBGC's payables due for purchase of securities and amounts payable upon return of securities loaned and DOJ's September 11th Victim Compensation Fund.
- Liability for advances and prepayments are the amounts of payments received in advance of performance of activities for which revenue has not been earned. Most of these amounts are attributable to SAA.
- Other liabilities with related budgetary obligations are amounts of liabilities for which there is a related budgetary obligation. Grant accruals, subsidies, and unpaid obligations related to assistance programs are all part of this category. The largest contributors are DHS, DOT, USDA, and HHS.
- Allocation of SDRs are the amounts of corresponding liability representing the value of the reserve assets allocated by the IMF to meet global needs to supplement existing reserve assets. SDRs derive their quality as reserve assets from the undertakings of the members to accept them in exchange for "freely useable" currencies (the U.S. dollar, European euro, Japanese yen, and British pound sterling). Treasury is the sole contributor.
- Contingent liabilities are amounts that are recognized as a result of a past event where a future outflow or sacrifice of resource is probable and measurable. These consist of a wide variety of administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the federal government. DOE and HHS are the top contributors.
- Actuarial liabilities for Treasury-managed benefit programs are the amounts recorded by Treasury for actuarial liabilities of future benefit payments to be paid from programs such as the D.C. Federal Pension Fund and the D.C. Judicial Retirement Fund. The only contributors are DOL and Treasury.
- Accrued funded payroll and leave are the estimated amounts of liabilities for salaries, wages and funded annual leave and sick leave that have been earned but are unpaid. The most substantial contribution is from DOD.

- Other miscellaneous liabilities are the liabilities not otherwise classified above. Many entities reported relatively small amounts.

Significant increases to Other deferred revenue and Other liabilities without related budgetary obligations, along with a decrease to Liability for advances and prepayments, were all the result of a change in SAA's reporting process. Historically, data was provided through data calls, but in FY 2020 a process migration effort took place to begin utilizing accounting system feeder files.

The largest contributors to each category are listed above. However, the entities below are listed in order of significance and comprise 95.3 percent of the government's reported Other Liabilities of $568.2 billion as of September 30, 2020. Please refer to the entities' financial statements for additional information.

- SAA
- DOE
- Treasury
- DOL
- HHS
- DOD
- DHS
- DOT
- USPS
- USDA
- DOJ
- PBGC
- TVA
- VA
- EPA
- FCC
- DOI
- State
- SEC

Note 18. Collections and Refunds of Federal Revenue

Collections of Federal Tax Revenue for the Year Ended September 30, 2020

(In billions of dollars)	Federal Tax Revenue Collections	Tax Year to Which Collections Relate 2020	2019	2018	Prior Years
Individual income tax and tax withholdings	3,127.6	1,947.9	1,118.5	33.7	27.5
Corporate income taxes	263.6	152.0	89.0	10.0	12.6
Excise taxes	96.4	72.2	23.9	0.1	0.2
Unemployment taxes	40.8	34.5	6.2	-	0.1
Customs duties	74.4	67.2	7.2	-	-
Estate and gift taxes	18.2	2.6	11.8	2.1	1.7
Railroad retirement taxes	5.2	3.8	1.4	-	-
Fines, penalties, interest, and other revenue	3.2	3.1	0.1	-	-
Subtotal	3,629.4	2,283.3	1,258.1	45.9	42.1
Less: amounts collected for non-federal entities	(0.5)				
Total	3,628.9				

Treasury is the government's principal revenue-collecting entity. Collections of individual income and tax withholdings include FICA/SECA and individual income taxes. These taxes are characterized as non-exchange revenue.

Excise taxes, also characterized as non-exchange revenue, consist of taxes collected for various items, such as airline tickets, gasoline products, distilled spirits and imported liquor, tobacco, firearms, and others.

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. The *Congressional Budget Act of 1974* (P.L. 93-344 or Budget Act) requires that a list of tax expenditures be included in the annual Budget. 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 include deductions and exclusions, which reduce the amount of income subject to tax. Examples are the deduction for mortgage interest on personal residences and the exclusion of interest on state and local bonds. Tax expenditures also include tax credits, which reduce tax liability dollar for dollar for the amount of credit. For example, the child tax credit reduces liability by $2,000 per child for taxpayers eligible to use it fully. Other credits are targeted at business activity, such as credits for producing electricity from renewable energy or the research and experimentation credit, which encourages businesses in the U.S. to increase investment in research activities. In addition, tax expenditures include some provisions that allow taxpayers to defer tax liability. Examples include provisions that allow immediate expensing or accelerated depreciation of certain capital investments, and others that allow taxpayers to defer their tax liability, such as the deferral of recognition of income on contributions to and income accrued within qualified retirement plans.

The Total Revenues reported in the Statement of Operations and Changes in Net Position and the related information reported in this note, do not include explicit line items for tax expenditures, but the total revenue amounts and budget results reflect the effect of these expenditures. Tax expenditures are discussed in this note, the unaudited MD&A, and in the unaudited Other Information section of the *Financial Report*.

Federal Tax Refunds Disbursed for the Year Ended September 30, 2020

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate 2020	2019	2018	Prior Years
Individual income tax and tax withholdings	673.4	335.6	299.3	31.0	7.5
Corporate income taxes	59.5	4.0	14.0	20.2	21.3
Other taxes, fines, and penalties	11.2	3.3	5.6	1.3	1.0
Total	744.1	342.9	318.9	52.5	29.8

Reconciliation of Revenue to Tax Collections for the Year Ended September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Consolidated revenue per the Statement of Operations and Changes in Net Position	3,571.6	3,621.0
Refunds of federal taxes and other payments	744.1	455.2
Individual and other tax credits	(436.8)	(154.3)
Federal Insurance Contributions Act - Tax	15.4	15.8
Federal Reserve earnings	(81.9)	(52.8)
Change in taxes receivable	(91.7)	(85.9)
Nontax-related fines and penalties reported by entities	(75.4)	(80.0)
Nontax-related earned revenue	(16.4)	(15.4)
Total collections of federal tax revenue	3,628.9	3,703.6

Consolidated revenue in the Statement of Operations and Changes in Net Position is presented on a modified cash basis, net of tax refunds, and includes other non-tax related revenue. The increases in lines Refunds of federal taxes and other payments and Individual and other tax credits in FY 2020 relate to the CARES Act stimulus disbursements of $274.7 billion to eligible taxpayers. Individual and other tax credits amounts are included in gross cost in the Statements of Net Cost. Refer to Note 3—Accounts Receivable, Net for addition information of line Changes in taxes receivable. The FICA – Tax paid by federal entities is included in the Individual income and tax withholdings line in the Collections of federal tax revenue; however, it is not reported on the Statement of Operations and Changes in Net Position as these collections are intra-governmental revenue and eliminated in consolidation. The table above reconciles total revenue to federal tax collections.

Collections of Federal Revenue for the Year Ended September 30, 2019

(In billions of dollars)	Federal Tax Revenue Collections	Tax Year to Which Collections Relate 2019	2018	2017	Prior Years
Individual income tax and tax withholdings	3,176.4	2,023.0	1,087.9	37.3	28.2
Corporate income taxes	277.1	181.6	85.3	4.1	6.1
Excise taxes	105.0	69.6	35.0	0.1	0.3
Unemployment taxes	39.6	33.0	6.5	-	0.1
Customs duties	74.8	74.8	-	-	-
Estate and gift taxes	17.6	0.8	13.7	1.5	1.6
Railroad retirement taxes	6.2	4.8	1.4	-	-
Fines, penalties, interest and other revenue	7.4	7.4	-	-	-
Subtotal	3,704.1	2,395.0	1,229.8	43.0	36.3
Less: amounts collected for non-federal entities	(0.5)				
Total	3,703.6				

Federal Tax Refunds Disbursed for the Year Ended September 30, 2019

(In billions of dollars)	Refunds Disbursed	Tax Year to Which Refunds Relate 2019	2018	2017	Prior Years
Individual income tax and tax withholdings	397.8	58.1	301.0	30.1	8.6
Corporate income taxes	51.3	3.9	14.8	10.7	21.9
Other taxes, fines, and penalties	6.1	2.2	2.1	0.8	1.0
Total	455.2	64.2	317.9	41.6	31.5

Note 19. Commitments

Long-Term Operating Leases as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
General Services Administration	24.0	22.0
Department of Veterans Affairs	4.3	4.2
Department of State	1.4	1.4
Department of Health and Human Services	1.2	1.1
U.S. Postal Service	-	4.6
Other operating leases	3.8	3.7
Total long-term operating leases	34.7	37.0

The government has entered into contractual commitments that require future use of financial resources. It has significant amounts of long-term lease obligations. On October 1, 2019, USPS adopted FASB Accounting Standards Codification (ASC) 842, Leases. This new standard requires a lessee to recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. As a result, beginning with FY 2020, the USPS operating lease liabilities and right-of-use assets are recognized on the balance sheet in other liabilities and property, plant, and equipment, respectively.

Undelivered Orders and Other Commitments as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Undelivered Orders:		
Department of Defense	395.0	381.7
Department of Health and Human Services	187.2	131.5
Department of Education	138.6	121.6
Department of Transportation	125.3	110.6
Department of the Treasury	120.5	6.5
Department of Agriculture	78.4	58.1
Department of Homeland Security	60.6	43.9
Department of Housing and Urban Development	59.8	52.0
Security Assistance Accounts	55.3	184.0
Department of Energy	31.7	31.5
Department of State	28.4	24.0
Small Business Administration	21.6	1.0
U.S. Agency for International Development	19.5	18.2
All other entities	146.6	133.9
Total undelivered orders	1,468.5	1,298.5
Other Commitments:		
GSE Senior Preferred Stock Purchase Agreements	254.1	254.1
U.S. Participation in the International Monetary Fund	156.3	151.4
Callable Capital Subscriptions for Multilateral Development Banks	123.3	121.7
All other commitments	19.0	25.8
Total other commitments	552.7	553.0

Undelivered Orders and Other Commitments

Undelivered Orders - Unpaid

Undelivered orders, included in this note disclosure, represent the value of goods and services ordered that have not yet been received and that have not been prepaid. As of September 30, 2020, and 2019, the total reported undelivered orders were $1,468.5 billion and $1,298.5 billion, respectively. The government is committed to contribute $205.0 billion to capitalize the FRBs' established SPVs to protect the FRBNY and FRBB from potential losses from financing of the SPV programs as of September 30, 2020. The government has funded $112.5 billion of this commitment as of September 30, 2020. Refer to Note 8—Investments in Special Purpose Vehicles and Note 29—Subsequent Events for additional information. In addition, SAA reported a decrease due to a conversion from FY 2019 to FY 2020 in their computer operating system that allowed for a more accurate status of funds being recorded in their financial statement activity.

GSE Senior Preferred Stock Purchase Agreements

As of September 30, 2020, and 2019, the maximum remaining potential commitment to the GSEs for the remaining life of the SPSPAs was $254.1 billion, which was established on December 31, 2012. Refer to Note 9—Investments in Government-Sponsored Enterprises for a full description of the SPSPAs related commitments and contingent liability, if any, as well as additional information.

U.S. Participation in the International Monetary Fund

The government participates in the IMF through a quota subscription and certain borrowing arrangements that supplement IMF resources. As of September 30, 2020, and 2019, the financial commitment, including funded portion, under the U.S. quota and borrowing arrangements was $156.3 billion and $151.4 billion, respectively. Refer to Note 2—Cash and Other Monetary Assets and Note 26—Disclosure Entities and Related Parties for additional information regarding the U.S. participation in the IMF.

Callable Capital Subscriptions for Multilateral Development Banks

The government has callable subscriptions in certain MDBs, which are international financial institutions that finance economic and social development projects in developing countries. Callable capital in the MDBs serves as a supplemental pool of resources that may be redeemed and converted into ordinary paid in shares, if the MDB cannot otherwise meet certain obligations through its other available resources. MDBs are able to use callable capital as backing to obtain favorable financing terms when borrowing from international capital markets. To date, there has never been a call on this capital at any MDBs and none is anticipated. As of September 30, 2020, and 2019, the capital commitment to MDBs was $123.3 billion and $121.7 billion, respectively.

Other Risks

U.S. Contributions to International Organizations

The U.S. government enters into agreements to pay future contributions to international organizations in which it participates as a member. These contributions may include financial and in-kind support, including assessed contributions, voluntary contributions, grants, and other assistance to international organizations. Following are examples of international organizations and their underlying missions that are supported by U.S. contributions:

- Office of the United Nations High Commissioner for Refugees, which was established to safeguard the rights and well-being of refugees;
- International Committee of the Red Cross, which provides humanitarian protection and assistance for victims of armed conflict and other situations of violence;
- International Organization for Migration, which supports migration programs and the U.S. Refugee Assistance Program;
- North Atlantic Treaty Organization, which promotes conflict prevention and peaceful resolution of disputes;
- United Nations, which enables the world's nations to work together toward freedom, democracy, peace, and human rights;
- World Food Program, which provides emergency nutrition programming;
- Global Environment Facility, which is a multilateral trust fund that provides grants for global environmental projects;
- Green Climate Fund, which was established to support the efforts of developing countries to respond to the challenge of climate change;
- United Nations Children's Fund, which promotes humanitarian and developmental assistance to children and mothers in developing countries; and
- World Health Organization, which provides international health activities within the United Nations system and aids in health systems; including activities that address non-communicable and communicable diseases; environmental health; and natural and man-made emergencies.

Note 20. Contingencies

Loss contingencies are existing conditions, situations, or sets of circumstances involving uncertainty as to possible loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. The government is subject to loss contingencies related to:

- Legal and environmental and disposal;
- Insurance and guarantees; and
- Other Contingencies.

The government is involved in various litigation, including administrative proceedings, legal actions, and tort claims, which may ultimately result in settlements or decisions adverse to the government. In addition, the government is subject to loss contingencies for a variety of environmental cleanup costs for the storage and disposal of hazardous material as well as the operations and closures of facilities at which environmental contamination may be present. Refer to the Legal Contingencies and Environmental and Disposal Contingencies section of this note for additional information.

The government provides insurance and guarantees via a variety of programs. At the time an insurance policy or guarantee is issued, a contingency arises. The contingency is the risk of loss assumed by the insurer, that is, the risk of loss from events that may occur during the term of the policy. For additional information, refer to the Insurance and Guarantees sections of this note.

Other contingencies include those related to the government's establishment of construction budgets without receiving appropriations from Congress for such projects, appeals of Medicaid audit and program disallowances by the states, and potential draws by GSEs. The government is also a party to treaties and other international agreements. These treaties and other international agreements address various issues including, but not limited to, trade, commerce, security, and law enforcement that may involve financial obligations or give rise to possible exposure to losses. For additional information on the government's other loss contingencies, refer to the Other Contingencies section of this note.

Financial Treatment of Loss Contingencies

The reporting of loss contingencies depends on the likelihood that a future event or events will confirm the loss or impairment of an asset or the incurrence of a liability and the likelihood of loss can range from probable to remote. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, identifies the probability classifications used to assess the range for the likelihood of loss as probable, reasonably possible, and remote. Loss contingencies where a past event or exchange transaction has occurred, and where a future outflow or other sacrifice of resources is assessed as probable and measurable, are accrued in the financial statements. Loss contingencies that are assessed to be at least reasonably possible are disclosed in this note, and loss contingencies that are assessed as remote are neither reported in the financial statements, nor disclosed in the notes. The following table provides criteria for how federal entities are to account for loss contingencies, based on the likelihood of the loss and measurability.[3]

[3] In addition, a third condition must be met to be a loss contingency: a past event or an exchange transaction must occur.

Likelihood of future outflow or other sacrifice of resources	Loss amount can be reasonably measured	Loss range can be reasonably measured	Loss amount or range cannot be reasonably measured
Probable Future confirming event(s) are more likely to occur than not.[4]	Accrue the liability. Report on Balance Sheet and Statement of Net Cost.	Accrue liability of best estimate or minimum amount in loss range if there is no best estimate, and disclose nature of contingency and range of estimated liability.	Disclose nature of contingency and include a statement that an estimate cannot be made.
Reasonably possible Possibility of future confirming event(s) occurring is more than remote and less than likely.	Disclose nature of contingency and estimated amount.	Disclose nature of contingency and estimated loss range.	Disclose nature of contingency and include a statement that an estimate cannot be made.
Remote Possibility of future event(s) occurring is slight.	No action is required.	No action is required.	No action is required.

Loss contingencies arise in the normal course of operations and their ultimate disposition is unknown. Based on information currently available, however, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the financial statements, except for the litigation and insurance described in the following sections, which could have a material adverse effect on the financial statements.

Certain significant consolidation entities apply financial accounting and reporting standards issued by FASB, and such entities, as permitted by SFFAS No. 47, *Reporting Entity*, are consolidated into the U.S. government's consolidated financial statements without conversion to financial and reporting standards issued by FASAB.[5] Generally, under FASAB standards, a contingency is considered "probable" if the future event or events are more likely than not to occur. Under FASB standards, a contingency is considered "probable" if the future event or events are likely to occur. "Likely to occur" is considered to be more certain than "more likely than not to occur." Under both accounting frameworks, a contingency is considered "reasonably possible" if occurrence of the future event or events is more likely than remote, but less likely than "probable" ("probable" as defined within each corresponding accounting framework).

[4] For pending or threatened litigation and unasserted claims, the future confirming event or events are considered "probable" if such events are likely to occur.

[5] Significant consolidation entities that apply FASB standards without conversion to FASAB standards are FDIC, PBGC, FCSIC, TVA, Smithsonian Institution, NRRIT, and USPS.

Legal Contingencies and Environmental and Disposal Contingencies

Legal Contingencies and Environmental and Disposal Contingencies as of September 30, 2020, and 2019

	2020			2019		
		Estimated Range of Loss for Certain Cases [2]			Estimated Range of Loss for Certain Cases [2]	
(In billions of dollars)	Accrued Liabilities [1]	Lower End	Upper End	Accrued Liabilities [1]	Lower End	Upper End
Probable	40.1	39.4	41.9	38.4	37.4	39.1
Reasonably possible............	N/A	9.7	33.9	N/A	6.7	29.2

[1] Accrued liabilities are recorded and presented in other liabilities on the Balance Sheet.

[2] Does not reflect the total range of loss; many cases assessed as reasonably possible of an unfavorable outcome did not include estimated losses that could be determined.

Notes: "N/A" indicates not applicable.

Management and legal counsel have determined that it is "probable" that some legal actions, litigation, tort claims, and environmental and disposal contingencies will result in a loss to the government and the loss amounts are reasonably measurable. The estimated liabilities for "probable" cases against the government are $40.1 billion and $38.4 billion as of September 30, 2020, and 2019, respectively, and are included in "Other Liabilities" on the Balance Sheet. For example, the U.S. Supreme Court 2012 decision in *Salazar v. Ramah Navajo Chapter*, and subsequent cases related to contract support costs have resulted in increased claims against the Indian Health Service, which is a component within HHS. As a result of this decision, many tribes have filed claims. Some claims have been paid and others have been asserted but not yet settled. It is expected that some tribes will file additional claims for prior years. The estimated amount recorded for contract support costs is $5.5 billion in FY 2020 and $5.2 billion in FY 2019.

There are also administrative claims and legal actions pending where adverse decisions are considered by management and legal counsel as "reasonably possible" with an estimate of potential loss or a range of potential loss. The estimated potential losses reported for such claims and actions range from $9.7 billion to $33.9 billion as of September 30, 2020, and from $6.7 billion to $29.2 billion as of September 30, 2019. For example, Treasury is party to a number of legal cases filed in the U.S. Court of Federal Claims alleging that the U.S. government violated statutory and regulatory mandates to make proper payments to plaintiffs under ARRA, Section 1603, for having placed certain energy properties into service. Treasury has determined there is a reasonably possible likelihood of an unfavorable outcome in some of the cases totaling approximately $460 million as of September 30, 2020 and 2019.

In accordance with the NWPA, DOE entered into more than 68 standard contracts with utilities in which, in return for payment of fees into the Nuclear Waste Fund, DOE agreed to begin disposal of SNF by January 31, 1998. Because DOE has no facility available to receive SNF under the NWPA, it has been unable to begin disposal of the utilities' SNF as required by the contracts. Therefore, DOE is subject to significant SNF litigation claiming damages for partial breach of contract as a result of this delay. Based on settlement estimates, the total liability estimate as of September 30, 2020 is $39.2 billion. After deducting the cumulative amount paid of $8.6 billion as of September 30, 2020 under settlements, and as a result of final judgments, the remaining liability is estimated to be approximately $30.6 billion, compared to approximately $28.5 billion as of September 30, 2019.

A number of class action and/or multiple plaintiff tort suits have been filed against current and former DOE contractors in which the plaintiffs seek damages for alleged exposures to radioactive and/or toxic substances as a result of the historic operations of DOE's nuclear facilities. Collectively, in these cases, damages of $1.2 billion are currently sought.

Numerous litigation cases are pending where the outcome is uncertain or it is reasonably possible that a loss has been incurred and where estimates cannot be made. There are other litigation cases where the plaintiffs have not made claims for specific dollar amounts, but the settlement may be significant. The ultimate resolution of these legal actions for which the potential loss could not be determined may materially affect the U.S. government's financial position or operating results.

A number of cases were filed in the U.S. Court of Federal Claims and U.S. District Courts in which the plaintiffs allege, among other things, that the U.S. government took their property, breached contractual rights of preferred and common stockholders, and breached fiduciary duties when the third amendments to the SPSPAs between Treasury and each GSE were executed in August 2012. One case also alleges that the U.S. government took plaintiffs' property and contractual rights when the GSEs were placed into conservatorship and entered into the SPSPAs with Treasury in September 2008. In the U.S. Court of Federal Claims, the plaintiffs seek just compensation and other damages from the U.S. government. With respect to certain cases pending before the U.S. Court of Federal Claims, the U.S. government's motion to dismiss was granted with respect to certain claims and denied with respect to certain other claims. The parties have appealed, and the appeals are still pending. In the U.S. District Courts, the plaintiffs seek to set aside the third amendments to the SPSPAs as well as damages, and in some cases a declaration that the FHFA's structure violates the separation of powers. A case in the U.S. District Court for the Southern District of Texas was dismissed by that District Court; and the Fifth Circuit Court of Appeals affirmed dismissal of all claims against Treasury but allowed one claim against FHFA to proceed that is pending before the U.S. Supreme Court. Cases in the U.S. District Courts for the District of Minnesota and Western District of Michigan were dismissed by that District Courts, and appeals are pending. A case in the Eastern District of Pennsylvania remains in litigation, and a motion to dismiss is pending. Treasury is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss in these cases at this time.

Insurance and Guarantees

As discussed in Note 1.M—Insurance and Guarantee Program Liabilities, certain consolidation entities with significant insurance and guarantee programs apply FASB standards, while other insurance programs are accounted for in the consolidated financial statements pursuant to FASAB standards. Please refer to Note 16—Insurance and Guarantee Program Liabilities for insurance and guarantee liabilities and Note 13—Federal Employee and Veteran Benefits Payable for insurance related to federal employee and veteran benefits.

Entities Reporting under FASB

PBGC, FCSIC, and FDIC are consolidation entities with significant insurance or guarantee programs that apply FASB standards, which provide that an entity shall disclose information about certain loss contingencies even though the possibility of loss may be remote.

PBGC insures pension benefits for participants in covered defined benefit pension plans. Under current law, PBGC's liabilities may be paid only from PBGC's assets. Accordingly, PBGC's liabilities are not backed by the full faith of the U.S. government. As of September 30, 2020, PBGC's single-employer and multi-employer pension insurance programs had \$143.5 billion and \$3.1 billion in total assets, respectively. In FY 2019, PBGC reported pension insurance program total assets for single-employer and multi-employer of \$128.1 billion and \$2.9 billion, respectively.

PBGC operates two separate pension insurance programs: a single-employer program and a multi-employer program. The single-employer program covered about 23.5 million people (excluding those in plans that PBGC has trusteed) in FY 2020, down from about 24.7 million people in FY 2019, and the maximum guaranteed annual benefit for participants who are in a plan that terminated in FY 2020 and commence benefits at age 65 is \$69,750. The maximum guaranteed benefit for single-employer plan participants varies with a number of factors such as the date of the sponsoring employer's bankruptcy and the age at which the participant commences benefits. The number of covered ongoing plans at the end of FY 2020 was about 23,200.

The multi-employer program covers about 10.9 million participants in about 1,400 insured plans and the maximum annual benefit is \$12,870 to a participant who worked for 30 years in jobs covered by the plan. The maximum benefit for multi-employer plan participants varies with covered service and would be lower if the participant worked less than 30 years and higher if the participant worked more than 30 years. PBGC projects a high likelihood that the multi-employer program will become insolvent by the end of 2026, and that insolvency is a near certainty by the end of 2027. At that point its financial assistance to multi-employer plans will be limited to the premiums collected by the program. Please refer to PBGC financial statements for additional information. On March 11, 2021, the President signed into law the *American Rescue Plan Act, 2021*. This legislation, among others, establishes a special financial assistance program for financially troubled multi-employer pension plans insured by PBGC. Management is currently assessing the effect of this legislation on PBGC's liabilities and contingency disclosures (including the estimated insolvency date for the multi-employer program), but the effect is not currently reasonably estimable. Please refer to Note 29—Subsequent Events for additional information.

FCSIC insures the timely payment of principal and interest on Systemwide Debt Securities. Systemwide Debt Securities are the general unsecured joint and several obligations of the Farm Credit System Banks. Systemwide Debt Securities are not obligations of and are not guaranteed by the U.S. government. As stated in the Farm Credit *Quarterly Information Statement* *of the Farm Credit System*, outstanding Systemwide Debt Securities totaled $309.1 billion and $282.9 billion as of September 30, 2020, and 2019 respectively. The insurance provided by FCSIC is also not an obligation of and is not guaranteed by the U.S. government. Under current law, if FCSIC does not have sufficient funds to pay unpaid principal and interest on insured Systemwide Debt Securities, the Farm Credit System Banks will be required to make payments under joint and several liability. As of September 30, 2020, and 2019, FCSIC reported an Insurance Fund balance of $5.4 billion and $5.1 billion, respectively.

FDIC insures bank and savings association deposits, which exposes FDIC to various risks. FDIC has estimated total insured deposits of $8,926.6 billion as of September 30, 2020, and $7,736.9 billion as of September 30, 2019, for the DIF. The increase in insured deposits is primarily a result of actions taken by monetary and fiscal authorities, and individuals, businesses, and financial market participants in response to the COVID-19 pandemic.

The government has guarantee contingencies that are reasonably possible in the amount of $185.6 billion as of September 30, 2020, and $165.6 billion as of September 30, 2019.

PBGC reported $185.5 billion and $165.5 billion as of September 30, 2020, and 2019, respectively, for the estimated aggregate unfunded vested benefits exposure to the PBGC for private-sector single-employer and multi-employer defined benefit pension plans that are classified as a reasonably possible exposure to loss. As of September 30, 2020, PBGC's estimate of its single-employer reasonably possible exposure increased to $176.2 billion.[6] The single-employer program contingencies increase of $21.5 billion is largely due to the decrease in the interest factors used for estimating exposure and the increase in the number of companies with lower than investment grade bond ratings and/or credit scores. PBGC's estimate of its multiemployer reasonably possible exposure decreased to $9.3 billion in FY 2020. The $1.5 billion decrease in the multi-employer program contingency exposure is primarily due to the net effect of removing three larger plans that are no longer classified as reasonably possible.

FDIC reported $0.1 billion as of September 30, 2020, and 2019 for additional risk identified in the financial services industry that could result in additional loss to the DIF should potentially vulnerable insured institutions ultimately fail. Actual losses, if any, will largely depend on future economic and market conditions.

Entities Reporting under FASAB

The total amount of coverage provided by an insurer as of the end of the reporting period is referred to as insurance in-force. Insurance in-force represents the total amount of unexpired insurance arrangements for the corresponding program as of a given date. Insurance in-force is presented to provide the reader with a better understanding of the unexpired insurance arrangements that are not considered a liability. It is extremely unlikely that losses equal to the maximum risk exposure would be incurred. The table below shows the estimate of insurance in-force for consolidation entities with significant insurance programs that apply FASAB standards in accordance with SFFAS No. 51, *Insurance Programs*.

Insurance In-force as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Insurance In-force:		
Ginnie Mae - HUD	2,117.7	2,092.8
National Credit Union Share Insurance Fund - NCUA	1,400.0	1,200.0
National Flood Insurance Program - DHS	1,338.9	1,330.0
Federal Crop Insurance - USDA	127.0	109.0

Ginnie Mae insures MBS and commitments, which exposes Ginnie Mae to various risks. The Ginnie Mae MBS are backed by pools of mortgage loans guaranteed by FHA, Public and Indian Housing, Rural Housing Service, and VA. Accordingly, Ginnie Mae's credit risk related to outstanding MBS is greatly mitigated by guarantees discussed in Note 4–Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability.

NCUSIF, managed by NCUA, insures member shares (deposits) in all federal credit unions and in qualifying state-chartered credit unions requesting insurance. The $200.0 billion increase in the NCUSIF as of September 30, 2020 was due to the stock market volatility related to the COVID-19 pandemic, stimulus payments from the CARES Act, decreasing

[6] The estimate of the reasonably possible exposure to loss for the single-employer plans was measured as of December 31, 2019.

unemployment rates and a strengthening economy, extremely elevated personal savings rates, and the continuation of loan forbearance programs by various financial institutions. NCUSIF insures the balance of each members' accounts, dollar-for-dollar, up to at least the standard maximum share insurance amount of $250,000.

NFIP, managed by FEMA, is considered an exchange transaction insurance program and pays claims to policy holders who experience flood damage due to flooding within the NFIP rules and regulations. FEMA is authorized to secure reinsurance coverage from private reinsurance and capital markets to maintain the financial ability of the program to pay claims from major flooding events.

FEMA, a component of DHS, is authorized to borrow from Treasury up to $30.4 billion to fund the payment of flood insurance claims and claims-related expenses of the NFIP. This authority is used only as needed to pay existing obligations for claims and expenses. Insurance premiums collected are used to pay insurance claims and to repay borrowings. As of September 30, 2020, and 2019, FEMA had drawn from Treasury $20.5 billion, leaving $9.9 billion available to be borrowed. Premiums collected by FEMA for the NFIP based on subsidized rates are not sufficient to cover the debt repayments. Given the current premium rate structure, FEMA will not be able to generate sufficient resources from premiums to repay its debt.

The Federal Crop Insurance Program, administered by USDA's FCIC, is considered a short-duration exchange transaction insurance program. The crop insurance policies insure against unexpected declines in yield and/or price due to natural causes. There were approximately 1.1 million crop insurance policies in force for crop years 2020, and 2019. The insurance policies are structured as a contract between Approved Insurance Provider and producers, with the FCIC providing reinsurance to Approved Insurance Providers. Crop insurance policies automatically renew each year, unless producers cancel them by a published annual deadline.

FCIC may request the Secretary of Agriculture to provide borrowing authority funds of the Commodity Credit Corporation if at any time the amounts in the insurance fund are insufficient to allow FCIC to carry out its duties. Even though the authority exists, FCIC did not request Commodity Credit Corporation funds in the reporting period. USDA has permanent indefinite appropriations for the crop insurance program used to cover premium subsidy, delivery expenses, losses in excess of premiums, and research and delivery costs. FCIC has no outstanding borrowing as of September 30, 2020.

For additional information, please refer to HUD, NCUA, DHS, and USDA financial statements.

The *Terrorism Risk Insurance Act* of 2002, as amended, created TRIP, which requires participating insurers to make insurance available for losses resulting from acts of terrorism and provides a federal government backstop for the insurers' resulting financial exposure. This statute was enacted following the terrorist attacks on September 11, 2001 to address disruptions in the market for terrorism risk insurance, to help ensure the continued availability and affordability of commercial property and casualty insurance for terrorism risk, and to allow for the private markets to stabilize and build insurance capacity to absorb any future losses for terrorism events. Most recently, the *Terrorism Risk Insurance Program Reauthorization Act* of 2019 authorized TRIP until December 31, 2027. The claims process under TRIP commences once the Secretary of the Treasury (in consultation with the Secretary of the DHS and the U.S. Attorney General) certifies an event as an "act of terrorism." In the event of certification of an "act of terrorism" insurers may be eligible to receive reimbursement from the U.S. government for associated insured losses assuming an aggregate insured loss threshold ("Program Trigger") has been reached once a particular insurer has satisfied its designated deductible amount. For calendar years 2020 and 2019, the Program Trigger amount was $200.0 million and $180.0 million, respectively. The Program Trigger will remain at $200.0 million each year through the expiration of the Program in 2027. Insured losses above insurer deductibles will be shared between insurance companies and the U.S. government. TRIP includes both mandatory and discretionary authority for Treasury to recoup federal payments made under TRIP through policyholder surcharges under certain circumstances, and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under TRIP as of September 30, 2020 or 2019.

Other Contingencies

DOT, HHS, and Treasury reported the following other contingencies:

FHWA has a reasonably possible contingency due to their authority to approve projects using advance construction under 23 U.S.C. 115(a) and 23 CFR 630.701-630.709. FHWA does not guarantee the ultimate funding to the states for these "advance construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. As of September 30, 2020, and 2019, FHWA has pre-authorized $68.7 billion and $66.8 billion, respectively, under these arrangements. Congress has not provided appropriations for these projects and no liability is accrued in the DOT consolidated financial statements.

Contingent liabilities have been accrued as a result of Medicaid audit and program disallowances that are currently being appealed by the states. The Medicaid amounts are $3.7 billion and $9.9 billion for fiscal years ending September 30, 2020, and 2019, respectively. The states could return the funds through payments to HHS, or HHS could recoup the funds by reducing future grant awards to the states. Conversely, if the appeals are decided in favor of the states, HHS will be required to pay these amounts. In addition, certain amounts for payment have been deferred under the Medicaid program when there is reasonable doubt as to the legitimacy of expenditures claimed by a state. There are also outstanding reviews of the state expenditures in which a final determination has not been made.

Treasury has a contingency for future draws by the GSEs. There were no probable future draws accrued at September 30, 2020 and 2019 and the total amount of reasonable possible future draws is not estimable as of September 30, 2020. Refer to Note 9—Investments in Government-Sponsored Enterprises for additional information.

When a contingency originates from the U.S. government's involvement in a treaty or other international agreement, the responsible reporting entity must establish a contingent liability, and include a required note disclosure to its financial statements, or both in accordance with guidance in SFFAS No. 5. Refer to Note 19—Commitments for additional information concerning commitments related to treaties and other international agreements.

Note 21. Funds from Dedicated Collections

Funds from Dedicated Collections as of September 30, 2020

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund (Combined)	Federal Disability Insurance Trust Fund (Combined)	Federal Medicare Insurance Trust Funds (Part A, B, D) (Combined)	All Other Funds from Dedicated Collections (Combined)	Total Funds from Dedicated Collections (Combined)	Funds from Dedicated Collections Eliminations	Total Funds from Dedicated Collections (Consolidated)
Assets:							
Cash and other monetary assets	-	-	-	69.9	69.9	-	69.9
Accounts receivable, net	2.1	3.3	12.3	22.4	40.1	-	40.1
Direct loans and loan guarantees receivable, net	-	-	-	2.7	2.7	-	2.7
Inventory and related property, net	-	-	-	1.6	1.6	-	1.6
General property, plant and equipment, net	-	-	0.2	35.5	35.7	-	35.7
Securities and investments	-	-	-	41.9	41.9	-	41.9
Other assets	-	-	103.6	28.0	131.6	-	131.6
Investments in Treasury securities, net of unamortized premiums/discounts	2,811.2	97.2	221.2	197.9	3,327.5	-	3,327.5
Other federal assets	17.7	0.5	183.5	272.0	473.7	(159.9)	313.8
Total assets	2,831.0	101.0	520.8	671.9	4,124.7	(159.9)	3,964.8
Liabilities and net position:							
Accounts payable	-	-	0.1	6.8	6.9	-	6.9
Federal employee and veteran benefits payable	-	-	-	2.8	2.8	-	2.8
Environmental and disposal liabilities	-	-	-	25.9	25.9	-	25.9
Benefits due and payable	83.7	21.4	70.1	13.5	188.7	-	188.7
Insurance and guarantee program liabilities	-	-	-	9.0	9.0	-	9.0
Other liabilities	-	-	0.5	152.2	152.7	-	152.7
Federal liabilities	6.3	1.0	85.2	171.8	264.3	(159.9)	104.4
Total liabilities	90.0	22.4	155.9	382.0	650.3	(159.9)	490.4

Funds from Dedicated Collections as of September 30,2020, continued[1]

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund (Combined)	Federal Disability Insurance Trust Fund (Combined)	Federal Medicare Insurance Trust Funds (Part A, B, D) (Combined)	All Other Funds from Dedicated Collections (Combined)	Total Funds from Dedicated Collections (Combined)	Funds from Dedicated Collections Eliminations	Total Funds from Dedicated Collections (Consolidated)
Net position:							
Total net position	2,741.0	78.6	364.9	289.9	3,474.4	-	3,474.4
Total liabilities and net position	2,831.0	101.0	520.8	671.9	4,124.7	(159.9)	3,964.8
Change in net position:							
Net position, beginning of period	2,740.2	78.6	297.9	387.9	3,504.6	12.5	3,517.1
Adjustments to beginning net position							
Changes in accounting principle	-	-	-	-	-	(12.5)	(12.5)
Beginning net position, adjusted	2,740.2	78.6	297.9	387.9	3,504.6	-	3,504.6
Individual income taxes and tax withholdings	841.7	142.9	299.1	0.1	1,283.8	-	1,283.8
Other taxes and miscellaneous earned revenue	-	0.1	(1.3)	107.0	105.8	-	105.8
Other changes in fund balance (e.g., appropriations, transfers)	29.5	(1.0)	429.6	98.0	556.1	(0.5)	555.6
Federal non-exchange revenue	74.6	2.8	2.1	28.2	107.7	-	107.7
Total financing sources	945.8	144.8	729.5	233.3	2,053.4	(0.5)	2,052.9
Program gross costs and non-program expenses	945.0	144.8	779.8	392.5	2,262.1	0.4	2,262.5
Less: program revenue	-	-	117.3	61.2	178.5	0.9	179.4
Net cost	945.0	144.8	662.5	331.3	2,083.6	(0.5)	2,083.1
Ending net position	2,741.0	78.6	364.9	289.9	3,474.4	-	3,474.4

[1]By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Funds from Dedicated Collections as of September 30, 2019

(In billions of dollars)	SSA's Funds from Dedicated Collections (Combined)	All Other Funds from Dedicated Collections (Combined)	Total Funds from Dedicated Collections (Combined)
Assets:			
Cash and other monetary assets	-	66.1	66.1
Accounts receivable, net	7.6	38.7	46.3
Direct loans and loan guarantees receivable, net	-	3.1	3.1
Inventory and related property, net	-	1.2	1.2
General property, plant and equipment, net	-	35.4	35.4
Securities and Investments	-	33.6	33.6
Other assets	-	20.1	20.1
Federal assets	3,023.3	978.0	4,001.3
Total assets	3,030.9	1,176.2	4,207.1
Liabilities and net position:			
Accounts payable	-	7.2	7.2
Federal employee and veteran benefits payable	-	7.0	7.0
Environmental and disposal liabilities	-	26.1	26.1
Benefits due and payable	102.5	73.6	176.1
Insurance and guarantee program liabilities	-	4.4	4.4
Other liabilities	-	147.6	147.6
Federal liabilities	109.6	212.0	321.6
Total liabilities	212.1	477.9	690.0

Funds from Dedicated Collections as of September 30, 2019, continued[1]

(In billions of dollars)	SSA's Funds from Dedicated Collections (Combined)	All Other Funds from Dedicated Collections (Combined)	Total Funds from Dedicated Collections (Combined)
Net position:			
Total net position	2,818.8	698.3	3,517.1
Total liabilities and net position	3,030.9	1,176.2	4,207.1
Change in net position:			
Net position, beginning of period	2,815.6	665.1	3,480.7
Individual income taxes and tax withholdings	932.4	286.2	1,218.6
Other taxes and miscellaneous earned revenue	0.1	146.4	146.5
Other changes in fund balance (e.g., appropriations, transfers)	24.7	381.3	406.0
Federal non-exchange revenue	81.7	13.8	95.5
Total financing sources	1,038.9	827.7	1,866.6
Program gross costs and non-program expenses	1,035.9	959.2	1,995.1
Less: program revenue	0.2	164.7	164.9
Net cost	1,035.7	794.5	1,830.2
Ending net position	2,818.8	698.3	3,517.1

[1]By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Generally, funds from dedicated collections are financed by specifically identified revenues, often supplemented by other financing sources, provided to the government by non-federal sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the government's general revenues. Funds from dedicated collections generally include trust funds, public enterprise revolving funds (not including credit reform financing funds), and special funds. Funds from dedicated collections specifically exclude any fund established to account for pensions, ORB, OPEB, or other benefits provided for federal employees (civilian and military). In the federal budget, the term "trust fund" means only that the law requires a particular fund to be accounted for separately, used only for a specified purpose, and designated as a trust fund. A change in law may change the future receipts and the terms under which the fund's resources are spent. In the private sector, trust fund refers to funds of one party held and managed by a second party (the trustee) in a fiduciary capacity. The activity of funds from dedicated collections differs from fiduciary activities primarily in that assets within funds from dedicated collections are government-owned. For additional information related to fiduciary activities, see Note 22—Fiduciary Activities.

Public enterprise revolving funds include expenditure accounts authorized by law to be credited with offsetting collections, mostly from the public, that are generated by and dedicated to finance a continuing cycle of business-type operations. Some of the financing for these funds may be from appropriations.

Special funds are federal funds dedicated by law for a specific purpose. Special funds include the special fund receipt account and the special fund expenditure account.

Total assets represent the unexpended balance from all sources of receipts and amounts due to the funds from dedicated collections, regardless of source, including related governmental transactions. These are transactions between two different entities within the government or intradepartmental (for example, monies received by one entity of the government from another entity of the government).

The federal assets are comprised of fund balances with Treasury, investments in Treasury securities—including unamortized amounts, and other assets that include the related accrued interest receivable on federal investments. These amounts were excluded in preparing the principal financial statements. The non-federal assets include activity with individuals and organizations outside of the government.

Most of the assets within funds from dedicated collections are invested in intra-governmental debt holdings. The government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash receipts collected from the public for funds from dedicated collections are deposited in the General Fund, which uses the cash for general government purposes. Treasury securities are issued to federal entities as evidence of its receipts. Treasury securities are an asset to the federal entities and a liability to Treasury and, therefore, they do not represent an asset or a liability in the *Financial Report*. These securities require redemption if a fund's disbursements exceeds its receipts. Redeeming these securities will increase the government's financing needs and require more borrowing from the public (or less repayment of debt), or will result in higher taxes than otherwise would have been needed, or less spending on other programs than otherwise would have occurred, or some combination thereof. See Note 12—Federal Debt and Interest Payable for additional information related to the investments in federal debt securities.

Funds from Dedicated Collections as of September 30, 2019 [1]

(In billions of dollars)	Federal Old-Age and Survivors Insurance Trust Fund (Combined)	Federal Hospital Insurance Trust Fund (Medicare Part A) (Combined)	Federal Disability Insurance Trust Fund (Combined)	Federal Supplementary Medical Insurance Trust Fund (Medicare Parts B and D) (Combined)
Total assets	2,905.8	236.9	125.1	141.3
Total liabilities	165.6	78.3	46.5	72.3
Total net position	2,740.2	158.6	78.6	69.0
Gross cost	893.2	321.0	142.7	346.8
Program revenues	-	4.1	-	102.6
Net cost	893.2	316.8	142.7	244.2
Total financing sources	3,633.4	475.4	221.3	313.2
Changes in net position	2,740.2	158.6	78.6	69.0

[1]By law, certain expenses (costs), revenues, and other financing sources related to the administration of the above funds are not charged to the funds and are therefore financed and/or credited to other sources.

Depicted in the table above is a breakout of OASI, HI, DI and SMI Trust Funds for FY 2019. These funds are major funds from dedicated collections chosen based on their significant financial activity and importance to taxpayers.

Depicted below is a description of the major funds from dedicated collections shown in the above tables, which also identifies the government entities that administer each particular fund. For additional information regarding funds from dedicated collections, please refer to the financial statements of the corresponding administering entities. For additional information on the benefits due and payable liability associated with certain funds from dedicated collections, see Note 15—Benefits Due and Payable.

Federal Old-Age and Survivors Insurance Trust Fund

The OASI Trust Fund, administered by SSA, provides retirement and survivors benefits to qualified workers and their families.

Payroll and self-employment taxes primarily fund the OASI Trust Fund. Interest earnings on Treasury securities, federal entities' payments for the Social Security benefits earned by military and federal civilian employees, and Treasury payments for a portion of income taxes collected on Social Security benefits provide the fund with additional income. The law establishing the OASI Trust Fund and authorizing the depositing of amounts to the credit of the fund is set forth in 42 U.S.C. § 401.

Federal Disability Insurance Trust Fund

The DI Trust Fund, administered by SSA, provides assistance and protection against the loss of earnings due to a wage earner's disability in form of monetary payments.

Like the OASI Trust Fund, payroll taxes primarily fund the DI Trust Fund. The fund also receives income from interest earnings on Treasury securities, federal entities' payments for the Social Security benefits earned by military and federal civilian employees, and Treasury payments for a portion of income taxes collected on Social Security benefits. The law establishing the DI Trust Fund and authorizing the depositing of amounts to the credit of the fund is set forth in 42 U.S.C. § 401.

Federal Medicare Insurance Trust Funds (Medicare Parts A, B and D)

The HI Trust Fund, administered by HHS, finances Medicare Part A. This program funds the cost of inpatient hospital and related care for individuals age 65 or older who meet certain insured status requirements and individuals younger than age 65 with certain disabilities.

The HI Trust Fund is financed primarily by payroll taxes, including those paid by federal entities. It also receives income from interest earnings on Treasury securities, a portion of income taxes collected on Social Security benefits, premiums paid by, or on behalf of, aged uninsured beneficiaries, and receipts from fraud and abuse control activities. Section 1817 of the *Social Security Act* established the Medicare Hospital Trust Fund.

The SMI Trust Fund, administered by HHS, finances the Medicare Part B and the Medicare Prescription Drug Benefit Program (Medicare Part D). These programs provide SMI benefits for enrolled eligible participants to cover physician and outpatient services not covered by Medicare Part A and to obtain qualified prescription drug coverage, respectively. Medicare Part B financing is not based on payroll taxes; it is primarily based on monthly premiums, income from the General Fund, and interest earnings on Treasury securities. The Medicare SMI Trust Fund was established by Section 1841 of the *Social Security Act*.

Medicare Part D was created by the *Medicare Modernization Act of 2003* (P.L.108-173). Medicare Part D financing is similar to Part B; it is primarily based on monthly premiums and income from the General Fund, not on payroll taxes. The fund also receives transfers from states.

All Other Funds from Dedicated Collections

The government is responsible for the management of numerous funds from dedicated collections that serve a wide variety of purposes. The funds from dedicated collections presented on an individual basis in the above tables represent the majority of the government's net position attributable to funds from dedicated collections. All other activity attributable to funds from dedicated collections is aggregated in accordance with SFFAS No. 27, *Identifying and Reporting Funds from Dedicated Collections,* as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*. The majority entities with funds from dedicated collections within the "all other" aggregate, include the following:

- DOT
- DOC
- DOI
- Treasury
- DOD
- RRB
- DOE
- HUD
- DOJ

In accordance with SFFAS No. 43, any funds established to account for pension, other retirement, or OPEB to civilian or military personnel are excluded from the reporting requirements related to funds from dedicated collections.

The U.S. government elected to implement a change in accounting principle in FY 2020. SFFAS No. 27 allows disclosure of Funds from Dedicated Collections amounts to be shown combined or consolidated. In FY 2019 the Funds from Dedicated Collections disclosure used the combined method. In FY 2020 Funds from Dedicated Collections amounts are reported as consolidated as shown in the table above and on Statements of Operations and Changes in Net Position. This change in accounting principle increased Funds from Dedicated Collections eliminations by $12.5 billion and decreased Funds from Dedicated Collections beginning net position by $12.5 billion. In prior years changes in accounting principles and corrections of errors were reported as a combined total under adjustments to beginning net position. In FY 2020, to provide additional clarity these amounts are broken out and reported separately.

Note 22. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the government of cash or other assets in which non-federal individuals or entities have an ownership interest that the government must uphold. Fiduciary cash and other assets are not assets of the government and are not recognized on the consolidated Balance Sheet. Examples of the government's fiduciary activities include the TSP, which is administered by the FRTIB, and the Indian Tribal and individual Indian Trust Funds, which are administered by the DOI.

Schedule of Fiduciary Net Assets as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Thrift Savings Plan	661.9	611.5
Department of the Interior	5.9	5.7
All other	6.2	6.5
Total fiduciary net assets	674.0	623.7

In accordance with the requirements of SFFAS No. 31, *Accounting for Fiduciary Activities,* fiduciary investments in Treasury securities and fund balance with Treasury held by fiduciary funds are to be recognized on the Balance Sheet as federal debt and interest payable and a liability for fiduciary fund balance with Treasury, respectively.

As of September 30, 2020, total fiduciary investments in Treasury securities and in non-Treasury securities are $292.1 billion and $394.4 billion, respectively. As of September 30, 2019, total fiduciary investments in Treasury securities and in non-Treasury securities were $249.6 billion and $362.7 billion, respectively. Refer to Note 12—Federal Debt and Interest Payable for more information on Treasury securities.

As of September 30, 2020, and 2019, the total fiduciary fund balance with Treasury is $2.6 billion and $1.5 billion, respectively. A liability for this fiduciary fund balance with Treasury is reflected as other miscellaneous liabilities in Note 17—Other Liabilities.

As of September 30, 2020, and 2019, collectively, the fiduciary investments in Treasury securities and fiduciary fund balance with Treasury held by all government entities represent $7.5 billion and $7.8 billion, respectively, of unrestricted cash included within cash held by Treasury for government-wide operations shown in Note 2—Cash and Other Monetary Assets.

Thrift Savings Plan

The TSF maintains and holds in trust the assets of the TSP. The TSP is administered by an independent government entity, the FRTIB, which is charged with operating the TSP prudently and solely in the interest of the participants and their beneficiaries.

The TSP is a retirement savings and investment plan for federal employees and members of the uniformed services. It was authorized by the U.S. Congress in the *Federal Employees' Retirement System Act of 1986*. The Plan provides federal employees and members of the uniformed services with a savings and tax benefit similar to what many private sector employers offer their employees under 401(k) plans. This includes two fixed income funds, three stock funds and ten lifecycle funds. The Plan was primarily designed to be a key part of the retirement package (along with a basic annuity benefit and Social Security) for employees who are covered by FERS.

As of September 30, 2020, and 2019, the TSP held $661.9 billion and $611.5 billion, respectively, in net assets, which included $287.1 billion and $243.4 billion, respectively, of Treasury securities. The TSF combines the net assets of the TSP and the FRTIB in its financial statements. Only the TSP net assets of the TSF financial statements are disclosed in this note. The most recent audited financial statements for the TSF are as of December 31, 2019, and 2018. For additional information about FRTIB, the TSP and the investment options of the TSP, please refer to the FRTIB website at https://www.frtib.gov.

Department of Interior–Indian Trust Funds

As stated above, DOI has responsibility for the assets held in trust on behalf of American Indian Tribes and individuals. DOI maintains accounts for Tribal and Other Trust Funds (including the Alaska Native Escrow Fund) and IIM Trust Funds in accordance with the *American Indian Trust Fund Management Reform Act of 1994*. The fiduciary balances that have accumulated in these funds have resulted from land use agreements, royalties on natural resource depletion, other proceeds derived directly from trust resources, judgment awards, settlements of claims, and investment income. These funds are maintained by the Office of the Special Trustee for American Indians and ONRR, both components of Departmental Offices and Indian Affairs for the benefit of individual Native Americans as well as for designated Indian tribes. DOI maintains separate financial statements for these trust funds, which are prepared using a cash or modified cash basis of accounting, a comprehensive basis of accounting other than GAAP. The independent auditors' reports on the Tribal and Other Trust Funds were qualified as it was not practical to extend audit procedures sufficiently to satisfy themselves as to the fairness of the trust fund balances. The IIM Trust Funds received an unmodified opinion from the auditors. As of September 30, 2020, and 2019, the DOI held $5.9 billion and $5.7 billion, respectively, in net assets. For additional information related to these assets, please refer to the DOI website at https://www.doi.gov.

All Other Entities with Fiduciary Activities

The government is responsible for the management of other fiduciary net assets on behalf of various non-federal entities. The entities presented individually in the table on the previous page represent the vast majority of the government's fiduciary net assets. All other component entities with fiduciary net assets are aggregated in accordance with SFFAS No. 31. As of September 30, 2020, and 2019, including TSP and DOI, there are a total of 20 and 20 federal entities, respectively, with fiduciary activities at a grand total of 67 and 66 fiduciary funds, respectively. SBA and Library of Congress are the largest entities relating to the fiduciary activities of the remaining entities within the "all other" aggregate balance. As of September 30, 2020, "all other" fiduciary net assets were $6.2 billion, compared to $6.5 billion as of September 30, 2019.

Note 23. Social Insurance

SOSI presents the projected actuarial PV of the estimated future revenue and estimated future expenditures of the Social Security, Medicare, Railroad Retirement, and Black Lung social insurance programs which are administered by the SSA, HHS, RRB, and DOL, respectively. Social Security and Medicare projections are based on current law and the Social Security and Medicare trustees' intermediate set of assumptions, except that the projections assume full Social Security and Medicare Part A benefits are paid after fund depletion contrary to current law. The SOSI projections are based on the estimates developed for the 2020 Trustees' Report which did not reflect the potential effects of the COVID-19 pandemic. At this time, management cannot reasonably estimate the potential effect of COVID-19 on the projections or other sustainability measures, which could be significant.

Contributions consist of: payroll, income, and excise taxes, premiums from, and state transfers on behalf of, participants in Medicare, and miscellaneous reimbursements from the General Fund. Generally, beneficiaries finance the remainder of Parts B and D costs via monthly premiums to these programs. With the introduction of Part D drug coverage, Medicaid is no longer the primary payer of drug costs for full-benefit dually eligible beneficiaries of Medicare and Medicaid. For those beneficiaries, states are subject to a contribution requirement and must pay a portion of their estimated foregone drug costs into the Part D account (referred to as state transfers). By accounting convention, the General Fund transfers are eliminated in the consolidation of the SOSI at the government-wide level. These General Fund transfers that are used to finance Medicare Parts B and D are also shown as eliminations on these calculations. For the FYs 2020 and 2019, the amounts eliminated totaled $40.9 trillion and $36.8 trillion, respectively.

The SOSI also includes projected general revenues that, under current law, would be used to finance the remainder of the expenditures in excess of revenues for Medicare Parts B and D that is reported in the SOSI. Expenditures include benefit payments scheduled under current law and administrative expenses. Current Social Security and Medicare Part A law provides for full benefit payments only to the extent that there are sufficient balances in the trust funds. Social insurance programs utilize "trust funds" to account for dedicated collections held for later use to accomplish the program's purpose. Expenditures reflect full benefit payments even after the point at which trust fund asset reserves are projected to be depleted. Refer to unaudited RSI – Social Insurance section for additional information on Social Security, Medicare, Railroad Retirement, and Black Lung program financing and SSA's, HHS's, RRB's, and DOL's financial statements.

The estimates in the consolidated SOSI of the open group measures are for persons who are participants or eventually will participate in the programs as contributors (workers) or beneficiaries (retired workers, survivors, dependents, and disabled) during the 75-year projection period. The closed group comprises only current participants which are those who have attained age 15 at the start of the projection period. Actuarial PV of estimated future income (excluding interest) and estimated future expenditures for the Social Security and Medicare social insurance programs are presented for three different groups of participants: 1) current participants who have not yet attained eligibility age; 2) current participants who have attained eligibility age; and 3) new entrants, who are expected to become participants in the future. Current participants in the Social Security and Medicare programs are the "closed group" of taxpayers and/or beneficiaries who are at least age 15 years at the start of the projection period. Future participants for Social Security and Medicare include births during the projection period and individuals below age 15 as of January 1 of the valuation year. Railroad Retirement's future participants are the projected new entrants as of October 1 of the valuation year.

The trust fund balances as of the valuation date for the respective programs, including interest earned, are shown in the table below.[7] The PV of estimated future expenditures in excess of estimated future revenue are calculated by subtracting the actuarial PV of future scheduled contributions as well as dedicated tax income by and on behalf of current and future participants from the actuarial PV of the future scheduled benefit payments to them or on their behalf. To determine a program's funding shortfall over any given period of time, the starting trust fund balance is subtracted from the PV of expenditures in excess of revenues over the period. The portion of each trust fund not required to pay benefits and administrative costs is invested, on a daily basis, in interest-bearing obligations of the U.S. government. The *Social Security Act* authorizes the issuance by Treasury of special nonmarketable, intra-governmental debt obligations for purchase exclusively by the trust funds. Although the special issues cannot be bought or sold in the open market, they are redeemable at any time at face value and thus bear no risk of fluctuation in principal value due to changes in market yield rates. Interest on the bonds is credited to the trust funds and becomes an asset to the funds and a liability to the General Fund. These Treasury securities and related interest are eliminated in consolidation at the government-wide level. For additional information, see Note 21—Funds from Dedicated Collections.

[7] Trust fund balances for the Railroad Retirement and Black Lung programs are not included, as these balances are less than $50 billion.

Social Insurance Programs Trust Fund Balances [1]

(In trillions of dollars)	2020	2019	2018	2017	2016
Social Security	2.9	2.9	2.9	2.8	2.8
Medicare	0.3	0.3	0.3	0.3	0.3

[1] As of the valuation date of the respective programs.

Medicare – Illustrative Alternative Scenario

The financial projections for the Medicare program reflect substantial, but very uncertain, cost savings deriving from specific provisions of the PPACA and the MACRA that lowered increases in Medicare payment rates to most categories of health care providers. 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. For those providers affected by the productivity adjustments and the specified updates to physician payments, sustaining the price reductions will be challenging, as the best available evidence indicates that most providers cannot improve their productivity to this degree for a prolonged period given the labor-intensive nature of these services and that physician costs will grow at a faster rate than the specified updates. As a result, actual Medicare expenditures are highly uncertain for reasons apart for the inherent difficulty in projecting health care cost growth over time. Please refer to unaudited RSI—Social Insurance and HHS financial statements for additional information.

To help illustrate and quantify the potential magnitude of the cost understatement, the Trustees asked the Office of the Actuary at CMS to prepare the following illustrative Medicare Trust Fund projections under a hypothetical alternative. This scenario illustrates the impact that would occur if the payment updates that are affected by the productivity adjustments were to gradually transition from current law to the payment updates assumed for private health plans, the physician updates transition to the Medicare Economic Index, and the 5 percent bonuses paid to qualified physicians in advance APMs did not expire. The extent to which actual future Part A and Part B costs exceed the projected amounts due to changes to the productivity adjustments and physician updates depends on what specific changes might be legislated and whether Congress would pass further provisions to help offset such costs. This alternative was developed for illustrative purposes only and the calculations have not been audited.

Medicare Present Values (In trillions) (Unaudited)

	2020 Consolidated SOSI Current Law	Illustrative Alternative Scenario [1, 2]
Income:		
Part A	25.6	25.6
Part B [3]	13.5	15.2
Part D [4]	3.2	3.2
Total income	42.3	44.0
Expenditures:		
Part A	30.4	35.5
Part B	46.6	52.5
Part D	11.0	11.0
Total expenditures	88.0	99.0
Income less expenditures:		
Part A	(4.8)	(9.9)
Part B	(33.1)	(37.3)
Part D	(7.8)	(7.8)
Excess of expenditures over income	(45.7)	(55.0)

[1]These amounts are not presented in the 2020 Trustees' Report.

[2]At the request of the Trustees, the Office of the Actuary at CMS has prepared an illustrative set of Medicare Trust Fund projections that differ from current law. No endorsement of the illustrative alternative to current law by the Trustees, CMS, or the Office of the Actuary should be inferred.

[3]Excludes $33.1 trillion and $37.3 trillion of General Revenue Contributions from the 2020 Consolidated SOSI Current Law projection and the Illustrative Alternative Scenario's projection, respectively; i.e., to reflect Part B income on a consolidated government-wide basis.

[4]Excludes $7.8 trillion of General Revenue Contributions from both the 2020 Consolidated SOSI Current Law projection and the Illustrative Alternative projection; i.e., to reflect Part D income on a consolidated government-wide basis.

Demographic and Economic Assumptions

Social Security and Medicare – Demographic and Economic Assumptions

	Demographic Assumptions							
	2020	**2030**	**2040**	**2050**	**2060**	**2070**	**2080**	**2090**
Total Fertility Rate[1]	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Age-Sex Adjusted Death Rate (per 100,000)[2]	790.4	729.4	669.5	616.6	570.1	529.1	492.8	460.5
Net Annual Immigration (in thousands of persons)[3]	1,418	1,326	1,277	1,249	1,236	1,227	1,221	1,218
Period Life Expectancy at Birth - Male [4]	76.4	77.5	78.6	79.7	80.7	81.6	82.5	83.3
Period Life Expectancy at Birth - Female[4]	81.3	82.2	83.1	84.0	84.8	85.6	86.3	86.9

	Economic Assumptions (percent change)							
	2020	**2030**	**2040**	**2050**	**2060**	**2070**	**2080**	**2090**
Real Wage Differential[5]	1.2	1.3	1.1	1.1	1.2	1.1	1.1	1.1
Average Annual Wage in Covered Employment[6]	3.5	3.7	3.5	3.5	3.6	3.5	3.5	3.5
CPI[7]	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Real GDP[8]	2.1	2.0	1.9	2.0	2.0	1.9	2.0	2.0
Total Employment[9]	0.9	0.4	0.3	0.5	0.4	0.3	0.4	0.4
Average Annual Interest Rate (percent)[10]	2.3	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Real Interest Rate (percent)[11]	0.0	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Per Beneficiary Cost - HI[12]	5.2	6.5	4.4	3.4	3.1	3.4	3.5	3.3
Per Beneficiary Cost - SMI Part B[12]	6.5	8.3	4.4	3.8	3.7	3.6	3.7	3.6
Per Beneficiary Cost - SMI Part D[12]	(0.7)	4.5	4.2	4.4	4.2	4.1	4.2	4.1

[1]Average number of children per woman.

[2]The age-sex-adjusted death rate per 100,000 that would occur in the enumerated population as of April 1, 2010, if that population were to experience the death rates by age and sex observed in, or assumed for, the selected year.

[3]Includes lawful immigration, net of immigration, as well as other, non-legal, immigration.

[4]Summary measure of average number of years expected prior to death for a person born on January 1 in that year, using the mortality rates for that year over the course of his or her remaining life. (Social Security)

[5]Difference between percentage increases in wages and the CPI.

[6]Average annual wage in covered employment.

[7]CPI represents a measure of the average change in prices over time in a fixed group of goods and services.

[8]Total dollar value of all goods and services produced in the U.S., adjusted to remove the impact of assumed inflation growth.

[9]Summary measure of total U.S. military and civilian employment. (Social Security)

[10]The average of the nominal interest rates, compounded semi-annually, for special public-debt obligations issuable monthly.

[11]Average rate of interest earned on new trust fund securities, above and beyond rate of inflation. The assumption for 2020 is greater than -0.05 and less than 0.05 percent. (Medicare)

[12]These increases reflect the overall impact of more detailed assumptions that are made for each of the different types of service provided by the Medicare program. These assumptions include changes in the payment rates, utilization, and intensity of each type of service. (Medicare)

The Boards of Trustees[8] of the Social Security and Medicare Trust Funds provide in their annual reports to Congress short-range (10-year) and long-range (75-year) actuarial estimates of each trust fund. Significant uncertainty surrounds the

[8] The boards are composed of six members. Four members serve by virtue of their positions in the federal government: the Secretary of the Treasury, who is the Managing Trustee; the Secretary of Labor; the Secretary of HHS; and the Commissioner of Social Security. The President appoints and the Senate confirms the other two members to serve as public representatives. These two positions are currently vacant.

estimates, especially for a period as long as 75 years. To illustrate the range of uncertainty, the Trustees use three alternative scenarios (low-cost, intermediate, and high-cost) that use specific assumptions. These assumptions include fertility rates, rates of change in mortality, LPR and other-than-LPR immigration levels, emigration levels, changes in real GDP, changes in the CPI, changes in average real wages, unemployment rates, trust fund real yield rates, and disability incidence and recovery rates. The assumptions used for the most recent set of projections shown above in the Social Security and Medicare demographic and economic assumption table are generally referred to as the "intermediate assumptions," and reflect the Trustees' reasonable estimate of expected future experience. For additional information on Social Security and Medicare demographic and economic assumptions, refer to SSA's and HHS's financial statements.

The RRP's estimated future revenues and expenditures reflected in the SOSI are based on various economic, employment, and other actuarial assumptions, and assume that the RRP will continue as presently constructed. For further details on actuarial assumptions related to the RRP and how these assumptions affect amounts presented on the SOSI and SCSIA, consult the Technical Supplement to the *27th Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2016, the 2020 Annual Report on the Railroad Retirement System required by Section 502 of the Railroad Retirement Solvency Act of 1983* and RRB's financial statements.

The BLBDP significant assumptions used in the projections are the coal excise tax revenue estimates, the tax rate structure, the number of beneficiaries, life expectancy, Federal civilian pay raises, medical cost inflation, and the interest rates used to discount future cash flows.

Statement of Changes in Social Insurance Amounts

The SCSIA reconciles the change (between the current valuation and the prior valuation) in the PV of estimated future revenue less estimated future expenditures for current and future participants (the open group measure) over the next 75 years (except Black Lung which has a rolling 25-year projection period through September 30, 2045). The reconciliation identifies several components of the changes that are significant and provides reasons for the changes. The following disclosures relate to the SCSIA including the reasons for the components of the changes in the open group measure during the reporting period from the end of the previous reporting period for the government's social insurance programs.

All estimates relating to the Social Security and Medicare Programs in the SCSIA represent values that are incremental to the prior change. In general, an increase in the PV of net cash flows represents a positive change (improving financing), while a decrease in the PV of net cash flows represents a negative change (worsening financing). For additional information regarding the estimates used to prepare the SCSIA, see SSA's, HHS'S, RRB's, and DOL's financial statements.

Assumptions Used for the Components of the Changes

The PV included in the SCSIA are for the current and prior years and are based on various economic as well as demographic assumptions used for the intermediate assumptions in the Social Security and Medicare Trustees' Report for these years. The Social Security and Medicare – Demographic and Economic Assumptions table summarizes these assumptions for the current year.

PV as of January 1, 2019 and January 1, 2018 are calculated using interest rates from the intermediate assumption of the 2019 and 2018 Trustees' Reports, respectively. All other PV in this part of the SCSIA are calculated as PV as of January 1, 2020 and January 1, 2019 respectively.

For the period beginning on January 1, 2019 to the period beginning on January 1, 2020 (current year) and period beginning on January 1, 2018 to the period beginning on January 1, 2019 (prior year) estimates of the PV of Social Security and Medicare changes in social insurance amounts due to changing the valuation period, projection base, demographic data and assumptions, and law are presented using the interest rates under the intermediate assumption of the 2019 and 2018 Trustees' Report respectively. Since interest rates are an economic estimate and all estimates in the table are incremental to the prior change, the estimates of the PV of changes in economic and health care assumption and all other PV in this part of the SCSIA are calculated using the interest rates under the intermediate assumptions of the 2020 and 2019 Trustee's Report respectively.

Changes in Valuation Period

From the period beginning on January 1, 2019 to the period beginning on January 1, 2020

The effect on the 75-year PV of changing the valuation period from the prior valuation period (2019-2093) to the current valuation period (2020-2094) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cash flow for 2019, replaces it with a much larger negative net cash flow for 2094, and measures the PV as of January 1, 2020, one year later. As a result, the PV of the estimated future net decreased by $0.6 trillion and decrease by $1.6 trillion for Social Security and Medicare, respectively.

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

The effect on the 75-year PV of changing the valuation period from the prior valuation period (2018–2092) to the current valuation period (2019–2093) is measured by using the assumptions for the prior valuation and extending them to cover the current valuation. Changing the valuation period removes a small negative net cash flow for 2018, replaces it with a much larger negative net cash flow for 2093, and measures the PV as of January 1, 2019, one year later. As a result, the PV of the estimated future net cash flows decreased by $0.5 trillion and decreased by $1.4 trillion for Social Security and Medicare respectively.

Changes in Demographic Data, Assumptions, and Methods

From the period beginning on January 1, 2019 to the period beginning on January 1, 2020

For the current valuation (beginning on January 1, 2020), there were two changes to ultimate demographic assumptions compared to prior valuation (beginning on January 1, 2019).

- The ultimate total fertility rate was lowered.
- The ultimate disability incidence rate was lowered, and the near-term assumed disability incidence rates are somewhat lower in the current valuation. (Medicare only)

In addition to this ultimate demographic assumption change, the starting demographic values and the way those values transition to the ultimate assumptions were changed.

- Final birth rate data for 2018 and the first quarter of 2019 indicated somewhat lower birth rates.
- Incorporating mortality data obtained from the NCHS resulted in higher death rates for all future years.
- The latest valuation included the impact of TTD on Medicare expenditures.

These changes especially the TTD assumption lowered Medicare expenditures for the current valuation period, particularly for Part A, and resulted in a large increase in the estimated future net cash flow. For Social Security there were no notable changes in demographic methodology. Overall, changes to these assumptions caused the PV of the estimated future net cash flows decrease by $0.4 trillion and increased by $3.7 trillion for Social Security and Medicare, respectively.

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

The ultimate demographic assumptions for the current valuation (beginning on January 1, 2019) are the same as those for the prior valuation. However, the starting demographic values and the way these values transition to the ultimate assumptions were changed.

- The numbers of new LPRs for calendar years 2018 and 2019 were assumed to be slightly lower.
- The current valuation incorporated a gradual rise in 2017 and 2018 of other-than-LPR immigrants, reaching the ultimate assumed level in 2019.
- Final birth rate data for 2017 indicated slightly lower birth rates.
- Incorporating mortality data obtained from the NCHS resulted in higher death rates for all future years.

There were two notable changes in demographic methodology:

- Improved the method for projecting fertility rates by better incorporating detailed provisional birth rate data available from NCHS.
- Incorporated more comprehensive Medicare mortality data from CMS.

Overall, changes to these assumptions and methods caused the PV of the estimated future net cash flows to increase by $0.4 trillion for Social Security and Medicare.

Changes in Economic Data, Assumptions, and Methods

From the period beginning on January 1, 2019 to the period beginning on January 1, 2020

For the current valuation (beginning on January 1, 2020), there were four changes to the ultimate economic assumptions compared to prior valuation (beginning on January 1, 2019).

- The ultimate rate of price inflation (CPI-W) was lowered.
- The ultimate average real-wage differential was decreased. Most of this decrease is due to the repeal of the ACA excise tax, the effect of which is accounted for in the “Changes in Law or Policy” section.
- The ultimate age-sex adjusted unemployment rate was reduced, and long-term labor force participation rates were reduced by age and sex such that projected employment rates remained essentially unchanged.
- The ultimate real interest rate was lowered.

In addition to these changes in ultimate assumptions, the starting economic values and the way these values transition to the ultimate assumptions were changed. The most notable change was to include a 0.7 percent decrease in the estimated level of potential GDP for the fourth quarter of 2019 and thereafter.

There were no notable changes in economic methodology. Overall, changes to these assumptions caused the PV of the estimated future net cash flows to decrease by $1.8 trillion for Social Security.

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

For the current valuation (beginning on January 1, 2019), there were four changes to the ultimate economic assumptions compared to the prior valuation (beginning on January 1, 2018).

- The ultimate annual rate of change in total-economy labor productivity was lowered reflecting an expected slower rate of productivity growth in the long term.
- The difference between the ultimate growth rates for the CPI-W and the GDP implicit price deflator (the "price differential"), was decreased.
- The ultimate average real-wage differential was increased.
- The ultimate real interest rate was lowered.

In addition to these changes in ultimate assumptions, the starting economic values and the way these values transition to the ultimate assumptions were changed. The most notable change was to include the July 2018 revisions in historical GDP estimated by the BEA of the DOC.

There was one notable change in economic methodology:

- Incorporated more recent projections of disability prevalence in the labor force participation model.

Overall, changes to these assumptions and methods cause the PV of the estimated future net cash flows to decrease by $1.0 trillion for Social Security.

Changes in Law or Policy

From the period beginning on January 1, 2019 to the period beginning on January 1, 2020

For Social Security, between prior valuation and the current valuation one new law and one new regulation were enacted that are expected to have significant effects on the long-range cost.

- The ACA, which was enacted in 2010, specified an excise tax on employer-sponsored group health insurance premiums above a given level (commonly referred to as the “Cadillac” tax). On December 20, 2019, the ACA’s excise tax provision was repealed.
- On February 25, 2020, SSA published a final rule in the Federal Register that eliminates the inability to communicate in English as an educational category in the disability determination and medical review process.

Most of the provisions enacted as part of Medicare legislation since the prior valuation date had little or no impact on the program. The following provisions did have a financial impact.

- *The BBA of 2019* (P.L. 116-37, enacted on August 2, 2019) included one provision that affects HI and SMI Program.
- *The Future Consolidated Appropriations Act, 2020* (P.L. 116-94, enacted on December 20, 2029) included provisions that affect HI and SMI programs.

Overall, the changes to these laws, regulations, and policies caused the PV of the estimated future net cash flows to decrease by $0.3 trillion for Social Security and Medicare.

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

The effect of the changes in law or policy for Social Security and the provisions enacted as part of Medicare legislation since the prior valuation date had no measurable impact on program expenditures.

Changes in Methodology and Programmatic Data (Social Security Only)

From the period beginning on January 1, 2019 to the period beginning on January 1, 2020

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2020) compared to the prior valuation (beginning on January 1, 2019). The most significant are identified below.

- The ultimate disability incidence rate was lowered and near term assumed disability incidence rates are somewhat lower.
- The current valuation includes an improvement in the long-range model used for projecting the percentage of the population that has fully-insured status.

- The current valuation uses a 10 percent sample of all newly entitled worker beneficiaries in a recent year to project average benefit levels of retired-worker and disabled-worker beneficiaries.

Overall, changes to these assumptions and methods caused the PV of the estimated future net cash flow to increase by $0.2 trillion for Social Security.

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2019) compared to the prior valuation (beginning on January 1, 2018). The most significant are identified below.

- The ultimate disability incidence rate was lowered. In addition, recent levels of disability applications and awards are lower than expected and estimated disability incidence rates are assumed to increase more gradually toward the assumed ultimate level.
- The current valuation uses a 10 percent sample of newly-entitled worker beneficiaries in 2015 to project average benefit levels of retired-worker and disabled-worker beneficiaries. For the current valuation, the model's projection of earnings for workers becoming newly entitled in future years was improved to better reflect the "dispersion" in taxable earnings levels observed from 1970 to 2010.
- The current valuation includes an improvement in the method for calculating future benefit levels for those who are awarded benefits more than two years after their date of initial benefit entitlement. This improvement mainly affects DI benefit levels.
- The current valuation updated two sets of benefit adjustment factors based on new programmatic data: the post-entitlement adjustment factors and the Windfall Elimination Provision factors.

Overall, changes to these assumptions and methods caused the PV of the estimated future net cash flows to increase by $0.5 trillion for Social Security.

Changes in Economic and Other Health Care Assumptions (Medicare Only)

From the period beginning on January 1, 2019 to the period beginning on January 1, 2020

The economic assumptions used in the Medicare projections are the same as those used for the Social Security shown above while the health care assumptions are specific to the Medicare projections. The following health care assumptions were changed in the current valuation.

- Higher projected spending growth for Medicare Advantage beneficiaries.
- Faster projected growth for Part B drugs.
- Slower overall drug price increases and higher direct and indirect remuneration.

Overall, these changes decreased the PV of the estimated future net cash flows by $5.4 trillion for Medicare.

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

The economic assumptions used in the Medicare projections are the same as those used for Social Security shown above while the health care assumptions are specific to the Medicare projections. The following health care assumptions were changed in the current valuation:

- Lower assumed growth in economy-wide productivity, which results in higher payment updates for certain providers.
- Faster projected spending growth for physician-administered drugs under Part B.
- Higher projected drug manufacturer rebates and slower overall drug price increases assumed in the short-range period.

Overall, the net impact of these changes caused the PV of estimated future net cash flows to decrease by $3.0 trillion for Medicare.

Change in Projection Base (Medicare Only)

From the period beginning on January 1, 2019 to period beginning on January 1, 2020

Actual income and expenditures in 2019 were different than what was anticipated when the 2019 Trustees' Report projections were prepared. Part A income and expenditures in 2019 were lower than anticipated based on actual experience. For both Part B and Part D, total income and expenditures were higher than estimated based on actual experience. The net impact of the Part A, B, and D projection base changes is an increase of $401 billion in the PV of the estimated future net cash flow, including combined trust fund assets. Actual experience of the Medicare Trust Funds between January 1, 2019 and January 1, 2020 is incorporated in the current valuation and is more than projected in the prior valuation. Overall, the net impact of the Part A, B, and D projection base change is an increase in the estimated future net cash flows by $0.1 trillion for Medicare.

From the period beginning on January 1, 2018 to the period beginning on January 1, 2019

Actual income and expenditures in 2018 were different than what was anticipated when the 2018 Trustees' Report projections were prepared. Part A income in 2018 was lower and expenditures were higher than anticipated based on actual experience. For both Part B and Part D, total income and expenditures were higher than estimated based on actual experience. The net impact of the Part A, B, and D projection base changes is a decrease in the estimated future net cash flow. Actual experience of the Medicare Trust Funds between January 1, 2018 and January 1, 2019 is incorporated in the current valuation and is more than projected in the prior valuation. Overall, the net impact of the Part A, B, and D projection base change is a decrease in the estimated future net cash flows by $0.5 trillion for Medicare.

Note 24. Long-Term Fiscal Projections

The SLTFP is prepared pursuant to SFFAS No. 36, *Comprehensive Long-Term Projections for the U.S. Government*. The financial statement, Note 24, and unaudited RSI provide information to aid readers of the *Financial Report* in assessing whether current policies for federal spending and taxation can be sustained and the extent to which the cost of public services received by current taxpayers will be shifted to future taxpayers. This assessment requires prospective information about receipts and spending, the resulting debt, and how these amounts relate to the size of the economy. A sustainable policy is defined as one where the ratio of federal debt held by the public to GDP (the debt-to-GDP ratio) is ultimately stable or declining. The *Financial Report* does not address the sustainability of state and local government fiscal policy.

The projections and analysis presented here are extrapolations based on an array of assumptions described in detail below. A fundamental assumption is that current federal policy will not change. This assumption is made so as to inform the question of whether current fiscal policy is sustainable and, if it is not sustainable, the magnitude of needed reforms to make fiscal policy sustainable. The projections are therefore neither forecasts nor predictions. If policy changes are implemented, perhaps in response to projections like those presented here, then actual financial outcomes will be different than those projected. The methods and assumptions underlying the projections are subject to continuing refinement. Further, the projections are based on the same economic and demographic assumptions that underlie the 2020 Social Security and Medicare Trustees' Reports, and those assumptions were developed prior to the COVID-19 pandemic and economic downturn. At this time, management cannot reasonably estimate the potential effects of COVID-19 on the projections or other sustainability measures, which could be significant.

The projections focus on future cash flows, and do not reflect either the accrual basis or the modified-cash basis of accounting. These cash-based projections reflect receipts or spending at the time cash is received or when a payment is made by the government. In contrast, accrual-based projections would reflect amounts in the time period in which income is earned or when an expense or obligation is incurred. The cash basis accounting underlying the long-term fiscal projections is consistent with methods used to prepare the SOSI and the generally cash-based federal budget.

The SLTFP displays the present value of 75-year projections for various categories of the federal government's receipts and non-interest spending.[9] The projections for FYs 2020 and 2019 are expressed in present value dollars and as a percent of the present value of GDP[10] as of September 30, 2020 and September 30, 2019, respectively. The present value of a future amount, for example $1 billion in October 2095, is the amount of money that if invested on September 30, 2020 in an account earning the government borrowing rate would have a value of $1 billion in October 2095.[11]

The present value of a receipt or spending category over 75 years is the sum of the annual present value amounts. When expressing a receipt or spending category over 75 years as a percent of GDP, the present value dollar amount is divided by the present value of GDP over 75 years. Measuring receipts and spending as a percent of GDP is a useful indicator of the economy's capacity to sustain federal government programs.

Fiscal Projections

Receipt categories in the long-term fiscal projections include individual and corporation income taxes, Social Security and Medicare payroll taxes, and a residual remaining category of "other receipts." Non-interest spending categories include discretionary spending that is funded through annual appropriations, such as spending for national security; and mandatory (entitlement) spending that is generally funded with permanent or multi-year appropriations, such as spending for Social Security and Medicare. This year's projections for Social Security and Medicare are based on the same economic and demographic assumptions that underlie the 2020 Social Security and Medicare Trustees' Reports and the 2020 SOSI, while comparative information presented from last year's report is based on the 2019 Social Security and Medicare Trustees' Reports and the 2019 SOSI.[12] Projections for the other categories of receipts and spending are consistent with the economic and demographic assumptions in the Trustees' Reports. The projections assume the continuance of current policy which, builds off current law, but can be different than current law in cases where lawmakers have in the past periodically changed

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

[10] GDP is a standard measure of the overall size of the economy and represents the total market value of all final goods and services produced domestically during a given period of time. The components of GDP are: private sector consumption and investment, government consumption and investment, and net exports (exports less imports). Equivalently, GDP is a measure of the gross income generated from domestic production over the same time period.

[11] Present values 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 present value, future amounts are thus reduced using an assumed interest rate, and those reduced amounts are summed.

[12] Social Security and Medicare Trustees' Reports can be found at https://www.ssa.gov/OACT/TR/.

the law in a consistent way. The specific assumptions that depart from current law and are used for the current policy basis of these projections are explained below.

The projections shown in the SLTFP are made over a 75-year time frame, consistent with the time frame featured in the Social Security and Medicare Trustees' Reports. However, these projections are for fiscal years starting on October 1, whereas the Trustees' Reports feature calendar-year projections. Using fiscal years allows the projections to start from the actual budget results from FYs 2020 and 2019.

The effects of legislation enacted after September 30, 2020 in response to the COVID-19 pandemic are not reflected in the projections shown in the Statements of Long-Term Fiscal Projections and this note and cannot be reasonably estimated. See Note 29—Subsequent Events for additional information.

Changes in Long-Term Fiscal Projections Present Value (PV) of 75-Year Projections	**Trillions of $**	**Percent of 75-Year PV of GDP**
Receipts less non-interest spending as of September 30, 2019.......	(49.0)	(3.2) %
Components of Change:		
Change in Reporting Period	(1.1)	-
Change due to Economic and Demographic Assumptions	(8.1)	(0.3)
Change due to Program-Specific Actuarial Assumptions	(1.3)	(0.1)
Change due to Updated Budget Data	(19.9)	(1.2)
Change in Model Technical Assumptions	-	-
Total	(30.5)	(1.6)
Receipts less non-interest spending as of September 30, 2020.......	(79.5)	(4.8)

Note: Totals may not equal the sum of components due to rounding. The 75-year PV of GDP is updated with the change in reporting period and change in economic and demographic assumptions.

This year's estimate of the 75-year present value imbalance of receipts less non-interest spending is 4.8 percent of the current 75-year present value of GDP, compared to 3.2 percent as was projected in last year's *Financial Report*.[13] The above table reports the effects of various factors on the updated projections.

- The largest factor affecting the projections—increasing the imbalance by 1.2 percent of the 75-year present value of GDP ($19.9 trillion)—is attributable to actual budget results for FY 2020, the budgetary estimates published in the FY 2021 President's Budget, and changes to spending and receipts after 2020 due to legislation enacted in response to the COVID-19 pandemic, based on CBO estimates.[14] This includes lower individual income tax receipts and higher spending for mandatory programs other than Social Security, Medicare, and Medicaid.
- The second largest factor was the update of economic and demographic assumptions which increases the imbalance by 0.3 percent of the 75-year present value of GDP ($8.1 trillion). The present value of receipts less non-interest spending deteriorated as a percent of the 75-year present value of GDP partially due to lower population growth, which lowers wage projections and decreases individual income tax and social insurance receipts. As discussed below in the section on assumptions used, the projections are based on the same economic and demographic assumptions that underlie the 2020 Trustees' Reports, which were published in April 2020 and do not reflect the effects of the COVID-19 pandemic.

[13] The fiscal imbalances reported in the long-term fiscal projections do not include the initial level of publicly held debt, which was $21.0 trillion in 2020 and $16.8 trillion in 2019, and, therefore, they do not by themselves answer the question of how large fiscal reforms must be to make fiscal policy sustainable. See "Sustainability and the Fiscal Gap" and footnote 10 for additional discussion. More information on the projections in last year's *Financial Report* can be found in Note 23 to the Financial Statements here: https://fiscal.treasury.gov/reports-statements/#

[14] Legislation enacted in response to the COVID-19 pandemic includes: the *Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020* (P.L. 116-123); the *Families First Coronavirus Response Act* (P.L. 116-127); the CARES Act (P.L. 116-136); and the *Paycheck Protection Program and Health Care Enhancement Act* (P.L.116-139). The *Consolidated Appropriations Act, 2021* (P.L.116-260), which contains additional stimulus provisions, was signed into law on December 27, 2020 and is not reflected in the 2020 long-term fiscal projections.

- The third largest factor is the effect of new Social Security, Medicare, and Medicaid program-specific actuarial assumptions, which increase this imbalance by about 0.1 percent of the 75-year present value of GDP ($1.3 trillion).[15]
- The last factor in the table, the change in reporting period – the effect of shifting calculations from 2020 through 2094 to 2021 through 2095 – increases the imbalance of the 75-year present value of receipts less non-interest spending by $1.1 trillion.

The net effect of the changes in the table above, equal to the penultimate row in the SLTFP, shows that this year's estimate of the overall 75-year present value of receipts less non-interest spending is negative 4.8 percent of the 75-year present value of GDP (negative $79.5 trillion, as compared to a GDP of $1,645.1 trillion). This imbalance can be broken down by funding source. Spending projections exceeded receipts by 3.3 percent of GDP (about $53.9 trillion) among programs funded by the government's general revenues, and there is an imbalance of 1.6 percent of GDP (about $25.6 trillion)[16] for the combination of Social Security (OASDI) and Medicare Part A, which under current law are funded with payroll taxes and not in any material respect with general revenues.[17, 18] By comparison, the FY 2019 projections showed that programs funded by the government's general revenues had an excess of spending over receipts of 1.7 percent of GDP ($25.6 trillion) while the payroll tax-funded programs had an imbalance of spending over receipts of 1.5 percent of GDP ($23.4 trillion).

Sustainability and the Fiscal Gap

This 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 reached 100 percent at the end of FY 2020. The projections in this report are based on the same economic and demographic assumptions that underlie the 2020 Social Security and Medicare Trustees' Reports, and those assumptions were developed prior to the COVID-19 pandemic and economic downturn. At this time, management cannot reasonably estimate the potential effects of COVID-19 on the projections or other sustainability measures, which could be significant.

As discussed further in the unaudited RSI, the projections based on this report's assumptions indicate that current policy is not sustainable. If current policy is left unchanged, the projections show the debt-to-GDP ratio will rise to 200 percent by 2042 and reach 623 percent in 2095. Moreover, if the trends that underlie the 75-year projections were to continue, the debt-to-GDP ratio would continue to rise beyond the 75-year window.

The fiscal gap measures how much the primary surplus (receipts less non-interest spending) must increase in order for fiscal policy to achieve a target debt-to-GDP ratio in a particular future year. In these projections, the fiscal gap is estimated over a 75-year period, from 2021 to 2095, and the target debt-to-GDP ratio is equal to the ratio at the beginning of the projection period, in this case the estimated debt-to-GDP ratio at the end of FY 2020. The target year is the last year of the 75-year period (2095).

The 75-year fiscal gap under current policy is estimated at 5.4 percent of GDP, which is 30.2 percent of the 75-year present value of projected receipts and 23.8 percent of the 75-year present value of non-interest spending. This estimate of the fiscal gap is 1.6 percentage points larger than was estimated in 2019 (3.8 percent of GDP).

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[15] For more information on Social Security and Medicare actuarial estimates, refer to Note 23, "Social Insurance."

[16] The 75-year present value imbalance for Social Security and Medicare Part A of $25.6 trillion is comprised of several line items from the SLTFP – Social Security outlays net of Social Security payroll taxes ($26.6 trillion) and Medicare Part A outlays net of Medicare payroll taxes ($9.7 trillion) – as well as subcomponents of these programs not presented separately in the statement. These subcomponents include Social Security and Medicare Part A administrative costs that are classified as non-defense discretionary spending ($0.7 trillion) and Social Security and Medicare Part A income other than payroll taxes: taxation of benefits (-$5.3 trillion), federal employer share (-$1.4 trillion), and other income (-$4.8 trillion).

[17] Social Security and Medicare Part A expenditures can exceed payroll tax revenues in any given year to the extent that there are sufficient balances in the respective trust funds; these balances derive from past excesses of payroll tax revenues over expenditures and interest earned on those balances and represent the amount the General Fund owes the respective trust fund programs. When spending does exceed payroll tax revenues, as has occurred each year since 2008 for Medicare Part A and 2010 for Social Security, the excess spending is financed first with interest due from the General Fund and secondly with a drawdown of the trust fund balance; in either case, the spending is ultimately supported by general revenues or borrowing. Under current law, benefits for Social Security and Medicare Part A can be paid only to the extent that there are sufficient balances in the respective trust funds. In order for the long-term fiscal projections to reflect the full size of these program's commitments to pay future benefits, the projections assume that all scheduled benefits will be financed with borrowing to the extent necessary after the trust funds are depleted.

[18] The fiscal imbalances reported in the long-term fiscal projections are limited to future outlays and receipts. They do not include the initial level of publicly-held debt, $21.0 trillion in 2020 and $16.8 trillion in 2019, and therefore they do not by themselves answer the question of how large fiscal reforms must be to make fiscal policy sustainable, or how those reforms divide between reforms to Social Security and Medicare Part A and to other programs. Other things equal, past cash flows (primarily surpluses) for Social Security and Medicare Part A reduced federal debt at the end of 2020 by $2.9 trillion (the trust fund balances at that time); the contribution of other programs to federal debt at the end of 2020 was therefore $23.9 trillion. Similarly, because the $25.6 trillion imbalance between outlays and receipts over the next 75 years for Social Security and Medicare Part A does not take account of the Social Security and Medicare Part A trust fund balances, it overstates the magnitude of reforms necessary to make Social Security and Medicare Part A solvent over 75 years by $2.9 trillion. The $2.9 trillion combined Social Security and Medicare Part A trust fund balance represents a claim on future general revenues.

The projections show that projected primary deficits average 4.8 percent of GDP over the next 75 years under current policy. If policies were put in place that would result in a zero fiscal gap, the average primary surplus over the next 75 years would be 0.6 percent of GDP, 5.4 percentage points higher than the projected present value of receipts less non-interest spending shown in the SLTFP. In these projections, closing the fiscal gap requires running a substantially positive level of primary surplus, rather than simply eliminating the primary deficit. The primary reason is that the projections assume future interest rates will exceed the growth rate of GDP. Achieving primary balance (that is, running a primary surplus of zero) implies that the debt held by the public grows each year by the amount of interest spending, which under these assumptions would result in debt growing faster than GDP.

Assumptions Used and Relationship to Other Financial Statements

A fundamental assumption underlying the projections is that current federal policy (defined below) 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.

Even if policy does not change, actual spending and receipts could differ materially from those projected here. Long-range projections are inherently uncertain and are necessarily based on simplifying assumptions. For example, one key simplifying assumption is that interest rates paid on debt held by the public remain unchanged, regardless of the amount of debt outstanding. To the contrary, it is likely that future interest rates would increase if the debt-to-GDP ratio rises as shown in these projections. To help illustrate this uncertainty, projections that assume higher and lower interest rates are presented in the "Alternative Scenarios" discussion in the unaudited RSI section of this *Financial Report*.

As is true for prior long-term fiscal projections for the *Financial Report*, the assumptions for GDP, interest rates, and other economic and demographic variables underlying this year's projections are the same assumptions that underlie the most recent Social Security and Medicare Trustees' Report projections, adjusted for historical revisions that occur annually. These assumptions differ from those in the President's Budget because they extend for 75 years, rather than 25 years. Additionally, they assume extension of current policy whereas the economic assumptions in the President's Budget assume full implementation of policies reflected in the Budget.[19] The use of discount factors consistent with the Social Security Trustees' rate allows for consistent present value calculations over 75 years between the SLTFP and the SOSI.

The most recent Social Security and Medicare Trustees' Reports were released in April 2020, and the economic and demographic assumptions do not reflect the effects of the COVID-19 pandemic, increasing the uncertainty surrounding this year's long-term fiscal projections. Management cannot reasonably estimate the potential effects of COVID-19 on the projections at this time. Future revenues and spending could materially differ from those included in the projections, due to the effects of the pandemic. Also, this uncertainty could significantly affect related sustainability reporting, including but not limited to the fiscal gap and the projected depletion dates for Social Security and Medicare Hospital Insurance Trust Funds. The alternative scenarios in the unaudited RSI illustrate the effect of different assumptions on the fiscal gap by considering the effects of changes to health care cost growth, interest rates, discretionary spending growth, and individual income receipt growth.

The following bullets summarize the key assumptions used for the categories of receipts and spending presented in the SLTFP and the disclosures:

- **Social Security:** Projected Social Security (OASDI) spending excludes administrative expenses, which are classified as discretionary spending, and is based on the projected spending in the 2020 Social Security Trustees' Report for benefits and for the Railroad Retirement interchange. The projections of Social Security payroll taxes and Social Security spending are based on future spending and payroll taxes projected in the 2020 Social Security Trustees' Report, adjusted for presentational differences and converted to a fiscal year basis. More information about the assumptions for Social Security cost growth can be found in Note 23 and the unaudited RSI discussion of Social Insurance.
- **Medicare:** Projected Medicare spending also excludes administrative expenses, which are classified as discretionary spending, and is based on projected spending from the 2020 Medicare Trustees' Report. The projections here make some adjustments to the Trustees' Report projections. Medicare Part B and D premiums, as well as state contributions to Part D, are subtracted from gross spending in measuring Part B and Part D spending, just as they are subtracted from gross cost to yield net cost in the financial statements.[20] Here, as in the federal budget, premiums are treated as "negative spending" rather than receipts since they represent payment for a service rather than payments

[19] See the FY 2021 President's Budget, Analytical Perspectives Volume, Chapter 3 "Long-Term Budget Outlook"

[20] Medicare Part B and D premiums and state contributions to Part D are subtracted from the Part B and D spending displayed in the SLTFP. The total 75-year present value of these subtractions is $18.4 trillion, or 1.1 percent of GDP.

obtained through the government's sovereign power to tax. This is similar to the financial statement treatment of premiums as "earned" revenue as distinct from all other sources of revenue, such as taxes. The projections are based on Medicare spending in the Medicare Trustees' Report, adjusted for presentational differences and converted to a fiscal year basis. Medicare Part A payroll taxes are projected similarly. More information about the assumptions for Medicare cost growth can be found in Note 23 and the unaudited RSI discussion of Social Insurance. As discussed in Note 23, there is uncertainty about whether the reductions in health care cost growth assumed in the Medicare Trustees' Report will be fully achieved. Note 23 illustrates this uncertainty by considering Medicare cost growth assumptions under varying policy assumptions.

- **Medicaid:** The Medicaid spending projections start with the projections from the 2018 *Medicaid Actuarial Report* prepared by CMS's Office of the Actuary, which is the most recent report available.[21] These projections are based on recent trends in Medicaid spending; the demographic, economic, and health cost growth assumptions in the 2018 Medicare Trustees' Report; and projections of the effect of the PPACA on Medicaid enrollment. The projections in the Medicaid Actuarial Report, which end in 2027, are adjusted to accord with the actual Medicaid spending in FY 2020 and spending due to legislation enacted in response to the COVID-19 pandemic, based on CBO estimates. After 2027, the projections assume no further change in State Medicaid coverage under the PPACA, and the numbers of aged beneficiaries (65-plus years) and non-aged beneficiaries (less than 65 years) are expected to grow at the same rates as the aged and non -aged populations, respectively. Medicaid costs per beneficiary are assumed to grow at the same rate as Medicare benefits per beneficiary, as is generally consistent with the experience since 1987. Between 1987 and 2017, the average annual growth rate of spending per beneficiary for Medicaid and Medicare were within 0.3 percentage point of each other. Projections of Medicaid spending are subject to added uncertainty related to: 1) assumed reductions in health care cost growth discussed above in the context of Medicare, 2) the projected size of the Medicaid enrolled population, which depends on a variety of factors, including future state actions regarding the PPACA Medicaid expansion, and 3) certain limitations relating to the data used to generate the projected per enrollee spending in the 2018 Medicaid actuarial report.
- **Other Mandatory Spending:** 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 2021, implying that such spending will remain constant as a percent of GDP.[22,23] Mandatory spending due to legislation enacted as of September 30, 2020 in response to the COVID-19 pandemic is then reflected through 2030 based on CBO estimates, after which spending for these temporary programs ends. Projected spending for insurance exchange subsidies starting in 2021 grows with growth in the non-elderly population and with the NHE projected per enrollee cost growth for other private health insurance for the NHE projection period (through 2028 for the FY 2020 projections), and with growth in per enrollee health care costs as projected for the Medicare program after that period. As discussed in Note 23, there is uncertainty about whether the reductions in health care cost growth projected in the Medicare Trustees' Report will be fully achieved. Projected exchange subsidy spending as a percent of GDP remains below the failsafe provision in the PPACA that limits the federal share of spending to 0.504 percent of GDP.
- **Defense and Non-defense Discretionary Spending:** These projections assume that discretionary spending stays within statutory caps that apply to 2021 under the 2019 BBA and then grows with nominal GDP after 2021.[24] Projected overseas contingency operations spending, which is not subject to the caps, is assumed to grow from the actual level in the most recent year at the same rate as nominal GDP. Similar to mandatory spending, discretionary spending from supplemental appropriations enacted as of September 30, 2020 in response to the COVID-19 pandemic is reflected through 2030, based on CBO estimates. To illustrate sensitivity to different assumptions, present value calculations under alternative discretionary growth scenarios are presented in the unaudited "Alternative Scenarios" RSI section.

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[21] Christopher J. Truffer, Kathryn E. Rennie, Lindsey Wilson, and Eric T. Eckstein II, *2018 Actuarial Report on the Financial Outlook for Medicaid*, Office of the Actuary, Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services.

[22] Spending in 2020 due to legislation enacted in response to the COVID-19 pandemic is considered temporary and is not assumed to increase with nominal GDP. Such spending is identified using DEFC attributes for the following: *the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020* (P.L. 116-123); the *Families First Coronavirus Response Act* (P.L. 116-127); the CARES Act (P.L. 116-136); and the *Paycheck Protection Program and Health Care Enhancement Act* (P.L. 116-139). The effects of receipt and certain entitlement provisions cannot be identified using DEFC attributes. Spending data for COVID-19 response legislation are available on USASpending.gov.

[23] This assumed growth rate for other mandatory programs exceeds the growth rate in the most recent OMB and CBO 10-year budget baselines.

[24] The 2019 projections assumed that spending in FYs 2020 and 2021 would be consistent with BBA of 2019 spending caps and thereafter grow with GDP subject to Joint Committee, as estimated in the FY 2020 President's Budget. See the FY 2019 *Financial Report*. The FY 2021 President's Budget included no adjustments to discretionary spending for Joint Committee enforcement, and therefore Joint Committee enforcement is not included in the 2020 projections.

- **Receipts (Other than Social Security and Medicare Payroll Taxes):** Individual income taxes are based on the share of salaries and wages in the current law baseline projection in the FY 2021 President's Budget, and the salaries and wages projections in the Social Security 2020 Trustees' Report. That baseline accords with current policy as defined above, including the continuation of the individual income, estate, and gift tax provisions of the TCJA[25] and the tendency of effective tax rates to increase as growth in income per capita outpaces inflation (also known as "bracket creep"). Similar to spending, the temporary receipt effects of legislation enacted as of September 30, 2020 in response to the COVID-19 pandemic are reflected through 2030 based on CBO estimates. After reaching 21 percent of wages and salaries in 2030, individual income taxes increase gradually to 28 percent of wages and salaries in 2095 as real taxable incomes rise over time and an increasing share of total income is taxed in the higher tax brackets. Through the first 10 years of the projections, corporation tax receipts as a percent of GDP reflect the economic and budget assumptions used in developing the FY 2021 President's Budget ten-year advance baseline budgetary estimates. After this time, corporation tax receipts grow at the same rate as nominal GDP. All other receipts also reflect FY 2021 President's Budget levels as a share of GDP throughout the budget window and grow with GDP outside of the budget window. Corporation tax receipts peak at 1.6 percent of GDP in 2025 before falling to 1.3 percent of GDP in 2031, where they stay for the remainder of the projection period. The ratio of all other receipts combined, excluding corporation tax receipts, to GDP is estimated to be 1.4 percent in 2021, after which it gradually declines to 1.1 percent by 2028 where it remains through the projection period. To illustrate uncertainty, present value calculations under higher and lower receipts growth scenarios are presented in the "Alternative Scenarios" section.
- **Debt and Interest Spending:** 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 2020 Social Security Trustees' Report.[26] The average interest rate over this year's projection period is 4.5 percent, down from the 2019 *Financial Report's* 4.9 percent. These rates are also used to convert future cash flows to present values as of the start of FY 2021. 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.

Departures of Current Policy from Current Law

The long-term fiscal projections are made on the basis of current policy, which in some cases is assumed to be different from current law. The notable differences between current policy that underlies the projections and current law are: 1) projected spending, receipts, and borrowing levels assume raising or suspending the current statutory limit on federal debt; 2) continued discretionary appropriations are assumed throughout the projection period; 3) scheduled Social Security and Medicare Part A benefit payments are assumed to occur beyond the projected point of trust fund depletion; 4) many mandatory programs with expiration dates prior to the end of the 75-year projection period are assumed to be reauthorized; and 5) tax changes under the TCJA are assumed to continue beyond 2025, similar to the presentation in the FY 2021 President's Budget. The last difference aligns with the historical pattern of such legislation being routinely extended or made permanent. As is true in the Medicare Trustees' Report and in the SOSI, the projections incorporate programmatic changes already scheduled in law, such as the PPACA productivity adjustment for non-physician Medicare services and the expiration of certain physician bonus payments in 2025.

[25] The expiring individual income and estate and gift tax provisions of the TCJA are assumed to continue past their legal expiration on December 31, 2025 because of the recent historical pattern of such tax rates being extended, similar to the presentation in the FY 2021 President's Budget; additional discussion may be found in the last section of this note.
[26] As indicated in the more detailed discussion of Social Insurance in Note 23 to the financial statements.

Note 25. Stewardship Property, Plant, and Equipment

Stewardship PP&E consists of items whose physical properties resemble those of general PP&E traditionally capitalized in financial statements. However, stewardship PP&E differs from general PP&E in that their values may be indeterminable or may have little meaning (for example, museum collections, monuments, assets acquired in the formation of the nation) or that allocating the cost of such assets to accounting periods that benefit from the ownership of such assets is meaningless. Stewardship PP&E includes stewardship land (land not acquired for or in connection with general PP&E) and heritage assets (for example, federal monuments and memorials and historically or culturally significant property). The majority of stewardship land was acquired by the government during the first century of the nation's existence.

Investments in stewardship land are reported on a non-financial basis. For example, measurement may be based on physical units, such as acres of land. National forests, parks, and historic sites are examples of stewardship land.

Additional detailed information concerning stewardship land, such as entity stewardship policies, physical units by major categories, and the condition of stewardship land, can be obtained from the financial statements of DOD, DOI, EPA, HHS, TVA, and USDA.

Heritage assets are government-owned assets that have one or more of the following characteristics:

- Historical or natural significance;
- Cultural, educational, or artistic importance; or
- Significant architectural characteristics.

Like stewardship land, heritage assets are also reported on a non-financial basis. Some stewardship land assets are also included in non-collectible heritage assets, and may be reported by the total units, such as the total number of National Parks reported by DOI. Entities provide protection and preservation services to maintain all heritage assets in the best possible condition as part of America's history. Examples of heritage assets include the Declaration of Independence, the U.S. Constitution, and the Bill of Rights preserved by the National Archives. Also included are national monuments/structures such as Union Station (rail station) in Washington D.C., the Washington Monument, and the Lincoln Memorial.

Heritage assets are classified into two categories: collection and non-collection. Collection type heritage assets include objects gathered and maintained for exhibition, for example, museum collections, art collections, and library collections. Non-collection type heritage assets include parks, memorials, monuments, and buildings. In some cases, heritage assets may serve two purposes: a heritage function and general government operations. In those cases, the heritage asset should be considered a multi-use heritage asset if the predominant use of the asset is in general government operations (e.g., the main Treasury building used as an office building). The cost of acquisition, improvement, reconstruction, or renovation of multi-use heritage assets should be capitalized as general PP&E and depreciated over its estimated useful life.

This discussion of the government's heritage assets is not exhaustive. Rather, it highlights significant heritage assets reported by federal entities. Please refer to the individual financial statements of DOI, DOC, DHS, VA, DOT, State, DOD, TVA, GSA, NASA, and USDA for additional information on multi-use heritage assets, entity stewardship policies, and physical units by major categories.

Note 26. Disclosure Entities and Related Parties

SFFAS No. 47, *Reporting Entity* provides criteria for identifying organizations that are consolidation entities, disclosure entities, and related parties, and how such organizations are reported within the *Financial Report*. For consolidation entities, the assets, liabilities, results of operations, and related activity are consolidated into the government's financial statements. For disclosure entities and related parties, balances and transactions with such entities are included in the financial statements and certain information about their relationship with the federal government is disclosed in the notes to the consolidated financial statements. Disclosure entities and related parties are important to the *Financial Report* but are not consolidated into the government's financial statements.

Disclosure Entities

Disclosure entities are organizations similar to consolidation entities in that they are either a) in the budget; b) majority owned by the government; c) controlled by the government; or d) would be misleading to exclude. Disclosure entities have a greater degree of autonomy with the government than consolidation entities. In addition, organizations may be owned or controlled by the government as a result of a) regulatory actions (such as organizations in receivership or conservatorship); or b) other government intervention actions. Under such regulatory or other intervention actions, if the relationship with the government is not expected to be permanent, such entities generally would be classified as disclosure entities based on their characteristics taken as a whole.

Based on the criteria in GAAP for federal entities, the disclosure entities in the *Financial Report* are FR System, SPVs, Fannie Mae, Freddie Mac, and National Railroad Passenger Corporation (more commonly referred to as Amtrak). In addition, there are additional disclosure entities reported by component reporting entities that do not meet the qualitative or quantitative criteria in SFFAS No. 47 to be reported in the *Financial Report*.

Federal Reserve System

Congress, under the Federal Reserve Act, created the FR System. The FR System includes the Federal Reserve Board, the FRBs, and FOMC. Collectively, the FR System serves as the nation's central bank and is responsible for formulating and conducting monetary policy, issuing and distributing currency (Federal Reserve Notes), supervising and regulating financial institutions, providing nationwide payment systems (including large-dollar transfers of funds, Automated Clearing House operations, and check collections), providing certain financial services to federal entities and fiscal principals, and serving as the U.S. government's bank. Monetary policy includes actions undertaken by the FR System that influence the availability and cost of money and credit as a means of helping to promote national economic goals. The FR System also conducts operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out its central bank responsibilities. The FR System is considered an independent central bank, and the executive branch of the government does not ratify its decisions.

The 12 FRBs are chartered under the Federal Reserve Act, which requires each member bank to own the capital stock of its FRB. Each FRB has a board of directors that exercises supervision and control of each FRB, with three members appointed by the Federal Reserve Board, and six board members elected by their member banks. The FRBs participate in formulating and conducting monetary policy, distributing currency and coin, and serving as the government's fiscal agent, as well as the fiscal agent for other fiscal principals. Fiscal principals, generally speaking, relate to banks, credit unions, and savings and loan institutions. Additionally, the FRBs provide short-term loans to depository institutions and loans to participants in programs or facilities with broad-based eligibility in unusual and crucial circumstances when approved by the Federal Reserve Board and the Secretary of the Treasury.

The government interacts with FRBs in a variety of ways, including the following:

- The FRBs serve as the government's fiscal agent and depositary, executing banking and other financial transactions on the government's behalf. The government reimburses the FRBs for these services, the cost of which is included on the Statements of Net Cost;
- The FRBs hold Treasury and other federal securities in the FRBs' SOMA for the purpose of conducting monetary policy (see Note 12—Federal Debt and Interest Payable);
- The FRBs hold gold certificates issued by the government in which the certificates are collateralized by gold (see Note 2—Cash and Other Monetary Assets);
- The FRBs hold SDR certificates issued by the government which are collateralized by SDRs (see Note 2—Cash and Other Monetary Assets); and
- The FRBs are required by Federal Reserve Board policy to transfer their excess earnings to the government, which are included in Other Taxes and Receipts on the Statements of Operations and Changes in Net Position.

- **Federal Reserve System Structure**

The Federal Reserve Board is an independent organization governed by seven members who are appointed by the President and confirmed by the Senate. The full term of a Federal Reserve Board member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year. The Federal Reserve Board has a number of supervisory and regulatory responsibilities for institutions including, among others, state-chartered banks that are members of the FR System, bank holding companies, and savings and loan holding companies. In addition, the Federal Reserve Board has general supervisory responsibilities for the 12 FRBs, and issues currency (Federal Reserve notes) to the FRBs for distribution.

The FOMC is comprised of the seven Federal Reserve Board members and five of the 12 FRB presidents, and is charged with formulating and conducting monetary policy primarily through open market operations (the purchase and sale of certain securities in the open market), the principal tool of national monetary policy. These operations affect the amount of reserve balances available to depository institutions, thereby influencing overall monetary and credit conditions.

- **Federal Reserve Monetary Policy Action**

To begin FY 2020, the FOMC sought to foster maximum employment and price stability. The Committee decided to maintain the target range for the federal funds rate at 1.5 to 1.75 percent. The Committee judged that the current stance of monetary policy was appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective. Prior to the effects of COVID-19, the FOMC announced that it directed the FRBs to purchase Treasury bills for the SOMA at least into the second quarter of 2020 to ensure that the supply of reserves remains ample over time in light of recent and expected increases in the Federal Reserve's non-reserve liabilities. In addition, the FOMC directed the FRBs to conduct overnight and term repurchase agreement operations at least through the first quarter of FY 2020 to ensure that the supply of reserves remains ample even during periods of sharp increases in non-reserve liabilities, and to mitigate the risk of money market pressures that could adversely affect monetary policy implementation. These actions reaffirm the intention to implement monetary policy in a regime in which an ample supply of reserves ensures that control over the level of the federal funds rate and other short-term interest rates is exercised primarily through the setting of the Federal Reserve's administered rates. These are purely technical measures to support the effective implementation of the FOMC's monetary policy, and do not represent a change in the stance of monetary policy.

In light of the effects of COVID-19 on economic activity and on risks to the outlook, the FOMC rapidly lowered the target range for the federal funds rate. In March, the FOMC lowered the target range for the federal funds rate by a total of 1.5 percentage points, bringing it to the current range of 0 to 0.25 percent. The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum-employment and price-stability goals. FOMC noted that it would continue to monitor the implications of incoming information for the economic outlook, including information related to public health, as well as global developments and muted inflation pressures, and that it would use its tools and act as appropriate to support the economy. The Federal Reserve eased the stance of monetary policy and has deployed various additional tools to promote smooth functioning of financial markets and the flow of credit to households and businesses. To support the smooth functioning of those credit markets that are critical for the economy, the FRBs purchased Treasury securities and agency residential and commercial MBS, expanded repurchase agreement operations, and introduced several credit and liquidity facilities. Also, the Federal Reserve, with approval of the Secretary of the Treasury, established new credit and liquidity facilities under section 13(3) of the Federal Reserve Act to alleviate severe dislocations that arose in a number of financial markets and to support the flow of credit to households, businesses, and state and local governments. Furthermore, as financial stresses abroad risked spilling over into U.S. credit markets, the Federal Reserve and several other central banks announced the expansion and enhancement of dollar liquidity swap lines. In addition, the Federal Reserve introduced a new temporary repurchase agreement facility for foreign monetary authorities. The Federal Reserve has also made a number of adjustments to its regulatory and supervisory regime to facilitate market functioning and reduce regulatory impediments to banks supporting households, businesses, and municipal customers affected by COVID-19.

- **Federal Reserve System Assets, Liabilities, Revenues, Expenses, Gains, and Losses**

The FRBs hold Treasury and other securities in the SOMA for the purpose of conducting monetary policy. As of September 30, 2020, Treasury securities held by the FRBs totaled $4,050.1 billion, which excludes $395.1 billion in Treasury Securities used in overnight reverse repurchase transactions. As of September 30, 2019, Treasury securities held by the FRBs totaled $1,638.0 billion, which excludes $475.0 billion in Treasury securities used in overnight reverse repurchase transactions. Such securities are included in federal debt and interest payable (see Note 12—Federal Debt and Interest Payable). For fiscal years ended September 30, 2020, and 2019, Treasury incurred interest cost relating to the FRB's Treasury holdings amounting to $64.3 billion and $59.0 billion, respectively, which is included in interest on Treasury securities held by the public on the Statement of Net Cost. Unrestricted Cash held on deposit at the FRBs as of September 30, 2020, and 2019, was $ 1,769.8 billion and $376.1 billion, respectively, and are included in cash and other monetary assets. In addition, restricted cash as of September 30, 2020, and 2019, was $40.8 billion and $44.7 billion, respectively; a significant portion is held on deposit at the FRBs (see Note 2—Cash and Other Monetary Assets). The government issued SDR certificates to the Federal Reserve, valued at $5.2 billion as of September 30, 2020 and 2019, which were reported under Other Liabilities on the government's balance sheet (see Note 17—Other Liabilities).

Treasury securities are generally subject to the same market condition as other financial instruments. In the open market, the FRBs purchase and sell Treasury securities as a mechanism for controlling the money supply.

Financial and other information concerning the FR System, including financial statements for the Federal Reserve Board and the FRBs, may be obtained at https://federalreserve.gov.

- **FRB Residual Earnings Transferred to the Government**

FRBs generate income from interest earned on securities, reimbursable services provided to federal entities, and the provision of priced services to depository institutions, as specified by the *Monetary Control Act of 1980*. Although the FRBs generate earnings from carrying out open market operations (via the earnings on securities held in the SOMA account), their execution of these operations is for the purpose of accomplishing monetary policy rather than generating earnings. Each FRB is required by Federal Reserve Board policy to transfer to the government its residual (or excess) earnings, after providing for the cost of operations, payment of dividends, and surplus funds not to exceed an FRB's allocated portion of an aggregate of $6.8 billion for all FRBs. These residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. If an FRB's earnings for the year are not sufficient to provide for the cost of operations, payment of dividends, or allocated portion of $6.8 billion aggregate surplus funds limitation, an FRB will suspend its payments to the government until such earnings become sufficient. These funds are part of restricted cash at the Federal Reserve (see Note 2—Cash and Other Monetary Assets). The FRB residual earnings of $81.9 billion and $52.8 billion for fiscal years ended September 30, 2020, and 2019, respectively, are reported as other taxes and receipts on the Statements of Operations and Changes in Net Position. Accounts receivable, net, includes a receivable for FRB's residual earnings which represents the earnings due to the General Fund as of September 30, but not collected by the General Fund until after the end of the month. As of September 30, 2020, and 2019, accounts receivable on FRB's residual earnings are $0.2 billion and $0.6 billion, respectively (see Note 3—Accounts Receivable, Net).

Special Purpose Vehicles

In response to the COVID-19 pandemic, the government holds equity investments in SPVs established by the Federal Reserve Board for the purpose of enhancing the liquidity of the U.S. financial system. Involvement in these programs represents non-permanent intervention activities designed to help mitigate the economic impacts of the pandemic. Accordingly, the government's equity interests in these SPVs meet the SFFAS No. 47 criteria for classifying our SPV investments as disclosure entities. These entities are not consolidated as part of the government's consolidated financial statements; however, the value of the investments in the SPVs, changes in value, and related activity with the SPVs are included in the government's consolidated financial statements (see Note 8—Investments in Special Purpose Vehicles).

Fannie Mae and Freddie Mac

In 2008, during the financial crisis, the government placed Fannie Mae and Freddie Mac under conservatorship to help ensure their financial stability. These entities meet the criteria in SFFAS No. 47, for disclosure entities as both a) "receiverships and conservatorships,"; and b) as entities wherein "federal government intervention actions resulted in control or ownership" with intervention actions not expected to be permanent. Accordingly, these entities are not consolidated into the government's consolidated financial statements. However, the values of the investments in such entities, changes in value, and related activity with these entities are included in the government's consolidated financial statements (see Note 9—Investments in Government-Sponsored Enterprises for additional information).

Amtrak

Amtrak was incorporated in 1971 pursuant to the *Rail Passenger Service Act of 1970* and is authorized to operate a nationwide system of passenger rail transportation. Amtrak is a private, for-profit corporation under 49 U.S.C. § 24301 and District of Columbia law. It is not a department, entity, or instrumentality of the government. Amtrak's classification as a disclosure entity is attributable to being a) listed in the budget; b) financed mostly by sources other than taxes; and c) governed by an independent Board of Directors, which is comprised of 10 directors. The Secretary of Transportation (Secretary), who is a director by statute, and eight of the other Amtrak directors, are appointed by the President with the advice and consent of the U.S. Senate. The 10th board member, appointed by the board, is the President and Chief Executive Officer of Amtrak. Amtrak does not take actions on behalf of the government but benefits the national economy by providing a transportation option in 46 states and the District of Columbia.

The government (through the DOT) owns 100 percent of Amtrak's preferred stock (109,396,994 shares of $100 par value). Each share of preferred stock is convertible into ten shares of common stock. The common stockholders have voting rights for "amendments to Amtrak's Articles of Incorporation proposed by the Board of Directors and for certain other extraordinary events." Although Section 4.02(g) of the Amtrak Articles of Incorporation allow for the conversion of preferred stock to common stock, current government administrative policy is to not convert its holdings without Congressional authorization. Section 4.02(g) of the Amtrak Articles of Incorporation does not limit the timing of conversion or require any preapprovals. Conversion is effective the business day following receipt of written notice of the holder's election to convert. The government does not recognize the Amtrak preferred stock in its financial statements because, under the corporation's current financial structure, the preferred shares do not have a liquidation preference over the common shares, the preferred shares do not have any voting rights, and dividends are neither declared nor in arrears.

In addition to the purchase/ownership of the Amtrak preferred stock, the government has provided funding to Amtrak, since 1972, primarily through grants and loans. Amtrak receives grants from the government that cover a portion of the corporation's annual operating expenses and capital investments. Funding provided to Amtrak through grant agreements are included in the government's annual budget and the DOT financial statements. For the fiscal year ended September 30, 2020, the net cost amount was $2.6 billion, and total budgetary outlays were $3.0 billion. For the fiscal year ended September 30, 2019, the net cost amount was $2.4 billion, and total budgetary outlays were $1.9 billion.

The government has possession of two long-term notes with Amtrak. The first note is for $4.0 billion and matures in 2975 and, the second note is for $1.1 billion and matures in 2082 with renewable 99-year terms. Interest is not accruing on these notes as long as the current financial structure of Amtrak remains unchanged. If the financial structure of Amtrak changes, both principal and accrued interest are due and payable. The government does not recognize the long-term notes in its financial statements since the notes, with maturity dates of 2975 and 2082, are considered fully uncollectible due to the lengthy terms, Amtrak's history of operating losses, and ability to generate funds for repayment. Amtrak's ability to continue to operate in its current form is dependent upon the continued receipt of subsidies from the government.

Financial and other information concerning Amtrak including financial statements may be obtained at https://www.amtrak.com/reports-documents.

Related Parties

Related parties exist if the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the party's policy decisions. Related parties do not meet the principles for inclusion, but are reported in the *Financial Report* if they maintain relationships of such significance that it would be misleading to exclude.

Based on the criteria in SFFAS No. 47, the related parties reported in the *Financial Report* are FHLBanks, IMF, Multilateral Banks, and PEFCO. In addition, there are additional related parties reported by component reporting entities that do not meet the criteria to be reported in the *Financial Report*.

Federal Home Loan Banks

The government is empowered with supervisory and regulatory oversight of the 11 FHLBanks. The government is responsible for ensuring that each regulated entity operates in a safe and sound manner, including maintenance of adequate capital and internal control, and carries out its housing and community development finance missions. Each FHLBank operates as a separate federally chartered corporation with its own board of directors, management, and employees. The FHLBanks are GSEs that were organized under the *Federal Home Loan Bank Act of 1932,* to serve the public by enhancing the availability of credit for residential mortgages and targeted community development. They are financial cooperatives that provide a readily available, competitively-priced source of funds to their member institutions. The FHLBanks do not have any special purpose entities or any other type of off-balance sheet conduits. The FHLBanks are not government entities and do not receive financial support from taxpayers. The government does not guarantee, directly or indirectly, the debt securities or other obligations of FHLBanks.

By law, in the event of certain adverse circumstances, Treasury is authorized to purchase up to $4.0 billion of obligations of the FHLBanks. This authority may be exercised only if alternative means cannot be effectively employed to permit the FHLBanks to continue to supply reasonable amounts of funds to the mortgage market, and the ability to supply such funds is substantially impaired because of monetary stringency and a high level of interest rates. Any funds borrowed from Treasury shall be repaid by the FHLBanks at the earliest practicable date. Treasury has not used such authority. Also, in accordance with the *Government Corporations Control Act*, Treasury prescribes certain terms concerning the FHLBanks issuance of obligations to the public. Due to the market volatility brought about by the COVID-19 pandemic and the resulting decline in interest rates, investors preferred short-term obligations. Despite the market volatility and the fluctuation in investor sentiment during FY 2020, the FHLBanks continued to manage their debt issuance to meet the needs of their members. Financial and other information concerning FHLBanks including financial statements may be obtained at http://www.fhlbanks.com/.

International Monetary Fund and Multilateral Development Banks

The IMF's primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries to transact with each other. Member countries provide resources for IMF loans through their subscription quotas (quotas). The IMF also has two pools of resources that can be used in the event of a crisis that requires lending beyond the level available from quota resources: (i) the NAB and (ii) bilateral borrowing arrangements. Participation in the IMF works like an exchange of monetary assets.

Quotas are the principal component of the IMF's financial resources and are denominated in SDRs. The size of each member's quota is based broadly on its relative position in the world economy. The U.S. holds the largest quota of any IMF member. Since 2016, U.S. quota in the IMF has been about SDRs 83 billion. The equivalent dollar value of the quota total U.S. as of September 30, 2020 and 2019, was approximately $116.6 billion and approximately $113.0 billion, respectively. The government has funded a portion of U.S. quota to the IMF for lending, represented by U.S. reserve position at the IMF, while the remainder of the U.S. quota is represented by a letter of credit on which the IMF can draw as needed for lending. The U.S. reserve position was approximately $31.2 billion as of September 30, 2020, and approximately $23.0 billion as of September 30, 2019, with the remaining undrawn letter of credit representing the balance (see Note 2—Cash and Other Monetary Assets and Note 19—Commitments). The government's quota serves as the key determinant for its 16.5 percent share of voting rights in various IMF decisions. Since certain key IMF decisions require approval by at least 85 percent of the voting power, the government (represented by the Secretary of the Treasury) holds a substantial voice in the IMF and exercises significant influence over IMF policies, including veto power over major IMF decisions.

Some IMF members also supplement the IMF's resources through the NAB and bilateral borrowing agreements. Through the NAB, the U.S. and other participating members make additional resources available to the IMF if required to cope with or forestall an impairment of the international monetary system. The government's participation in the NAB as of September 30, 2020 and 2019, was SDR 28.2 billion, which is equivalent to $39.7 billion and $38.4 billion, respectively. When the government transfers funds to the IMF under the NAB, it receives a liquid and interest-bearing claim on the IMF. As of September 30, 2020, and 2019, loans outstanding to the IMF from the government under the NAB stood at $1.7 billion and $2.5 billion, respectively. These loans were reported under Loans Receivable on the Balance Sheet. The NAB is not currently activated, and the U.S. has veto power over its activation, as well as over most changes to its terms or size. The government does not have a bilateral borrowing agreement with the IMF, though it exercises indirect control over their activation, since NAB activation is a prerequisite for the IMF to draw on its bilateral borrowing arrangements.

As of September 30, 2020, and 2019, the government's total undrawn financial commitment to the IMF was $123.4 billion and $125.9 billion, respectively, which is composed of the quota related letter of credit and the undrawn portion of the NAB (see Note 19—Commitments).

Under the IMF Articles of Agreement, the IMF may allocate SDRs to member countries in proportion to their IMF quotas. SDR allocations are an international reserve asset created by the IMF to supplement its member countries' official reserves. The SDR allocation creates an asset and a liability on the Balance Sheet but does not increase the IMF's available lending resources. The SDR asset as of September 30, 2020 and 2019, amounted to $51.7 billion and $50.1 billion, respectively, and includes the SDR allocation as well as purchased SDRs (see Note 2—Cash and Other Monetary Assets). The SDR liability as of September 30, 2020 and 2019, amounted to $49.7 billion and $48.1 billion, respectively (see Note 17—Other Liabilities).

Historically, IMF has never experienced a default by a borrowing country. The government, which is not directly exposed to borrowers from the IMF, has never experienced a loss of value on its IMF quota or an instance of non-repayment, and it is not likely that the government will experience future losses as a result of its additional commitments.

Additionally, the government invests in and provides funding to the MDBs to support poverty reduction and promote sustainable economic growth in developing countries. The MDBs provide financial and technical support by means of strengthening institutions, providing assistance that addresses the root causes of instability in fragile and conflict-affected countries, responding to global crisis, and fostering economic growth and entrepreneurship. The government's participation in the MDBs is in the form of financial contributions used to ensure the effectiveness and impact of the MDBs' global development agenda. The U.S. has voting power in each of the MDBs to which it contributes, ranging from approximately 6 percent to 50 percent (see Note 10—Other Assets and Note 19—Commitments for additional information).

Private Export Funding Corporation

The financial statements reflect the results of agreements with PEFCO. PEFCO, which is owned by a consortium of private-sector banks, industrial companies, and financial services institutions, makes and purchases from private sector lenders, medium-term and long-term fixed-rate, and variable-rate loans guaranteed by EXIM Bank to foreign borrowers to purchase U.S. made equipment “export loans.”

EXIM Bank’s credit and guarantee agreement with PEFCO provides that EXIM Bank will guarantee the due and punctual payment of interest on PEFCO’s secured debt obligations which EXIM Bank has approved. It grants to EXIM Bank a broad measure of supervision over PEFCO's major financial management decisions, including the right to have representatives be present in all meetings of PEFCO’s board of directors, advisory board, and exporters’ council, and to review PEFCO’s financials and other records. However, EXIM Bank does not have voting rights and does not influence normal operations. In September 2020, the EXIM Board of Directors unanimously voted to renew its agreement with PEFCO for 25 years.

In addition, PEFCO has an agreement with EXIM Bank which provides that EXIM Bank will generally provide PEFCO with an unconditional guarantee covering the due and punctual payment of principal and interest on export loans PEFCO makes and purchases. PEFCO’s guarantees on the export loans plus the guarantees on the secured debt obligations aggregating to $3,198.9 million at September 30, 2020 and $4,060.5 million at September 30, 2019, are included by EXIM Bank in the total for guarantee, insurance and undisbursed loans. The allowance related to these transactions is included in the Guaranteed Loan Liability on the Balance Sheets.

EXIM Bank received fees totaling $39.3 million in FY 2020 and $44.7 million in FY 2019 for the agreements, which are included in Earned Revenue on the Statements of Net Cost.

Note 27. Public-Private Partnerships

The government enters into various collaborative relationships with private sector entities in which the goals, structures, governance, roles and responsibilities are mutually determined to produce a risk-sharing arrangement. These relationships are referred to as P3s, in accordance with SFFAS No. 49, *Public-Private Partnerships: Disclosure Requirements*. While many of the government's relationships are classified as and may be referred to as a P3, only those meeting the disclosure requirements outlined in SFFAS No. 49 are disclosed.

The National Energy Conservation Policy Act, as amended, authorizes federal entities to enter into ESPC contracts for the purpose of achieving energy savings and other related benefits. In consultations with the entity, the contractor designs and constructs a project that meets the entity's needs and arranges the necessary funding. The contractor guarantees that the improvements will generate energy cost savings sufficient to pay for the project over the term of the contract. The cost of the ESPC project must be covered by the energy, water and related cost savings generated at the project site. GSA and DOE have entered into contracts with the private sector that meet the criteria for P3s. These contracts allow federal entities to produce energy savings and facility improvements with no up-front capital costs or special appropriations from Congress. Future aggregate payments to be made by GSA and DOE are $1.5 billion and $1.3 billion, respectively, over the course of the agreements. After an ESPC contract ends, all additional cost savings accrue to the entities. The entities are responsible for contract administration over the term of the contracts and by statute, P3s cannot exceed 25 years.

In addition to the energy contracts, DOC has entered into P3 contracts on other matters. Congress has tasked DOC's FirstNet with the responsibility to ensure the deployment and operation of a nationwide interoperable broadband network to meet the communication needs of public safety. This network must be designed to be reliable, functional, safe, and secure, and to provide optimal levels of operational capability at all times. The Nationwide Public Safety Broadband Network will be built out, deployed, operated, and maintained under a 25-year contract awarded by FirstNet to AT&T in March 2017. The service will cover all 50 U.S. states, five territories, and the District of Columbia, including rural communities and tribal nations. Under the terms of the contract, total receipts for DOC over the life of the contract are $18.0 billion based on annual payments AT&T is required to make. Additionally, DOC is required to make payments to AT&T for success-based payment milestones under fixed firm price buildout task orders. The total paid in FY 2020 was $1.5 billion. No estimates can be made at this time as to any further payments to AT&T that might occur under the contract.

DOD identified MHPI agreements as P3s requiring disclosure. The MHPI agreements are private sector/market driven businesses established as LLCs or LPs single purpose entities. These entities allow DOD to work with the private sector to build, renovate, and sustain military housing by obtaining private capital to leverage government dollars. By engaging MHPI agreements, the government benefits through use of private industry expertise and tools, improving the condition of military housing more expediently and efficiently than the traditional military construction process would allow. The military departments are reviewing the details of individual agreements to ensure the underlying transactions are recorded and reported in accordance with GAAP. Beginning with the FY 2021 entity financial statement, DOD will present a list of current MHPI partnerships, the actual values received and paid, and the estimated values to be received and paid over the life of the LLCs and LPs.

The consolidated amounts the government received and paid in FY 2020 were $0.2 billion and $1.9 billion, respectively. The estimated amounts to be received and paid in the aggregate over the expected life of the P3s is $20.5 billion and $5.1 billion, respectively. Disclosure is limited to entities that are material to the *Financial Report.* Please refer to the financial statements of DOC, DOE, and GSA for additional information.

Note 28. COVID-19 Activity

COVID-19 Appropriations as of September 30, 2020

(In billions of dollars)	**2020**
Department of Treasury	975.0
Small Business Administration	751.8
Department of Labor	394.3
Department of Health and Human Services	250.4
Department of Agriculture	73.2
Department of Homeland Security	45.9
Department of Transportation	36.0
Department of Education	31.0
Department of Veterans Affairs	19.6
Department of Housing and Urban Development	12.4
All other entities	44.0
Total COVID-19 appropriations	2,633.6

On March 11, 2020, a novel strain of the Coronavirus, also known as COVID-19, was declared a pandemic by the World Health Organization. As a result, a national emergency was declared in the U.S. concerning the COVID-19 outbreak on March 13, 2020. The global spread of COVID-19 in early spring of 2020 has resulted in a severe global health and economic crisis. In March of 2020, the Federal Reserve Board and Congress took steps to limit the damage caused by the pandemic in the U.S. On March 27, 2020, Congress passed a series of bills including the CARES Act to help reduce the financial burden on individuals and their families, minimize business and employment losses, and enhance the liquidity of the U.S. financial system. The CARES Act was subsequently modified in legislation in April, June, and July 2020 to add funding and adjust programs for continued pandemic response. Entity disaster declarations were announced for all states and six territories of the U.S., enabling existing disaster response programs to respond to the pandemic. For additional information on events occurring after September 30, 2020 related to the government's COVID-19 response, please see Note 29—Subsequent Events.

The COVID-19 related legislation provided FY 2020 supplemental appropriations in the amount of $2,633.6 billion for federal entities to respond to COVID-19. Significant impacts of these programs on the government's FY 2020 balance sheet and financial results are discussed below. Please also refer to the corresponding entity's financial statements for additional information.

Treasury received appropriations in the amount of $975.0 billion. Treasury's appropriations included $500 billion to fund the credit subsidy costs of investments and loans in support of eligible businesses, states, and municipalities that incurred losses as a result of COVID-19. As of September 30, 2020, Treasury had $107.9 billion of equity investments in SPVs established through the FRBNY and FRBB. The FY 2020 net loss of $4.5 billion from these investments is included in Treasury's net cost. Subsequent to September 30, 2020, the *Consolidated Appropriations Act, 2021* rescinded $478.8 billion of the $500 billion appropriation. Treasury's appropriations included $282 billion to provide a refundable tax credit (recovery rebate), referred to as an EIP, of $1,200 per qualifying adult and $500 per qualifying child. In FY 2020, IRS disbursed $274.7 billion of EIPs to eligible recipients in every state and territory and at foreign addresses, which resulted in an increase in Treasury's net cost. Treasury's appropriations included $150 billion for Treasury, through Coronavirus Relief Fund efforts, to provide payments to state, local, territorial, and tribal governments to cover eligible costs incurred in response to the pandemic. Of the $149.5 billion in payments made, $80.6 billion was recognized as net costs in FY 2020, while the remainder was recognized as an advance on the balance sheet. Treasury's appropriations included $32 billion for financial assistance payments to passenger air carriers, air cargo carriers, and contractors to provide payroll support to aviation workers during the pandemic. Treasury's net costs for FY 2020 include $28.2 billion related to this support. The financial statement impact of these and other programs can be found within Note 3—Accounts Receivable, Net, Note 8—Investments in Special Purpose Vehicles, Note 10—Other Assets, Note 18—Collections and Refunds of Federal Revenue, Note 19—Commitments, and Note 26—Disclosure Entities and Related Parties.

SBA's $751.8 billion in appropriation primarily funded two programs. The PPP is a loan guarantee program designed to provide a direct incentive for small businesses to retain employees by providing loan forgiveness for amounts used for eligible expenses for payroll and benefit costs and interest on mortgages, rent, and utilities. SBA's liability for loan guarantees increased $510.7 billion during FY 2020, primarily from the PPP, with a similar increase in net costs. SBA also administered the Economic Injury Disaster Loan program designed to provide loans to small business owners. SBA's loans receivable increased $182.9 billion during FY 2020, primarily from a $173.2 billion increase in this program, with net costs of $5.4 billion. The financial statement impact of these programs can be found within Note 4—Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability.

The CARES Act appropriation of $394.3 billion allowed DOL to create several Unemployment Programs in FY 2020. These programs include the FPUC program (provides an additional $600 of weekly unemployment benefits), the PUA program (provides temporary benefits for individuals who are not eligible for regular/traditional unemployment insurance), the Pandemic Emergency Unemployment Compensation program (provides an additional 13 weeks of benefits to a regular claim for eligible persons), Federal funding of the Short-time Compensation program (provides alternatives to layoffs for employers experiencing a reduction in available work), and Federal funding of the first week of compensable regular unemployment for states with no waiting week. DOL's net costs associated with unemployment benefits authorized by the CARES Act totaled $352.2 billion.

The CARES Act, along with three additional supplemental appropriations, provided HHS $250.4 billion for COVID-19 response and recovery, with the majority for the PHSSEF. Funds provided broad support including payments to assist eligible health care providers for health care related expenses or lost revenues attributed to the COVID-19 pandemic; loans and grants to small businesses, health care providers and hospitals; and COVID-19 testing. HHS' net cost for operations other than CMS increased by $115.2 billion primarily due to increases to the PHSSEF. In addition, HHS provided advances under the COVID-19 AAP program, which was recorded as an advance on the balance sheet of $103.6 billion at September 30, 2020. The financial statement impact of the advance can be found within Note 10—Other Assets.

USDA received appropriations in the amount of $73.2 billion. The appropriation provided funding for several domestic food programs including Child Nutrition Programs, SNAP, and The Emergency Food Assistance Program. It also provided appropriations for agriculture, forest service, and other programs. USDA's net costs increased $49.9 billion from COVID-19 activity.

DHS received supplemental appropriations of $45.9 billion under the CARES Act, of which $45 billion was provided to FEMA's Disaster Relief Fund. The Disaster Relief Fund is used to direct, coordinate, manage, and fund eligible response and recovery efforts associated with domestic major disasters and emergencies that overwhelm state resources pursuant to the *Robert T. Stafford Disaster Relief and Emergency Assistance Act*. The majority of the funding was used to make available assistance for lost wages to the people of a state, including the members of any tribe. The $49.7 billion net cost increase at DHS is primarily due to COVID-19 activity.

DOT received $36.0 billion of supplemental appropriations to prevent, prepare for, or respond to COVID-19. Several DOT programs received appropriations in support of maintaining and continuing the operations and business needs of various transportation systems in response to COVID-19. These programs include the Federal Transit Administration's Transit Infrastructure Grants and the Federal Aviation Administration's Grants-In-Aid for Airports. DOT's net costs increased $22.5 billion from COVID-19 activity.

The CARES Act provided Education appropriations in the amount of $31.0 billion to fund a variety of programs administered primarily through grant programs. Indirect appropriations were also provided to fund loan modifications resulting from student loan deferrals authorized under the CARES Act and extended by the Administration's Presidential Memorandum. Education also extended the provisions of the student loan deferrals to guaranteed loans not covered by the CARES Act. Education's loans receivable decreased in FY 2020 by $32.4 billion, partly from an increase in the allowance for subsidy offset by increases in loans outstanding and accrued interest receivable, with a similar increase in Education's net cost. The significant financial statement impact of these programs can be found within Note 4—Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability.

VA received appropriations from the CARES Act in the amount of $19.6 billion, of which $18.6 billion has been allocated to the following programs: Medical Services, IT, and Medical Community Care. The majority of the funding relates to medical services in the areas of medical care, telehealth, and homelessness. Funding is being used to hire new staff and to make sure that the existing personnel have the resources they need to deal with the evolving needs of VA's response to COVID-19, such as additional hospital beds, overtime pay, and needed supplies. Funding is also being used to ensure that veterans have access to telehealth equipment and that funds are allocated to provide emergency housing and homelessness prevention assistance to very low-income veteran families. The $21.6 billion gross cost increase at VA is primarily due to COVID-19 activity.

HUD was appropriated CARES Act funding in the amount of $12.4 billion to prevent, prepare for, and respond to COVID-19. It also was provided funding to maintain normal operations and cover other necessary authorized activities during the period that the programs are impacted by COVID-19. The following programs received nearly all of the funding: 1) Community Planning and Development Programs: Community Development Fund, Homeless Assistance Grants and Housing Opportunities for People with AIDS; 2) Public Indian Housing Programs: Tenant-Based Rental Assistance, Public Housing Operating Fund, and Native American Program; and 3) Housing: Project-Based Rental Assistance, Housing for the Elderly and Housing for Persons with Disabilities. As of September 30, 2020, HUD had disbursed $2.3 billion of the amount appropriated. In addition to appropriations, the CARES Act provides borrowers with federally backed mortgage loans a temporary foreclosure moratorium and a right to forbearance of loan payments for homeowners experiencing financial hardship. See Note 4—Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability.

Note 29. Subsequent Events

Enactment of New COVID-19 Relief Legislation

On December 27, 2020, the President signed into law the *Consolidated Appropriations Act, 2021*, which, as of the date of enactment, rescinded $429.0 billion of the $500.0 billion appropriation provided to Treasury under Section 4027 of the CARES Act. The remaining unobligated appropriation as of January 9, 2021 was rescinded other than with respect to those funds made available for administrative expenses for the Special Inspector General for Pandemic Recovery and for the Congressional Oversight Commission. The amount rescinded in January was $49.8 billion. In addition, $146.5 billion that was appropriated to SBA under the SBA-Business Loans Program Account, CARES Act was rescinded under the *Consolidated Appropriations Act, 2021.*

Consistent with the *Consolidated Appropriations Act, 2021*, on December 29, 2020, Treasury and the Federal Reserve amended the SPV LLC Agreements for each of the SPVs funded under the CARES Act. The amended agreements provided that Treasury's investment in excess of the amount equivalent to the purchased asset amount within each of the SPVs were returned to Treasury between December 31, 2020 and January 8, 2021, and canceled Treasury's additional commitments to those SPVs. The amount of Treasury's canceled commitments were de-obligated and rescinded as of January 9, 2021. Treasury funds remaining in the SPVs cannot be used for further lending or extensions of credit after that date.

On March 11, 2021, the President signed into law the *American Rescue Plan Act, 2021,* a $1,900.0 billion economic relief package. This bill provides additional relief to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. This legislation also creates a special financial assistance program for financially troubled multi-employer pension plans insured by PBGC. Management is currently assessing the effect of this legislation on PBGC's liabilities and contingency disclosures (including the estimated insolvency date for the multi-employer program), but the effect is not currently reasonably estimable.

The effects of the *Consolidated Appropriations Act, 2021*, and the *American Rescue Plan Act, 2021*, on the sustainability financial statements is not currently reasonably estimable.

Please refer to Note 4—Direct Loans and Loan Guarantees Receivable, Net and Loan Guarantees Liability, Note 8—Investments in Special Purpose Vehicles, Note 16—Insurance and Guarantee Program Liabilities, Note 20—Contingencies, Note 23—Social Insurance, Note 24—Long-Term Fiscal Projections, and Note 28—COVID-19 Activity for additional information.

Amendments to GSE Senior Preferred Stock Purchase Agreements

On January 14, 2021, Treasury and FHFA agreed to amend the SPSPAs between Treasury and the GSEs to replace the variable dividend (i.e., net worth sweep) with alternative compensation to permit the GSEs to continue their recapitalization efforts and to codify several existing FHFA conservatorship practices, among other changes generally supportive of the eventual termination of the conservatorships. Under the amended SPSPAs, each GSE will be permitted to retain capital until the GSE has achieved its regulatory minimum capital, including buffers, as prescribed by the capital rule finalized by FHFA in December 2020, at which point its cash dividend obligations will resume along with the obligation to pay a periodic commitment fee. As compensation to Treasury for the replacement of the variable dividend, the liquidation preference of Treasury's senior preferred stock in each GSE will increase by the amount of retained capital until the GSE has achieved its regulatory minimum capital, including buffers. Please refer to Note 9—Investments in Government-Sponsored Enterprises for additional information.

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United States Government Required Supplementary Information (Unaudited) For the Fiscal Years Ended September 30, 2020, and 2019

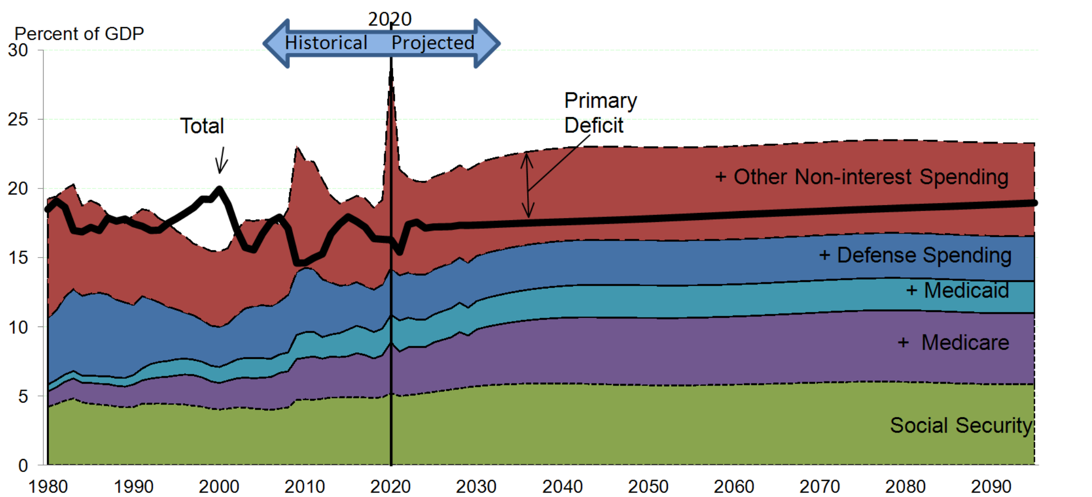
The Sustainability of Fiscal Policy

One of the important purposes of the *Financial Report* is to help citizens and policymakers assess whether current fiscal policy is sustainable and, if it is not, the urgency and magnitude of policy reforms necessary to make fiscal policy sustainable. A sustainable policy is defined as one where the ratio of debt held by the public to GDP (the debt-to-GDP ratio) is ultimately stable or declining. The debt-to-GDP ratio reached 100 percent at the end of FY 2020. The long-term fiscal projections in this report are based on the same economic and demographic assumptions that underlie the 2020 Social Security and Medicare Trustees' Reports, and those assumptions were developed prior to the COVID-19 pandemic and economic downturn. At this time, management cannot reasonably estimate the potential effects of COVID-19 on the projections or other sustainability measures, which could be significant.

As discussed below, the projections based on this report's assumptions indicate that current policy is not sustainable. If current policy is left unchanged, the projections show the debt-to-GDP ratio will rise to 124 percent in 2030, and to 623 percent in 2095. For comparison, under the 2019 projections, the debt-to-GDP ratio was over 100 percent by 2030, and then reached 474 percent in 2094.

These conclusions are rooted in the projected trends in receipts, spending, and deficits in the context of current law and policy, although, as described in the following pages, there is considerable uncertainty surrounding these projections. The projections are on the basis of policies currently in place and are neither forecasts nor predictions. Changes in policy – including investments in infrastructure and the nation's workforce, and efforts to mitigate the impact of climate change and improve caregiving services to build a more resilient and sustainable economy – could have a significant effect on eventual fiscal outcomes.

Chart 1: Historical and Current Policy Projections for Receipts and the Composition of Non-interest Spending



Current Policy Projections for Primary Deficits

A key determinant of growth in the debt-to-GDP ratio and hence fiscal sustainability is the ratio of the primary deficit-to-GDP. The primary deficit is the difference between non-interest spending and receipts, and the primary deficit-to-GDP ratio is the primary deficit expressed as a percent of GDP. As shown in Chart 1, the primary deficit-to-GDP ratio spiked during 2009 through 2012 due to the 2008-09 financial crisis and the ensuing severe recession, as well as the increased spending and temporary tax reductions enacted to stimulate the economy and support recovery. These elevated primary deficits resulted in a sharp increase in the ratio of debt to GDP, which rose from 39 percent at the end of 2008 to 70 percent at the end of 2012. As an economic recovery took hold, the primary deficit ratio fell, averaging 2.1 percent of GDP over 2013 through 2019 The primary deficit-to-GDP ratio spiked again in 2020, rising to 13.3 percent of GDP due to increased spending to address the COVID-19 pandemic and downturn.

The primary deficit-to-GDP ratio is projected to fall to 6.0 percent in 2021 and then shrink to 2.9 percent by 2023 as the economy grows and spending from legislation enacted in response to the COVID-19 pandemic decreases.[1] After 2023, however, increased spending for Social Security and health programs due in part to the continued retirement of the baby boom generation is projected to result in increasing primary deficits that reach 4.4 percent of GDP in 2030. The primary deficit peaks at 5.4 percent of GDP in 2042, then gradually decreases beyond that point as the aging of the population continues at a slower pace, and reaches 4.3 percent in 2095, 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 ARRA and the *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010*. The share subsequently increased to 18.0 percent of GDP by 2015 before falling below the 30-year average of 17.1 percent in 2018, after enactment of the TCJA. Receipts were 16.3 percent of GDP in 2020. Receipts are projected to decrease to 15.4 percent of GDP in 2021, then rise to 17.6 percent of GDP in 2023 before falling again to 17.1 percent of GDP in 2024, primarily due to changes in individual income tax receipts. After 2024, 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. Other possible paths for the receipts-to-GDP ratio and the implications for projected debt held by the public are analyzed in the “Alternative Scenarios” section.

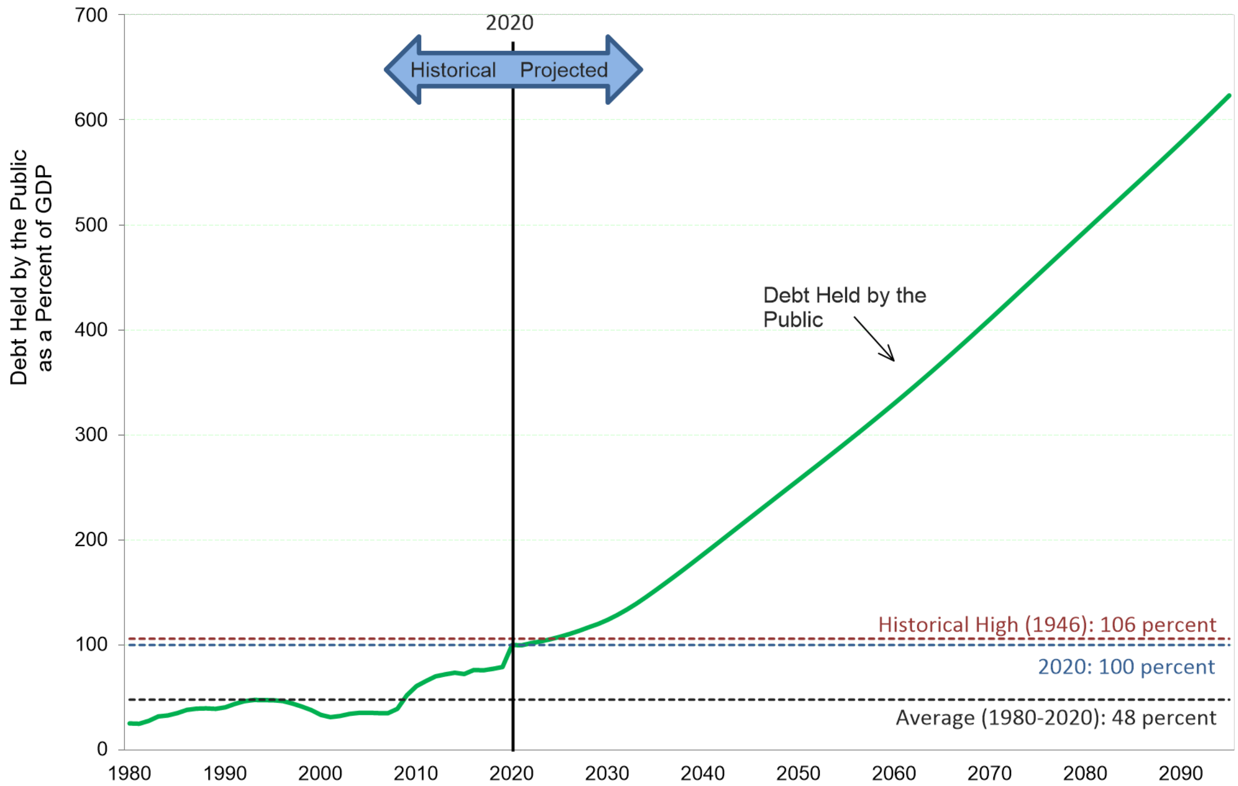
On the spending side, the non-interest spending share of GDP, which was 29.6 percent in 2020, is projected to fall to 20.5 percent in 2024. After 2024, the non-interest spending share of GDP is projected to rise gradually from 20.8 percent in 2025 to 23.5 percent of GDP in 2078, and then declines gradually to 23.3 percent in 2095, the end of the projection period. Beginning in 2025, these increases are principally due to faster growth in Medicare, Medicaid, and Social Security spending (see Chart 1). The aging of the baby boom generation over the next 20 years, among other factors, is projected to increase the Social Security and Medicare spending shares of GDP by about 0.9 percentage points and 1.6 percentage points, respectively. The spending share of GDP for Medicaid stays roughly the same over that period. After 2040, the Social Security and Medicaid spending shares of GDP remain relatively stable, while the Medicare spending share of GDP continues to increase, albeit at a slower rate, due to projected increases in health care costs and population aging.

Current Policy Projections for Debt and Interest Payments

The primary deficit projections in Chart 1, along with projections for interest rates and GDP, determine the projections for the debt-to-GDP ratio shown in Chart 2. That ratio was 100 percent at the end of FY 2020, and under current policy and based on this report’s assumptions is projected to reach 623 percent in 2095. The continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable.

[1] Legislation enacted in response to the COVID-19 pandemic includes: the *Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020* (P.L.116-123); the *Families First Coronavirus Response Act* (P.L.116-127); the CARES Act (P.L.116-136); and the *Paycheck Protection Program and Health Care Enhancement Act* (P.L.116-139). The *Consolidated Appropriations Act, 2021* (P.L.116-270), which contains additional stimulus provisions, was signed into law on December 27, 2020 and is not reflected in the 2020 long-term fiscal projections.

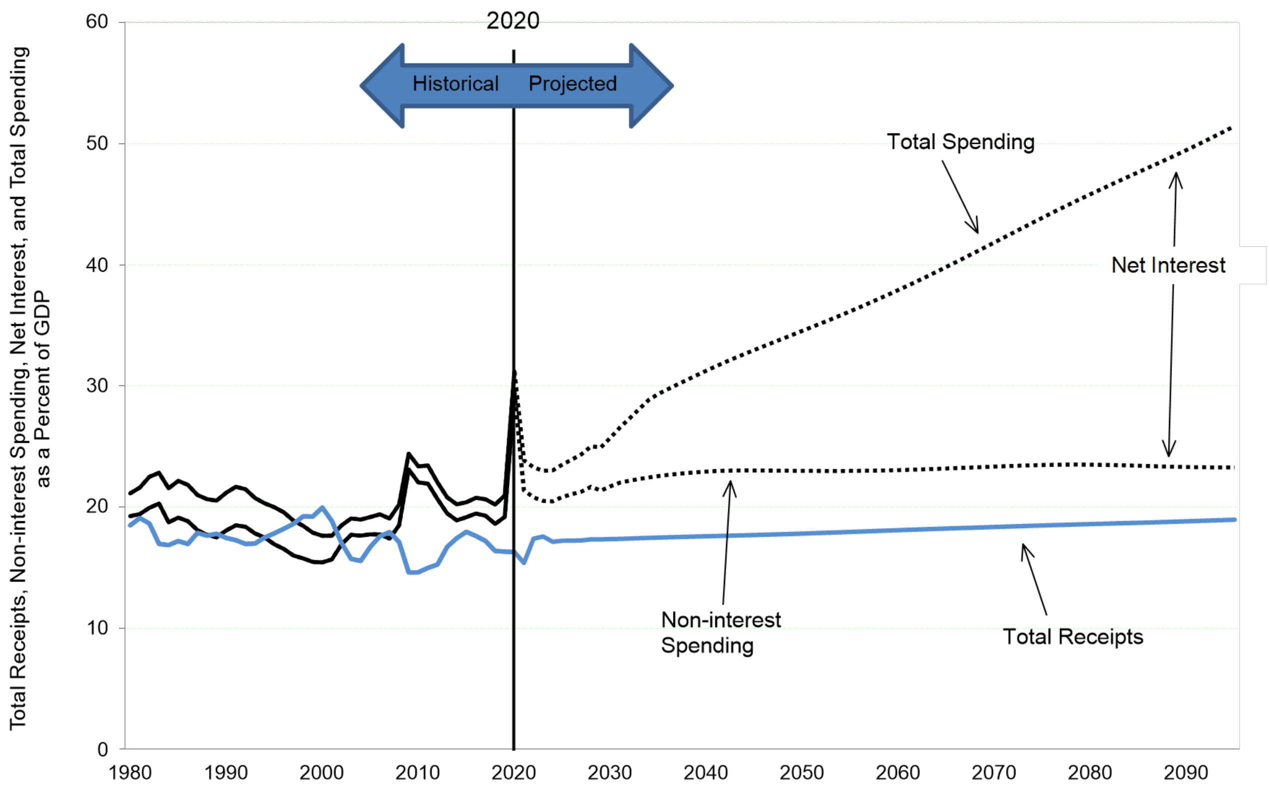
Chart 2: Historical and Current Policy Projections for Debt Held by the Public 1980-2095



As a general approximation, the change in debt held by the public from one year to the next is the budget deficit, the difference between total receipts and total spending.[2] Total spending is non-interest spending plus interest spending. Chart 3 shows that the rapid rise in total spending and the unified deficit (total receipts less total spending) is almost entirely due to projected net interest, which results from the growing debt. As a percent of GDP, interest spending was 1.6 percent in 2020, and under current policy is projected to reach 4.0 percent in 2030, 8.0 percent in 2039, and 28.2 percent in 2095.

[2] 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 non-budgetary 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.

Chart 3: Historical and Current Policy Projections for Total Receipts, Non-interest Spending, Net Interest, and Total Spending 1980-2095



Another way of viewing the change in the financial outlook in this year's report relative to previous years' reports is in terms of the projected debt-to-GDP ratio in 2093, the last year of the 75-year projection period used in the FY 2018 report. This ratio is projected based on this report's assumptions to reach 605 percent in the FY 2020 projections, which compares with 467 percent projected in the FY 2019 projections and 530 percent projected in the FY 2018 projections.[3]

The Cost of Delay in Closing the 75-Year Fiscal Gap

The longer policy action to close the fiscal gap[4] is delayed, the larger the post-reform primary surpluses must be to achieve the target debt-to-GDP ratio at the end of the 75-year period. This can be illustrated by varying the years in which reforms closing the fiscal gap are initiated while holding the target ratio of debt to GDP in 2095 equal to the 2020 ratio. Three timeframes for reforms are considered, each one beginning in a different year, and each one increasing the primary surplus relative to current policy by a fixed percent of GDP starting in the reform year. The analysis shows that the longer policy action is delayed, the larger the post-reform primary surplus must be to bring the debt-to-GDP ratio in 2095 equal to its level in 2020. Future generations are burdened by delays in policy changes because delay necessitates higher primary surpluses during their lifetimes, and those higher primary surpluses must be achieved through some combination of lower spending and higher revenue.

As previously shown in Chart 1, under current policy, primary deficits occur throughout the projection period. Table 1 shows primary surplus changes necessary to make the debt-to-GDP ratio in 2095 equal to its level in 2020 under each of the three timeframes. If reform begins in 2021, then it is sufficient to raise the primary surplus share of GDP by 5.4 percentage

[3] For additional information on changes from the 2018 projections, see the unaudited RSI in the 2019 *Financial Report*.
[4] The fiscal gap reflects how much the primary surplus (receipts less non-interest spending) must increase to maintain the debt-to-GDP ratio at the 2020 level. See Note 24 for a more complete discussion of the fiscal gap.

points in every year between 2021 and 2095 in order for the debt-to-GDP ratio in 2095 to equal its level in 2020. This policy raises the average 2021-2095 primary surplus-to-GDP ratio from -4.8 percent to +0.6 percent.

Table 1
Cost of Delaying Fiscal Reform

Timing of Reforms	Required Change in Average Primary Surplus
Reform in 2021 (No Delay)	5.4 percent of GDP between 2021 and 2095
Reform in 2031 (Ten-Year Delay)	6.4 percent of GDP between 2031 and 2095
Reform in 2041 (Twenty-Year Delay) .	7.8 percent of GDP between 2041 and 2095

Note: Reforms taking place in 2020, 2030, and 2040 from the 2019 Financial Report were 3.8, 4.5, and 5.6 percent of GDP, respectively.

In contrast to a reform that begins immediately, if reform begins in 2031 or 2041, then the primary surpluses must be raised by 6.4 percent and 7.8 percent of GDP, respectively, in order for the debt-to-GDP ratio in 2095 to equal its level in 2020. The difference between the primary surplus increase necessary if reform begins in 2031 or 2041 and the increase necessary if reform begins in 2021, an additional 0.9 and 2.4 percentage points, respectively, is a measure of the additional burden policy delay would impose on future generations. The costs of delay are due to the additional debt that accumulates between the end of 2020 and the year reform is initiated, in comparison to the scenario in which reform begins immediately.

Alternative Scenarios

The long-run projections are highly uncertain. The uncertainty in this year's projections is further increased by the COVID-19 pandemic, the effects of which are not considered in the economic and demographic assumptions underlying the projections. The length of the pandemic and long-term effects on health care costs are also uncertain. See Note 24 for additional information about the assumptions used in the projections.

This section illustrates this inherent uncertainty by presenting alternative scenarios for the growth rate of health care costs, interest rates, discretionary spending, and receipts. (Not considered here are the effects of alternative assumptions for long-run trends in birth rates, mortality, and immigration.)

The population is aging rapidly and will continue to do so over the next several decades, which puts pressure on programs such as Social Security, Medicare, and Medicaid. A shift in projected fertility, mortality, or immigration rates could have important effects on the long-run projections. Higher-than-projected immigration, fertility, or mortality rates would improve the long-term fiscal outlook. Conversely, lower-than-projected immigration, fertility, or mortality rates would result in deterioration in the long-term fiscal outlook.

Effect of Changes in Health Care Cost Growth

One of the most important assumptions underlying the projections is the future growth of health care costs. 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 established cost controls for Medicare hospital and physician payments whose long-term effectiveness is still to be demonstrated. The Medicare spending projections in the long-term fiscal projections are based on the projections in the 2020 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 23—Social Insurance, the Medicare projections are subject to much uncertainty about the ultimate effects of these provisions to reduce health care cost growth. 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 grows at the same reduced rate as Medicare cost growth per beneficiary.

As an illustration of the dramatic effect of variations in health care cost growth rates, Table 2 shows the effect on the size of reforms necessary to close the fiscal gap of per capita health care cost growth rates that are one percentage point higher or two percentage points higher than the growth rates in the base projection, as well as the effect of delaying closure of the fiscal gap.[5] As indicated earlier, if reform is initiated in 2021, eliminating the fiscal gap requires that the 2021-2095 primary surplus increase by an average of 5.4 percent of GDP in the base case. However, that figure increases to 8.8 percent of GDP if per capita health cost growth is assumed to be 1.0 percentage point higher, and 14.7 percent of GDP if per capita health cost growth is 2.0 percentage points higher. The cost of delaying reform is also increased if health care cost growth is higher because debt accumulates more rapidly during the period of inaction. For example, the lower part of Table 2 shows that delaying reform initiation from 2021 to 2031 requires that 2031-2095 primary surpluses be higher by an average of 0.9 percent of GDP in the base case, 1.5 percent of GDP if per capita health cost growth is 1.0 percentage point higher, and 2.6 percent of GDP if per capita health cost growth is 2.0 percentage points higher. The dramatic deterioration of the long-run fiscal outlook caused by higher health care cost growth shows the critical importance of managing health care cost growth.

Table 2
Impact of Alternative Health Cost Scenarios on Cost of Delaying Fiscal Reform

	Primary Surplus Increase (% of GDP) Starting in:		
Scenario	**2021**	**2031**	**2041**
Base Case	5.4	6.4	7.8
1.0 p.p. higher per capita health cost growth	8.8	10.4	12.7
2.0 p.p. higher per capita health cost growth	14.7	17.2	21.1

	Change in Primary Surplus Increase if Reform is Delayed From 2021 to:	
	2031	**2041**
Base Case	0.9	2.4
1.0 p.p. higher per capita health cost growth	1.5	3.9
2.0 p.p. higher per capita health cost growth	2.6	6.4

Note: Increments may not equal the subtracted difference of the components due to rounding. "p.p." means percentage point(s).

Effects of Changes in Interest Rates

A higher debt-to-GDP ratio is likely to increase the interest rate on government debt, making it costlier for the government to service its debt than if the debt-to-GDP ratio were lower. Table 3 displays the effect of several alternative scenarios using different nominal (and real) interest rates than assumed in the base case on the size of reforms to close the fiscal gap as well as the effect of delaying closure of the fiscal gap. If reform is initiated in 2021, eliminating the fiscal gap requires that the 2021-2095 primary surplus increase by an average of 5.4 percent of GDP in the base case, 7.0 percent of GDP if the interest rate is 2.0 percentage points higher in every year, and 6.2 percent of GDP if the interest rate is 1.0 percentage point higher in every year. The required increase in the 2021-2095 primary surplus decreases to an average of 4.6 percent of GDP if the interest rate is 1.0 percentage point lower in every year and 3.8 percent of GDP if the interest rate is 2.0 percentage points lower in every year. The cost of delaying reform is also increased if interest rates are higher, due to the fact that interest paid on debt accumulates more rapidly during the period of inaction. For example, the lower part of Table 3 shows that delaying reform initiation from 2021 to 2031 requires that 2031-2095 primary surpluses be higher by an average of 0.9 percent of GDP in the base case, 2.2 percent of GDP if the interest rate is 2.0 percentage points higher in every year, and 1.5 percent of GDP if the interest rate is 1.0 percentage point higher in every year. The required increase in the 2031-2095 primary surplus is higher by an average of 0.6 percent of GDP if the interest rate is 1.0 percentage point lower in every year and 0.3 percent of GDP if the interest rate is 2.0 percentage points lower in every year.

[5] The base case health cost growth rates are derived from the projections in the 2020 Medicare Trustees' Report. These projections are summarized and discussed in Note 23 and the "Medicare Projections" section of the unaudited RSI for the SOSI.

Table 3
Impact of Alternative Interest Rate Scenarios on Cost of Delaying Fiscal Reform

Scenario	Primary Surplus Increase (% of GDP) Starting in: 2021	2031	2041
Base Case: Average of 4.5 percent over 75 years..........	5.4	6.4	7.8
2.0 p.p. higher interest rate in each year........................	7.0	9.2	12.7
1.0 p.p. higher interest rate in each year........................	6.2	7.7	10.0
1.0 p.p. lower interest rate in each year..........................	4.6	5.2	6.0
2.0 p.p. lower interest rate in each year..........................	3.8	4.1	4.6

	Change in Primary Surplus Increase if Reform is Delayed From 2021 to: 2031	2041
Base Case: Average of 4.5 percent over 75 years................................	0.9	2.4
2.0 p.p. higher interest rate in each year...	2.2	5.8
1.0 p.p. higher interest rate in each year...	1.5	3.8
1.0 p.p. lower interest rate in each year..	0.6	1.4
2.0 p.p. lower interest rate in each year..	0.3	0.8

Note: Increments may not equal the subtracted difference of the components due to rounding.

Effects of Changes in Discretionary Spending Growth

The growth of discretionary spending has a large impact on long-term fiscal sustainability. The current base projection for discretionary spending assumes that spending stays within statutory caps for 2021 under the 2019 BBA, and then grows with nominal GDP after 2021.[6] Then, the discretionary spending effects of legislation enacted as of September 30, 2020 in response to COVID-19 are added through 2030 based on CBO estimates. Under the base projection, discretionary spending is approximately 7.1 percent of GDP in 2021, falls to 6.6 percent of GDP in 2022, and then gradually decreases to a 6.4 percent share of GDP by 2026, where it remains thereafter. The implications of an alternative scenario are shown in Table 4. In the alternative scenario, discretionary spending for 2021 is the same as in the base case (approximately 7.1 percent of GDP) and then grows with inflation and population so as to hold discretionary spending constant on a real per capita basis. (This growth rate assumption is slower than growth with GDP but is still higher than the standard 10-year budget baseline assumption, which assumes that discretionary spending grows with inflation but not with population.) As in the base case, the discretionary spending effects of COVID-19 response legislation are reflected through 2030 based on CBO estimates. As shown in Table 4, if discretionary spending grows with nominal GDP, eliminating the fiscal gap requires that the 2021-2095 primary surplus increase by an average of 5.4 percent of GDP. If discretionary spending grows with inflation and population, the fiscal gap is 3.2 percent of GDP. The cost of delaying reform is greater when discretionary spending levels are higher. Initiating reforms in 2031 requires that the primary surplus increase by an average of 0.9 percent of GDP per year in the base case and by an average of 0.6 percent of GDP if discretionary levels grow with inflation and population from 2021 onward. If delayed until 2041, the primary surplus must increase by an average of 2.4 percent of GDP in the base case and by an average of 1.4 percent of GDP when spending grows with inflation and population.

[6] The base case reflects the FY 2021 President's Budget, which includes no adjustments to discretionary spending for reductions required by the Joint Committee. The BCA established statutory caps on discretionary spending for FYs 2012 through 2021, and established the Joint Committee, which was tasked with identifying $1.2 trillion in deficit reduction. The failure of the Joint Committee to propose, and Congress to enact, legislation sufficient to reduce the deficit triggered automatic spending reductions through adjustments to the discretionary spending caps and sequestration of mandatory spending. The enactment of *BBA of 2019*, which adjusted the 2020 and 2021 caps, effectively cancelled spending reductions for 2021.

Table 4
Impact of Alternative Discretionary Spending Growth Scenarios on Cost of Delaying Fiscal Reform

Scenario	Primary Surplus Increase (% of GDP) Starting in: 2021	2031	2041
Base Case: Growth with GDP after 2021	5.4	6.4	7.8
Growth with inflation and population after 2021	3.2	3.7	4.5

	Change in Primary Surplus Increase if Reform is Delayed From 2021 to: 2031	2041
Base Case: Growth with GDP after 2021	0.9	2.4
Growth with inflation and population after 2021	0.6	1.4

Note: Increments may not equal the subtracted difference of the components due to rounding.

Effects of Changes in Individual Income Receipt Growth

The growth rate of receipts, specifically individual income taxes, is another key determinant of long-term sustainability. The base projections assume growth in individual income taxes over time to account primarily for the slow shift of individuals into higher tax brackets due to real wage growth ("real bracket creep"). This assumption approximates the long-term historical growth in individual income taxes relative to wages and salaries and is consistent with current policy without change, as future legislation would be required to prevent real bracket creep. As an illustration of the effect of variations in individual income tax growth, Table 5 shows the effect on the size of reforms necessary to close the fiscal gap and the effect of delaying closure of the fiscal gap if long-term receipt growth as a share of wages and salaries is 0.1 percentage point higher than the base case, as well as 0.1 percentage point lower than the base case. If reform is initiated in 2021, eliminating the fiscal gap requires that the 2021-2095 primary surplus increase by an average of 5.4 percent of GDP in the base case, 4.3 percent of GDP if receipt growth is 0.1 percentage point higher, and 6.5 percent of GDP if receipt growth is 0.1 percentage point lower. The cost of delaying reform is also affected if receipt growth assumptions change, much as was the case in the previous alternative scenarios.

Table 5
Impact of Alternative Revenue Growth Scenarios on Cost of Delaying Fiscal Reform

Scenario	Primary Surplus Increase (% of GDP) Starting in: 2021	2031	2041
Base Case: Individual income tax bracket creep of 0.1% of wages and salaries per year	5.4	6.4	7.8
0.2% of wages and salaries per year after 2030	4.3	5.1	6.2
0.0% of wages and salaries per year after 2030 (no bracket creep)	6.5	7.7	9.4

	Change in Primary Surplus Increase if Reform is Delayed From 2021 to: 2031	2041
Base Case: Individual income tax bracket creep of 0.1% of wages and salaries per year	0.9	2.4
0.2% of wages and salaries per year after 2030	0.8	1.9
0.0% of wages and salaries per year after 2030 (no bracket creep)	1.1	2.9

Note: Increments may not equal the subtracted difference of the components due to rounding.

Fiscal Projections in Context

In this report, a sustainable fiscal policy has been defined as one where the federal debt-to-GDP ratio is stable or declining over the projection period. However, this definition does not indicate what a sustainable debt-to-GDP ratio might be. Any particular debt ratio is not the ultimate goal of fiscal policy. Rather, the goals of fiscal policy are many. They include financing public goods, such as infrastructure and government services; promoting a strong and growing economy; and managing the debt so that it is not a burden on future generations. These goals are interrelated, and readers should consider how policies intended to affect one might depend on or affect another.

This report shows that current policy is not sustainable. In evaluating policies that could make policy sustainable, note that debt may play roles in both facilitating and hindering a healthy economy. For example, government deficit spending supports demand and allows economies to emerge from recessions more quickly. Debt may also be a cost-effective means of financing capital investment that promotes future economic growth, which may in turn make future debt levels more manageable. However, economic theory also suggests that high levels of debt may contribute to higher interest rates, leading to lower private investment and a smaller capital stock which the economy can use to grow. Unfortunately, it is unclear what debt-to-GDP ratio would be sufficiently high to produce these negative outcomes, or whether the key concern is the level of debt per se, or a trend that shows debt increasing over time.

While several empirical studies have attempted to discern a definite relationship between debt and economic growth from the past experience of countries, the evidence is mixed. One study suggested that as advanced countries' debt-to-GDP ratios exceeded 90 percent it had significant negative consequences for real GDP growth through rising interest rates, crowding out of private investment, and reduced capital formation.[7] Real GDP growth is generally lower by about 1 percent when the countries' debt-to-GDP ratios are above 90 percent relative to the times when they are below 90 percent.[8] However, after removing sample countries with very high indebtedness – those with debt-to-GDP ratios of more than 120 percent – and

[7] Reinhart, Carmen M., and Kenneth S. Rogoff. 2010. "Growth in a Time of Debt." *American Economic Review*, 100(2): 573-78.
[8] Errata: "Growth in a Time of Debt," Carmen M. Reinhart and Kenneth S. Rogoff. Harvard University, 2013.

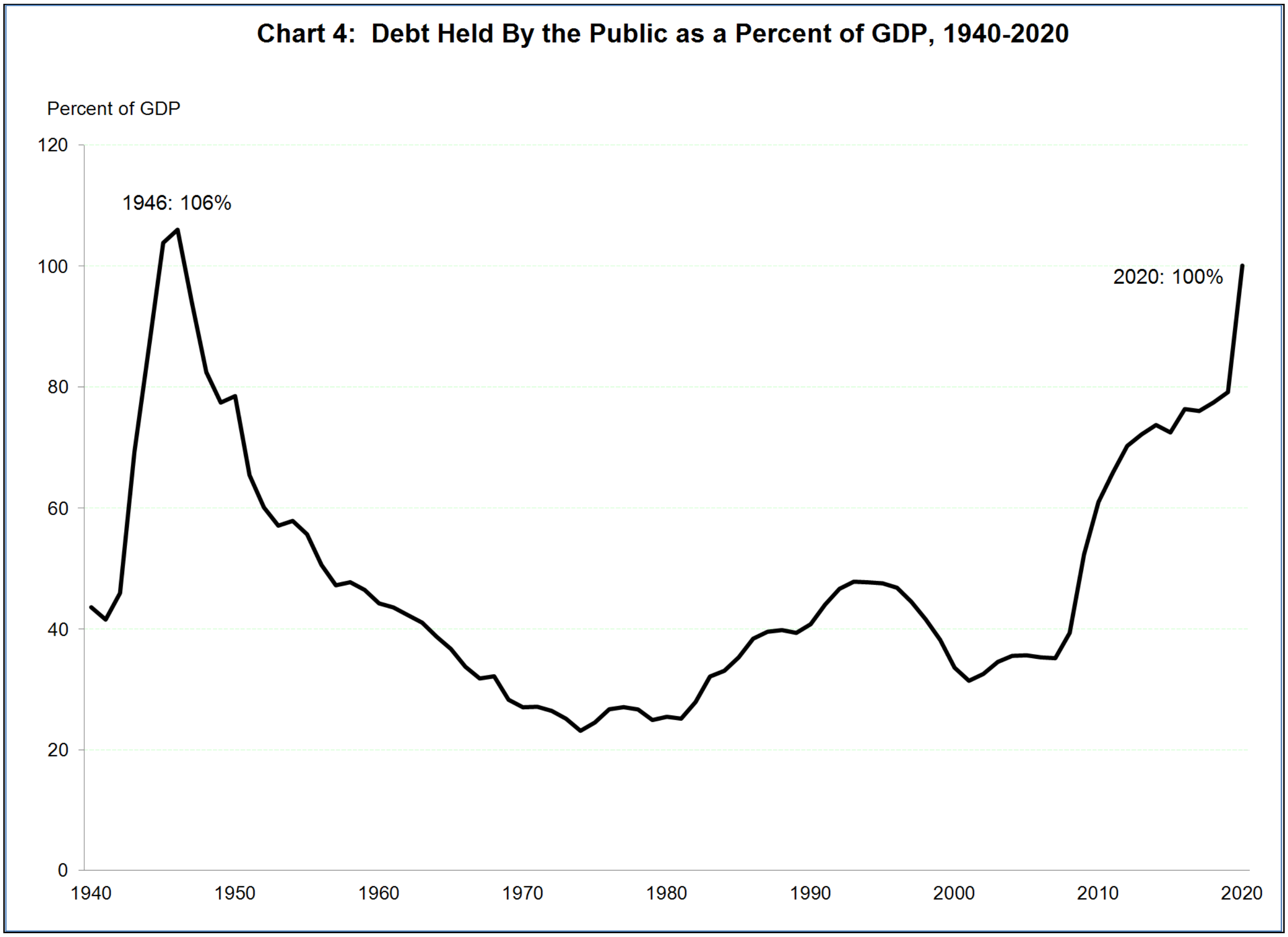
very low indebtedness – those with debt-to-GDP ratios of less than 30 percent – the negative relationship between growth and debt is difficult to determine. Another study reports that differences in average GDP growth in countries with debt-to-GDP ratios between 30-60 percent, 60-90 percent, and 90-120 percent cannot be statistically distinguished.[9] Some countries with high debt-to-GDP ratios have been observed to experience lower-than-average growth, while other countries with similarly high debt ratios have continued to enjoy robust growth. Analogously, low debt-to-GDP ratios are no guarantee of strong economic growth. Moreover, the direction of causality is unclear. High debt may undermine growth through increased interest rates and lower business confidence, or low growth may contribute to high debt by depressed tax revenues and increased deficit spending on social safety net programs.

Nevertheless, to put the current and projected debt-to-GDP ratios in context, it is instructive to examine how the U.S. experience compares with that of other countries. The U.S. government's debt as a percent of GDP is relatively large compared with central government debt of other countries, but far from the largest among developed countries. Based on historical data as reported by the IMF for 28 advanced economies, the debt-to-GDP ratio in 2018 ranged from 5.5 percent of GDP to 197.1 percent of GDP.[10] The U.S. is not included in this set of statistics, which underscores the difficulty in calculating debt ratios under consistent definitions, but the 2020 debt-to-GDP ratio for the U.S. Government was 100 percent. Despite using consistent definitions where available, these debt measures are not strictly comparable due to differences in the share of government debt that is debt of the central government, how government responsibilities are shared between central and local governments, how current policies compare with the past policies that determine the current level of debt, and how robustly each economy grows.

The historical experience of the U.S. may also provide some perspective. As Chart 4 shows, the debt-to-GDP ratio was highest in the 1940s, following the debt buildup during World War II. In the projections in this report, the U.S. would reach the previous peak debt ratio in 2025. However, the origins of current and future federal debt are quite different from the wartime debt of the 1940s, which limits the pertinence of past experience.

[9] Herndon, Thomas, Michael Ash, and Robert Pollard, "Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff," *Cambridge Journal of Economics*, 2013.

[10] Government Finance Statistics Yearbook, Main Aggregates and Balances, available at https://data.imf.org. Data is for D1 debt liabilities for the central government, excluding social security funds, for Advanced Economies.



As the cross-country and historical comparisons suggest, there is a very imperfect relationship between the current level of central government debt and the sustainability of overall government policy. Past accrual of debt is certainly important, but current policies and their implications for future debt accumulation are as well.

Conclusion

The projections in this *Financial Report* indicate that if policy remains unchanged, the debt-to-GDP ratio will steadily increase throughout the projection period and beyond based on this report's assumptions, which implies current policy is not sustainable and must ultimately change. Subject to the important caveat that policy changes are not so abrupt that they slow economic growth, the sooner policies are put in place to avert these trends, the smaller are the adjustments necessary to return the nation to a sustainable fiscal path, and the lower the burden of the debt will be to future generations.

Social Insurance

The social insurance programs consisting of Social Security, Medicare, Railroad Retirement, Black Lung, and UI were developed to provide income security and health care coverage to citizens under specific circumstances as a responsibility of the government. Because taxpayers rely on these programs in their long-term planning, social insurance program information should indicate whether the current statutory provisions of the programs can be sustained, and more generally what effect these provisions likely have on the government's financial condition. The resources needed to run these programs are raised through taxes and fees. Eligibility for benefits depends in part on earnings and time worked by the individuals. Social Security benefits are generally redistributed intentionally toward lower-wage workers (i.e., benefits are progressive). In addition, each social insurance program has a uniform set of eligibility events and schedules that apply to all participants.

RSI material is generally drawn from the 2020 Annual Reports of the Boards of Trustees', which represents the official government evaluation of the financial and actuarial status of the Social Security and Medicare Trust Funds. Unless otherwise noted, all data are for calendar years, all projections are based on current law and the Trustees intermediate set of assumptions. The one exception is that the projections disregard benefit payment reductions that would result from the projected depletion of the OASDI and HI Trust Funds. Under current law, benefit payments would be reduced to levels that could be covered by incoming tax and premium revenues when the trust fund balances have been depleted.

Social Security and Medicare

Social Security

The OASI and DI Trust Funds were established on January 1, 1940 and August 1, 1956 respectively as separate accounts in Treasury. The OASI fund pays cash retirement benefits to eligible retirees and their eligible dependents and survivors, and the much smaller DI fund pays cash benefits to eligible individuals who are unable to work because of medical conditions and certain family members of such eligible individuals. All financial operations of the OASI and DI Programs are handled through these respective funds. The two funds are often referred to as the combined OASDI Trust Funds or "Social Security". At the end of calendar year 2019, Social Security benefits were paid to approximately 64 million beneficiaries.

The events that trigger benefit payments are quite different however, both trust funds have the same dedicated financing structure: taxes paid by workers, their employers, and individuals with self-employment income, based on work covered by the Social Security Program. Currently, employers and employees each pay 6.2 percent of taxable earnings, and the self-employed pay 12.4 percent of taxable earnings. Payroll taxes are levied on wages and net earnings from self-employment up to a specified maximum annual amount, referred to as maximum taxable earnings ($137,700 in 2020), that increases each year with economy-wide average wages.

Legislation passed in 1984 subjected up to half of Social Security benefits to income tax and allocated the revenue to the OASDI Trust Funds. In 1993 legislation increased the potentially taxed portion of benefits to 85 percent and allocated the additional revenue to the Medicare's HI Trust Fund.

Medicare

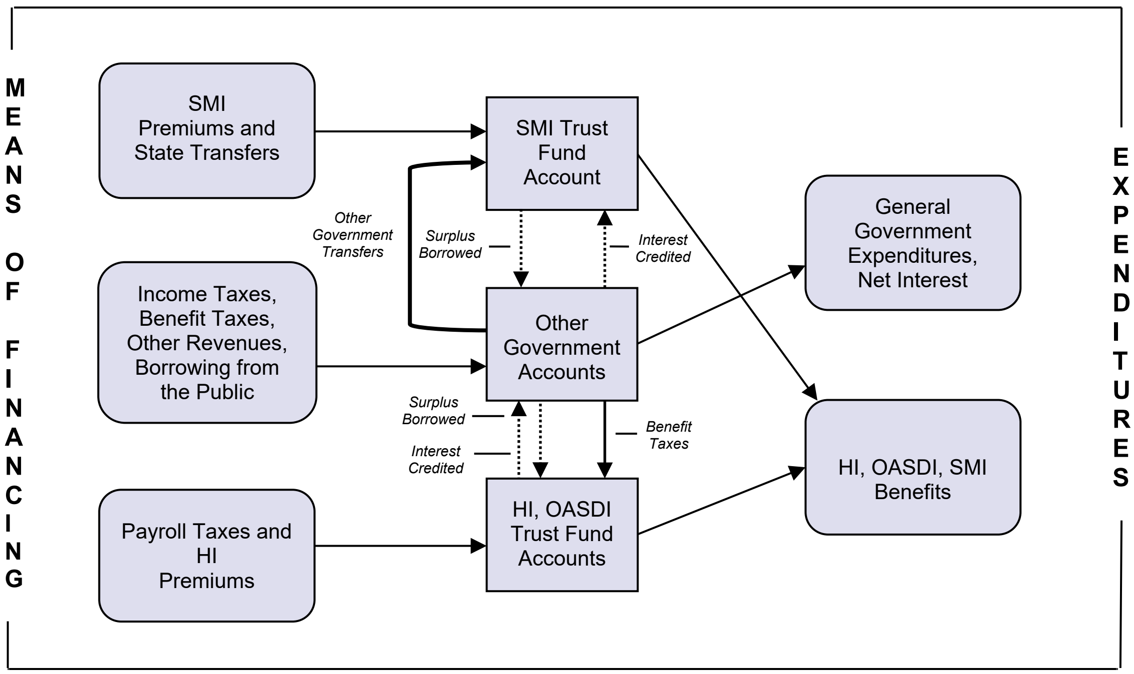
The Medicare Program, created in 1965, has two separate trust funds: the HI Trust Fund (otherwise known as Medicare Part A) and the SMI Trust Funds (which consists of the Medicare Part B and Part D[11] accounts). HI helps pay for inpatient hospital skilled nursing facility, home health, and hospice. SMI helps pay for hospital outpatient services, physician services, and assorted other services and products through Part B and for prescription drugs through Part D.

Though the events that trigger benefit payments are similar, HI and SMI have different dedicated financing structures. Similar to Social Security, HI is financed primarily by payroll contributions. Currently, employers and employees each pay 1.45 percent of earnings, while self-employed workers pay 2.9 percent of their net earnings. SMI is financed primarily by direct transfers from the General Fund. Additional financing sources include premiums paid by beneficiaries and, for Part D state transfers.

[11] Medicare legislation in 2003 created the new Part D account in the Medicare Part B and D Trust Fund to track the finances of a new prescription drug benefit that began in 2006. As is the case for Medicare Part B, a little less than three-quarters of revenues to the Part D account will come from future transfers from the General Fund. Consequently, the nature of the relationship between the Medicare Part B and D Trust Fund and the federal budget described below is largely unaffected by the presence of the Part D account though the magnitude will be greater.

Social Security, Medicare, and Government-wide Finances

Figure 1—Social Security, Medicare, and Government-wide Finances



- Other Government Transfers: Intra-governmental transfers to the Medicare "Parts B and D" Trust Fund from other government accounts.
- Surplus Borrowed: Program revenue loaned to the General Fund and treated as if it borrowed the money from the public
- Interest Credited: Interest earned when the excess of program revenue over expenses is loaned to the General Fund becoming a future obligation to the General Fund.

The current and future financial status of the separate Social Security and Medicare Trust Funds is the focus of the Social Security and Medicare Trustees' Reports, a focus that may appropriately be referred to as the "trust fund perspective." In contrast, the government primarily uses the budget concept, appropriately referred to as the "budget perspective" or the "government-wide perspective" as the framework for budgetary analysis and presentation. It represents a comprehensive display of all federal activities, regardless of fund type or on- and off-budget status and has a broader focus than the trust fund perspective. Social Security and Medicare are among the largest expenditure categories of the U.S. federal budget. This section describes the important relationship between the trust fund perspective and the government-wide perspective.

Figure 1 is a simplified depiction of the interaction of the Social Security and Medicare Trust Funds with the rest of the federal budget.[12] The boxes on the left show sources of funding, those in the middle represent the trust funds and other government accounts, including the General Fund into which that funding flows, and the boxes on the right show simplified expenditure categories. The figure is intended to illustrate how the various sources of program revenue flow through the budget to beneficiaries. The general approach is to group revenues and expenditures that are linked specifically to Social Security and/or Medicare separately from those for other government programs.

Each of the trust funds has its own sources and types of revenue. With the exception of General Fund transfers to Medicare Parts B and D, each of these revenue sources represents revenue from the public that is dedicated specifically for the respective trust fund and cannot be used for other purposes. In contrast, personal and corporate income taxes as well as other revenue go into General Fund and are drawn down for any government program for which Congress has approved spending.[13] The Medicare SMI Trust Fund is shown separately from the Social Security OASDI Trust Funds and the Medicare HI Trust Fund to highlight the unique financing of Medicare Parts B and D. Currently, it is the only one of the

[12] The federal budget encompasses all government financing and is synonymous with a government-wide perspective.
[13] Other programs also have dedicated revenues in the form of taxes and fees (and other forms of receipt) and there are a large number of dedicated trust funds in the federal budget.

programs that is funded through transfers from the General Fund. The transfers are automatic and; their size depends on program expenses, not on how much revenue comes into Treasury. If General Fund revenues become insufficient to cover both the mandated transfer to Medicare Parts B and D and expenditures on other general government programs, Treasury needs to borrow to make up the difference. In the longer run, if transfers to Medicare Parts B and D increase beyond growth in general revenues is as projected, then Congress must either raise taxes, cut other government spending, reduce Medicare Parts B and D benefits, or borrow even more.

Intra-governmental transfers (surplus) is a form of “borrowing/lending” between the government accounts. How loans from the trust funds to the General Fund and later repayments of those loans affect tax income and expenditures of the General Fund is uncertain. Two extreme cases encompass the possibilities. At one extreme, each dollar the trust funds loan to the General Fund might reduce borrowing from the public by a dollar at the time the loan is extended, in which case the General Fund could repay all trust fund loans by borrowing from the public without raising the level of public debt above the level that would have occurred in the absence of the loans. At the other extreme, the trust fund loans result in additional largess (i.e., higher spending and/or lower taxes) in General Fund programs at the time the loans are extended, but ultimately that additional largess is financed with additional austerity (i.e., lower spending and/or higher taxes). The actual impact of trust fund loans to the General Fund and their repayment on General Fund programs is at one of these two extremes or somewhere in between.

Actual dollar amounts roughly corresponding to the flows presented in Figure 1 are shown in the following table for FY 2020. From the government-wide perspective, only revenues received from the public and state transfers less expenditures made to the public are important for the final balance. From the trust fund perspective which is captured in the bottom section of each of the three trust fund columns revenue also includes amounts transferred from the General Fund and interest earned from the lending/borrowing activity between the General Fund and the trust funds. Transfers to the SMI Program from the General Fund are obligated under current law and therefore, appropriately viewed as revenue from the trust fund perspective.

Revenues and Expenditures for Medicare and Social Security Trust Funds and the Total Federal Budget for the Fiscal Year ended September 30, 2020

	Trust Funds					
(In billions of dollars)	**HI**	**SMI**	**OASDI**	**Total**	**All Other**	**Total**[1]
Payroll taxes and other public revenues:						
Payroll and benefit taxes	322.9	-	1,024.1	1,347.0	-	1,347.0
Premiums	6.6	123.0	-	129.6	-	129.6
Other taxes and fees	-	14.9	-	14.9	1,928.5	1,943.4
Total	329.5	137.9	1,024.1	1,491.5	1,928.5	3,420.0
Total expenditures to the public[2]	400.6	514.8	1,095.4	2,010.8	4,541.1	6,551.9
Net results for budget perspective[3]	(71.1)	(376.9)	(71.3)	(519.3)	(2,612.6)	(3,131.9)
Revenues from other government accounts:						
Transfers	1.4	357.5	9.0	367.9	(367.9)	
Interest credits	5.3	2.2	78.8	86.3	(86.3)	
Total	6.7	359.7	87.8	454.2	(454.2)	
Net results for trust fund perspective[3]	(64.4)	(17.2)	16.5	(65.1)	N/A	N/A

[1] This column is the sum of the preceding two columns and shows data for the total federal budget. The figure $3,131.9 billion was the total federal deficit in FY 2020.

[2] The OASDI figure includes $5.0 billion transferred to the RRB for benefit payments and is therefore an expenditure to the public.

[3] Net results are computed as revenues less expenditures.

Transfers and interest credits received by the trust funds appear as a negative entry under “all other” and column.

are offset when summed for the total budget.

"N/A" indicates not applicable.

Medicare Part A: Government-wide perspective-difference between expenditures made to the public and revenues was $71.1 billion. Trust fund perspective-after revenues from transfers and interest from the General Fund, expenditures exceeded revenues by $64.4 billion.

Medicare Parts B and D: Government-wide perspective-difference between expenditures made to the public and revenues was $376.9 billion resulting in a net draw on the overall budget balance. Trust fund perspective-after revenues from transfers and interest from the General Fund, revenues exceeded expenditures by $17.2 billion.

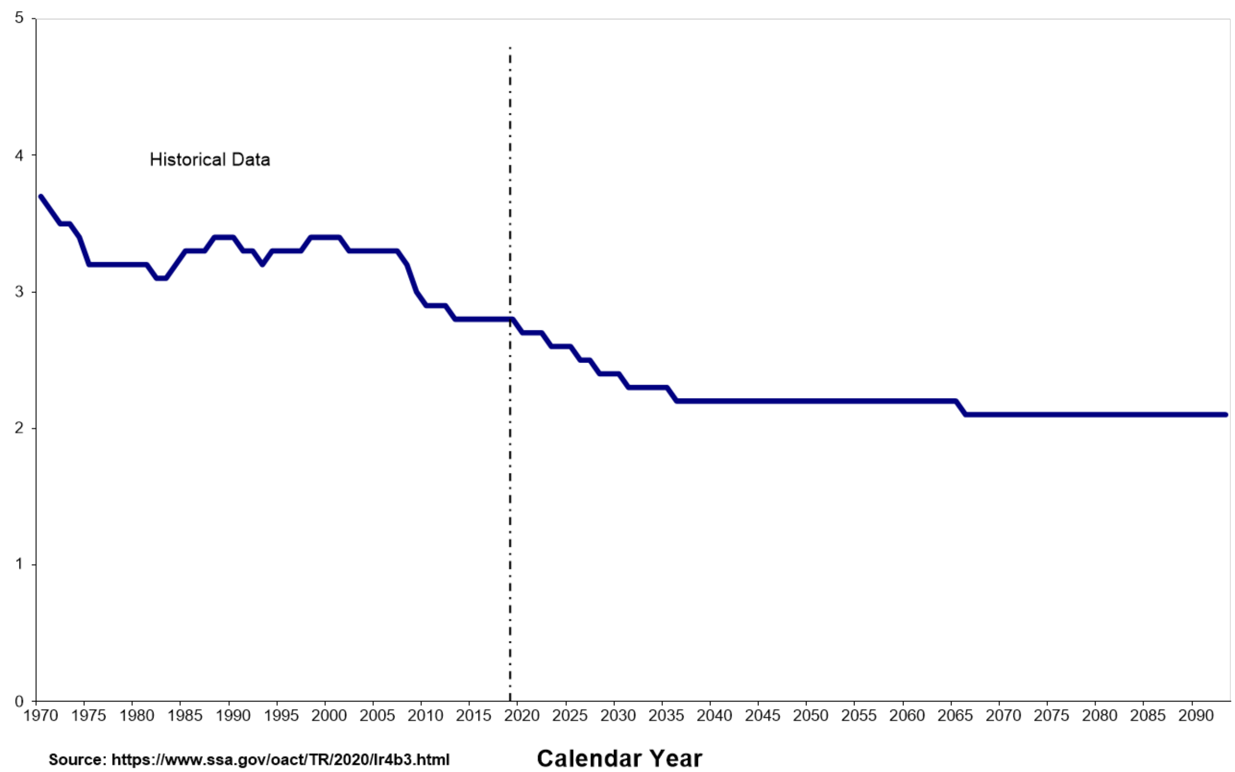
Social Security: Government-wide perspective-difference made to the public and revenues was $71.3 billion. Trust fund perspective-after revenues from transfers and interest from the General Fund, revenues exceeded expenditures by $16.5 billion.

Cash Flow Projections

Economic and Demographic Assumptions. The Boards of Trustees of the OASDI and Medicare Trust Funds provide in their annual reports to Congress short-range (10-year) and long-range (75-year) actuarial estimates of each trust fund. Because of their inherent uncertainty in estimating 75 years into the future, the boards use three alternative sets of economic and demographic assumptions to show a range of possibilities. The economic and demographic assumptions used for the most recent set of intermediate projections for Social Security and Medicare are shown in the demographic and economic assumption section of Note 23-Social Insurance.

Worker-to-Beneficiary Ratio. For the most part, current workers' pay for current benefits. The relatively smaller number of persons born after the Baby Boom will therefore finance the retirement of the Baby Boom generation. Chart 1 shows the estimated number of covered workers per OASDI beneficiary using the Trustees intermediate assumptions. Covered workers are persons having earnings creditable for OASDI purposes based on wages in covered employment or income from covered self-employment. The estimated number of workers per beneficiary declines from 2.8 in 2019 to 2.1 in 2094. A similar demographic pattern confronts the Medicare Program. In 2019 every HI beneficiary had about 3.0 workers to pay for his or her benefit and continues to decline until there are only 2.1 workers per beneficiary by 2094.

Chart 1—Number of Covered Workers per OASDI Beneficiary
1970-2094



Source: https://www.ssa.gov/oact/TR/2020/lr4b3.html

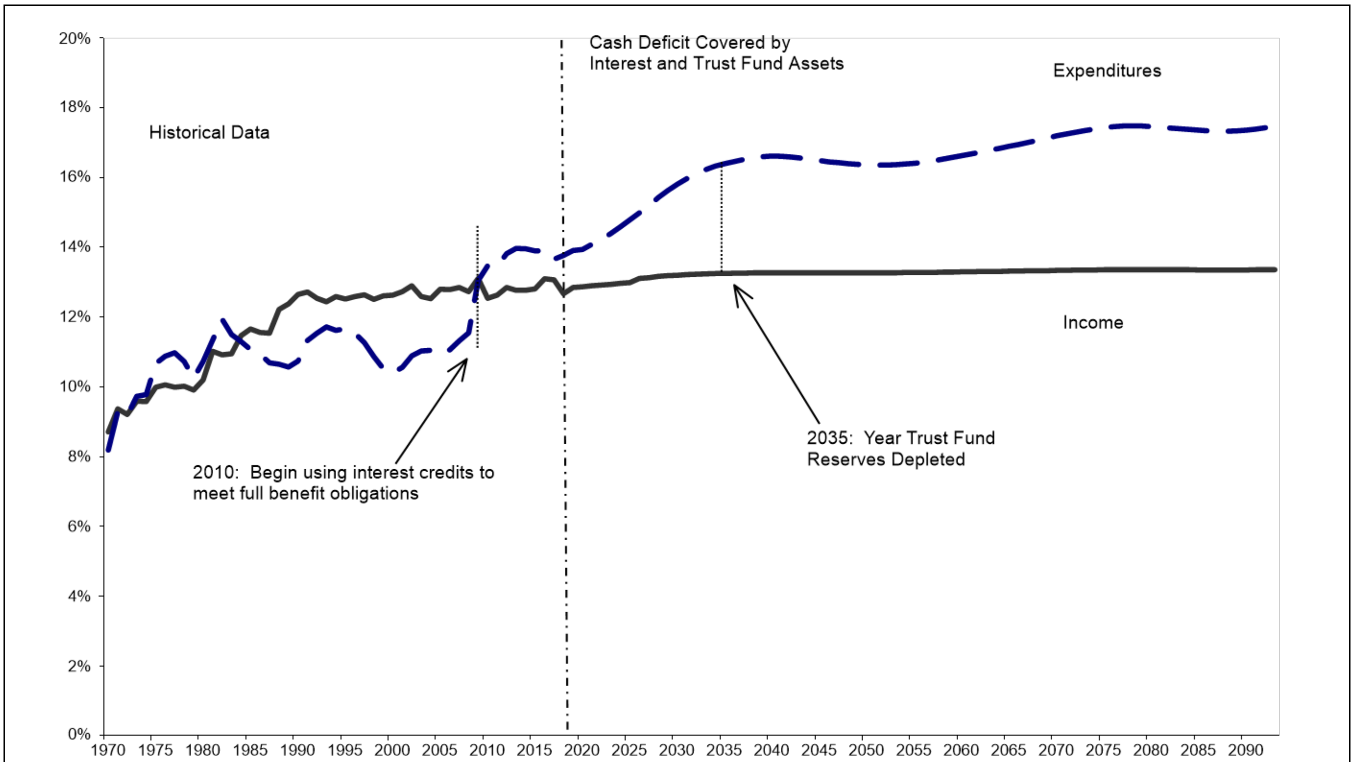
Social Security Projections

Income and Expenditures as a Percent of Taxable Payroll. Chart 2 shows annual non-interest income and expenditures expressed as percentages of taxable payroll. In all years of the projection period, estimated annual cost is more than estimated annual income excluding interest. After 2020, estimated cost, expressed as a percentage of taxable payroll, increases through about 2040 and is rising at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 73 percent of the estimated cost.

In any year, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds will need to redeem Treasury securities. This redemption differs from the situation of prior years when the combined OASI and DI Trust Funds had been net lenders to the General Fund. In 2035 the reserves in the combined OASI and DI Trust Funds are projected to become depleted, at which time 79 percent of scheduled benefits would be payable. Because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available noninterest income.

Solvency could be achieved by 1) increasing revenue equivalent to an immediate and permanent payroll tax rate increase of 3.14 percent points, or by 2) reducing scheduled benefits by an amount equivalent to an immediate and permanent reduction of about 19 percent applied to all current and future beneficiaries, or about 23 percent if the reductions were applied only to newly entitled beneficiaries. Alternatively, some combination of tax increases and benefit reductions could be adopted.

Chart 2—OASDI Income (Excluding Interest) and Expenditures as a Percent of Taxable Payroll 1970-2094

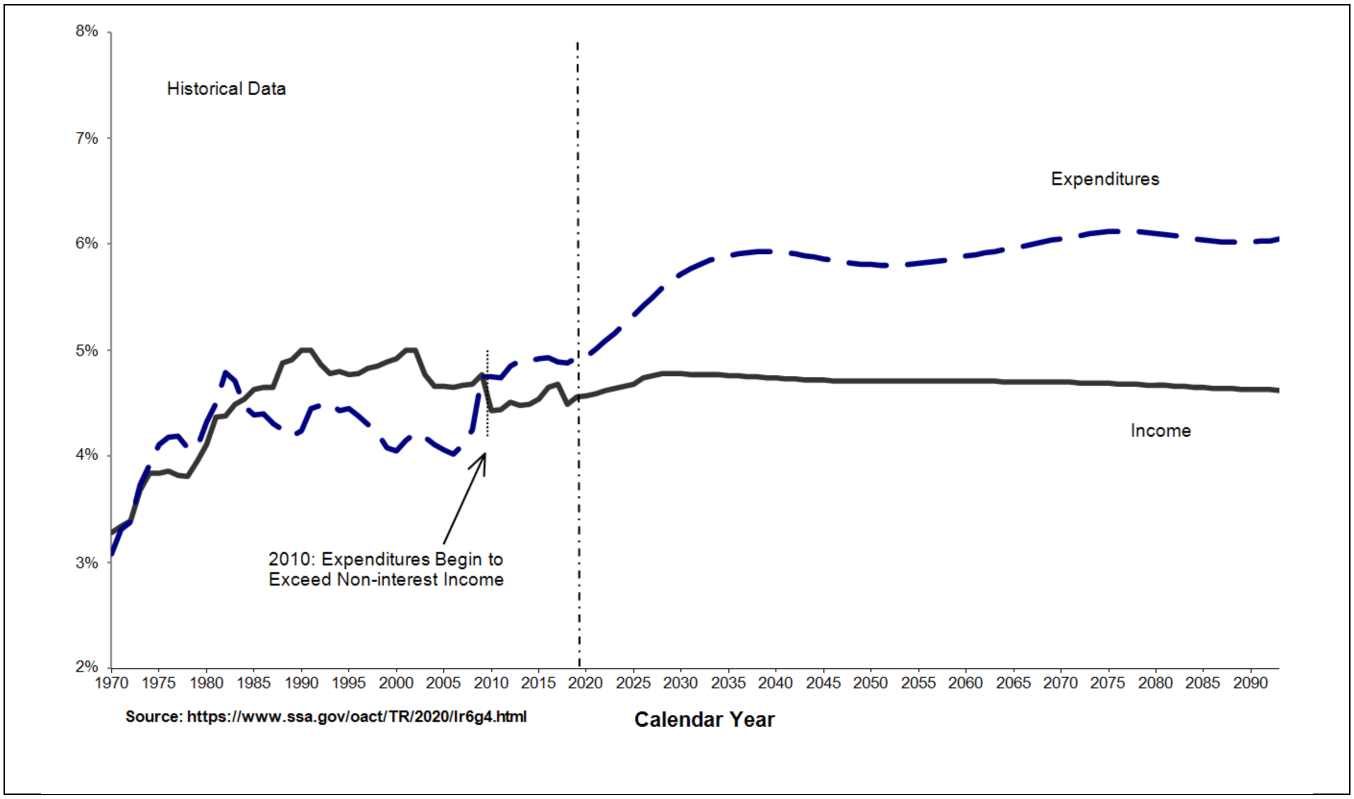


Source: https://www.ssa.gov/oact/TR/2020/lr6g2.html

Income and Expenditures as a Percent of GDP. Chart 3 shows estimated annual non-interest income and expenditures, expressed as a percent of GDP. Analyzing these cash flows in terms of percentage of the estimated GDP, which represents the total value of goods and services produced in the U.S., provides a measure of the cost of the OASDI program in relation to the size of the national economy that must finance it.

In calendar year 2019, OASDI cost was about $1,059 billion, which was about 5.0 percent of GDP. The cost of the program (based on current law) rises to 5.9 percent by 2038, then declines to 5.8 percent by 2053, and then generally increases to 5.9 percent by 2094. The increase from 2020 to 2038 is projected to occur as baby boomers continue to become eligible for OASDI benefits, lower birth rates result in fewer workers per beneficiary, and beneficiaries continue to live longer.

Chart 3—OASDI Income (Excluding Interest) and Expenditures as a Percent of GDP 1970-2094



Medicare Projections

Medicare Legislation. The projections presented here are based on current law, certain features of which may result in some challenges for the Medicare program. In 2010 the PPACA was signed into law and contains the most significant changes to health care coverage since the *Social Security Act*. The PPACA provided funding for the establishment of a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models to reduce program expenditures while preserving or enhancing the quality of care furnished to individuals. If the health sector cannot transition to more efficient models of care delivery and if the provider reimbursement rates paid by commercial insurers continue to be based on the same negotiated process used to date, then the availability, particularly with respect to physician services, and quality of health care received by Medicare beneficiaries would, under current law, fall over time compared to that received by those with private health insurance.

Incorporated in these projections is the sequestration of non-salary Medicare expenditures as required by the following laws:

- *BCA of 2011* (P.L. 112-25, enacted on August 2, 2011), as amended by the *American Taxpayer Relief Act of 2012* (P.L. 112-240, enacted on January 2, 2013);
- *Continuing Appropriations Resolution, 2014* (P.L. 113-67, enacted on December 26, 2013);
- Sections 1 and 3 of P.L. 113-82, enacted on February 15, 2014;
- *Protecting Access to Medicare Act of 2014* (P.L. 113-93, enacted on April 1, 2014);
- *BBA of 2015* (P.L. 114-74, enacted on November 2, 2015); and
- *BBA of 2018* (P.L. 115-123, enacted on February 9, 2018).
- *BBA of 2019* (P.L. 116-37, enacted on August 2, 2019).

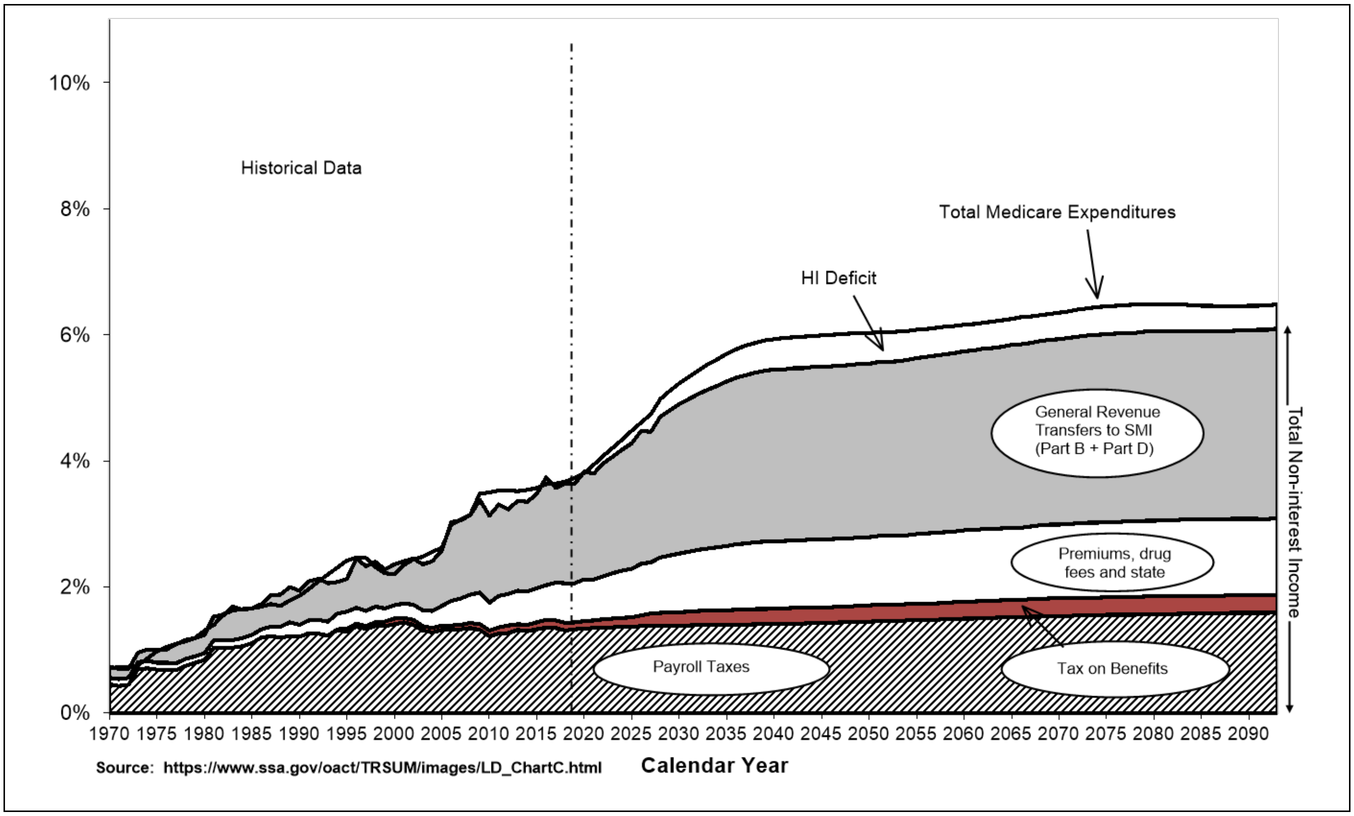
The sequestration reduces benefit payments by 2 percent from April 1, 2013 through March 31, 2029, and by 4 percent from April 1, 2029 through September 30, 2029. Due to sequestration, non-salary administrative expenses are reduced by an estimated 5 to 7 percent from March 1, 2013 through September 30, 2029.

The financial projections for the Medicare program reflect substantial, but very uncertain, cost savings deriving from current law provisions that lower increases in Medicare payment rates to most categories of health care providers, but such adjustments would probably not be viable indefinitely without fundamental change in the current delivery system. In view of the factors described above, it is important to note that Medicare's actual future costs are highly uncertain for reasons apart from the inherent challenges in projecting health care cost growth over time. For additional information refer to the "Medicare – Illustrative Alternative Scenario" section of Note 23—Social Insurance and HHS's financial statement.

Changes in Projection Methods. The long-range cost growth rates must be modified to reflect demographic impacts. In the 2019 report and prior reports, these impacts reflected the changing distribution of Medicare enrollment by age and sex. For the 2020 report, these effects are being modified to estimate not only the changing distribution of Medicare enrollment by age and sex but also the beneficiary's proximity to death, which is referred to as a TTD adjustment. The TTD adjustment reflects the fact that the closer an individual is to death, the higher his or her health care spending is.

Total Medicare. Chart 4 shows expenditures and current-law non-interest revenue sources for HI and SMI combined as a percent of GDP. Under the PPACA, beginning in 2013 the HI Trust Fund receives an additional 0.9 percent tax on earnings in excess of $250,000 for joint tax return filers and $200,000 for individual tax return filers. As a result of this provision, it is projected that payroll taxes will grow slightly faster than GDP. HI expenditures exceeded income each year from 2008 through 2015. In 2016 and 2017, however, there were fund surpluses. In 2018 and 2019, expenditures again exceeded income, with trust fund deficits of $1.6 billion and $5.8 billion, respectively. General revenue transfers to the Part B account increased significantly in 2016, as required by the *BBA of 2015* to compensate for premium revenue that was not received in 2016 due to the hold harmless provision, which limited the Part B premium increase for a majority of beneficiaries. After decreasing from 2016 to 2017, general revenues will gradually increase as a share of Medicare financing from 2018 through 2034 and grow to about 49 percent, stabilizing thereafter. SMI premiums will also grow in proportion to general revenue transfers, placing a growing burden on beneficiaries. High-income beneficiaries have paid an income-related premium for Part B since 2007 and for Part D since 2011. Medicare Part B and D general revenues equal 1.6 percent of GDP in 2019 and will increase to an estimated 3.1 percent in 2094 under current law.

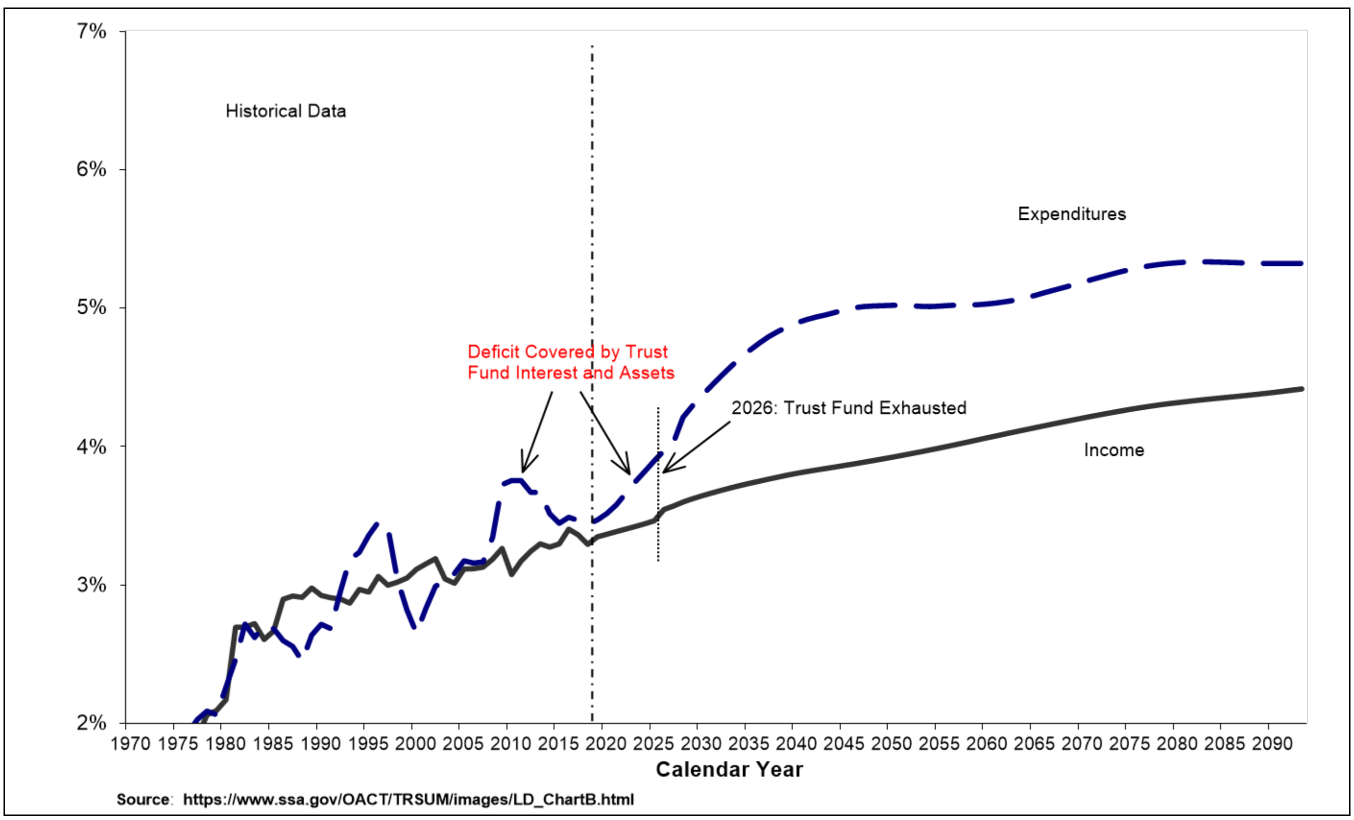
Chart 4—Total Medicare (HI and SMI) Expenditures and Non-interest Income as a Percent of GDP 1970-2094



Medicare, Part A Income and Expenditures as a Percent of Taxable Payroll. Chart 5 illustrates income (excluding interest) and expenditures as a percentage of taxable payroll. The projected HI cost rates shown in the 2020 report are lower than those from the 2019 report for all years largely because of lower expenditures attributable to lower than projected 2019 spending and the incorporation of TTD into the demographic factors used in the projection model. The standard HI payroll tax rate is scheduled to remain constant as is the additional earnings tax paid by high-income workers. Income from taxation of Social Security benefits will also increase faster than taxable payroll because the income thresholds determining taxable benefits are not indexed for price inflation. Since these income thresholds are not indexed, over time an increasing proportion of workers and their earnings will become subject to the additional HI tax rate.

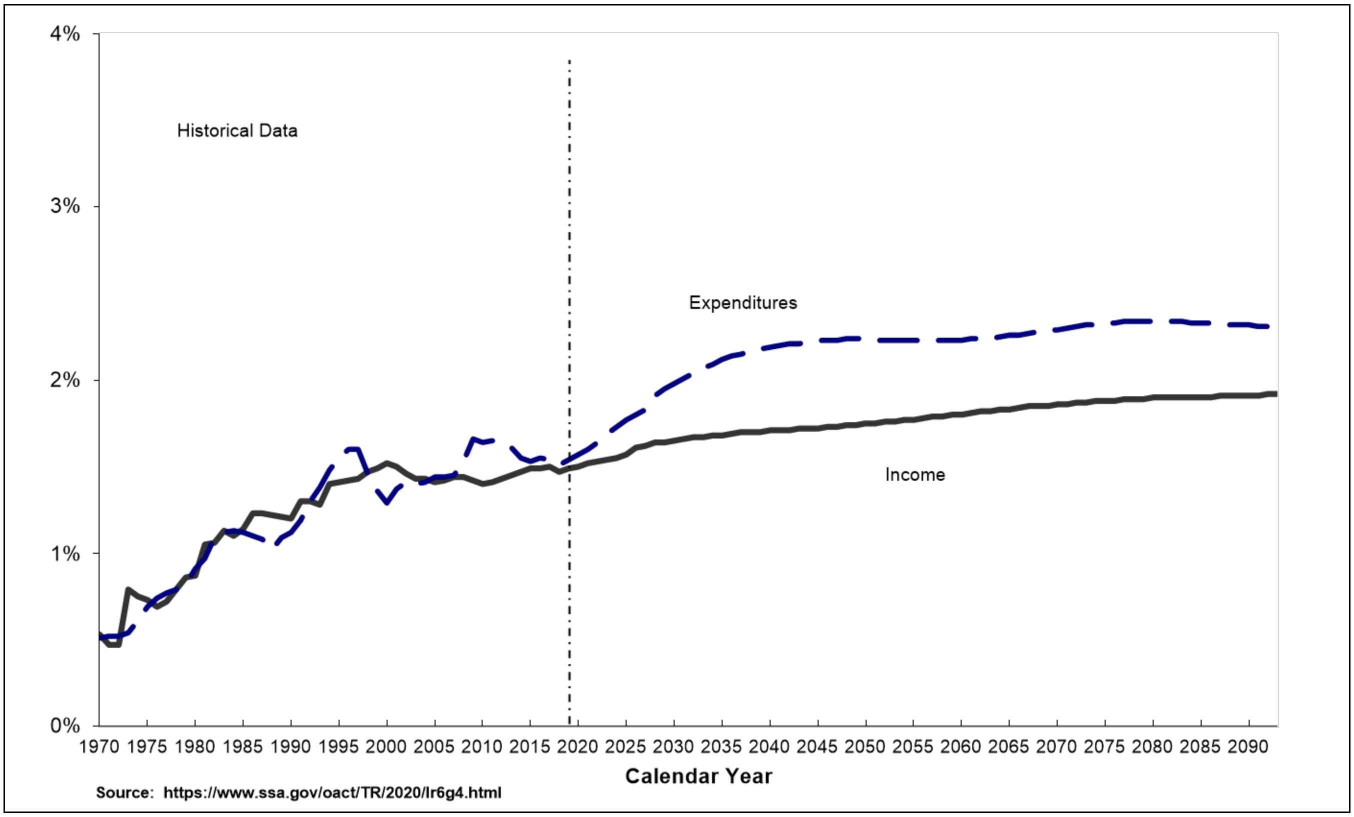
In 2020 and beyond, as indicated in Chart 5, the cost rate is projected to rise, primarily due to the continued retirements of those in the Baby Boom generation and partly due to an acceleration of health services cost growth. This cost rate increase is moderated by the accumulating effect of the productivity adjustments to provider price updates, which are estimated to reduce annual HI per capita cost growth by an average of 0.7 percent through 2029 and 1.0 percent thereafter. The percentage of expenditures covered by non-interest income is projected to decrease from 90 precent in 2026 to 78 percent in 2044 and then to increase to about 90 precent by the end of the projection period.

Chart 5—Medicare Part A Income (Excluding Interest) and Expenditures as a Percent of Taxable Payroll 1970-2094



Medicare, Part A Income and Expenditures as a Percent of GDP. Chart 6 shows estimated annual non-interest income and expenditures, expressed as a percent of GDP, the total value of goods and services produced in the U.S. This measure provides an idea of the relative financial resources that will be necessary to pay for Medicare services. In 2019, the expenditures were $328.3 billion, which was 1.5 percent of GDP. This percentage is projected to increase steadily until about 2045 and then remain fairly level throughout the rest of the 75-year period, as the accumulated effects of the price update reductions are realized.

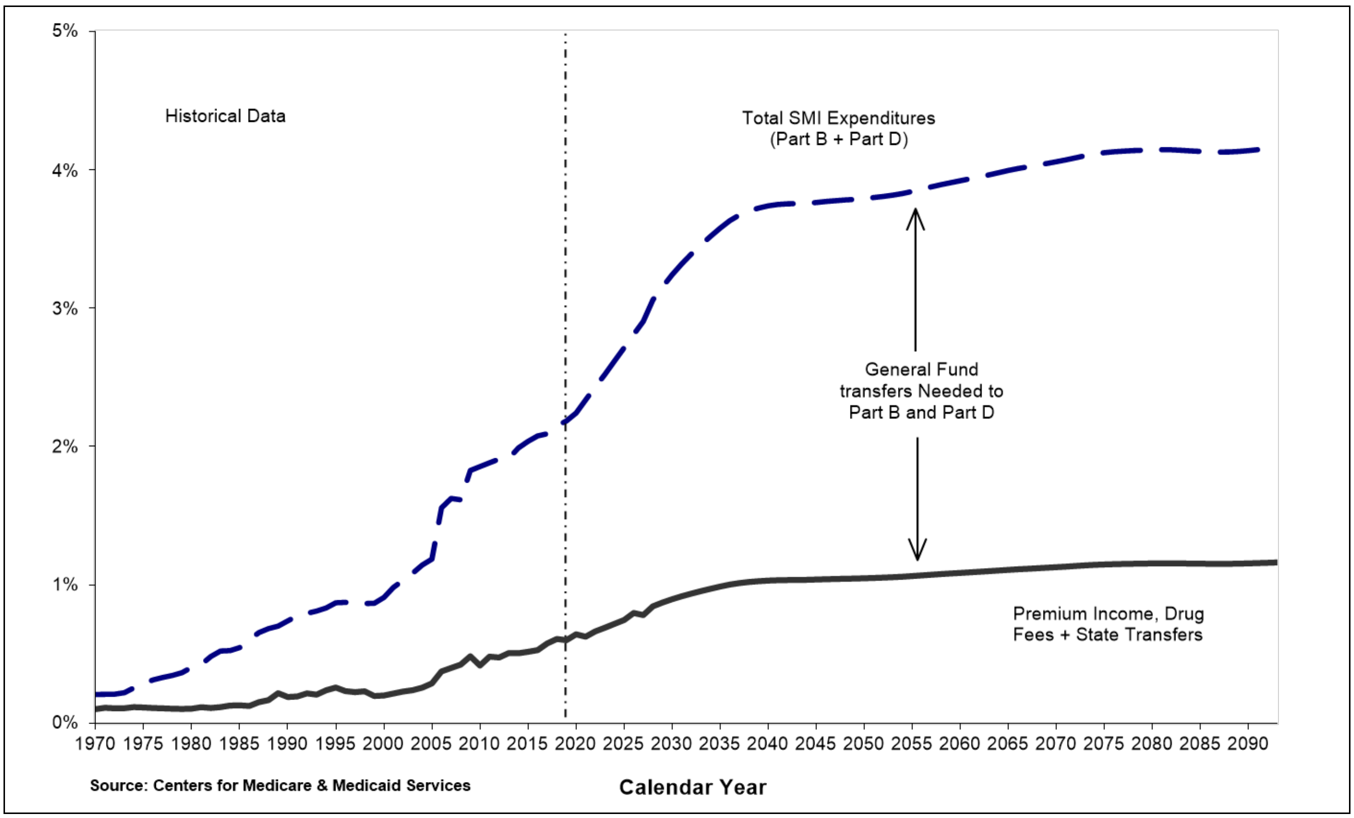
Chart 6—Medicare Part A Income (Excluding Interest) and Expenditures as a Percent of GDP 1970-2094



Medicare Part B and Part D Premium as well as State Transfer Income and Expenditures as a Percent of GDP. Chart 7 shows expenditures for the Part B and D Program expressed as a percent of GDP. It is important to examine the projected rise in expenditures and the implications for beneficiary premiums and General Fund transfers.

In 2019, SMI expenditures were $467.9 billion, or about 2.2 percent of GDP. Under current law, they would grow to about 3.9 percent of GDP within 25 years and to 4.5 percent by the end of the projection period. To match the faster growth rates for SMI expenditures, beneficiary premiums, along with general revenue contributions, would increase more rapidly than GDP over time but at a slower rate compared to the last 10 years. Average per beneficiary costs for Part B and Part D benefits are projected to increase after 2019 by about 4.2 percent annually. The associated beneficiary premiums—and General Fund transfers would increase by approximately the same rate. The special state payments to the Part D account are set by law at a declining portion of the states' forgone Medicaid expenditures attributable to the Medicare drug benefit. The percentage was 90 percent in 2006, phasing down to 75 percent in 2015 and later. Then, after 2015, the state payments are also expected to increase faster than GDP.

Chart 7—Medicare Part B and Part D Premium and State Transfer Income and Expenditures as a Percent of GDP 1970-2094



Social Security and Medicare Sensitivity Analysis

Projections of the future financial status of the Social Insurance programs depend on many demographic and economic assumptions. The estimates presented here are based on the assumption that the trust funds will continue under current law except that the full amount of Social Security and Medicare HI scheduled benefits are paid after trust fund depletion contrary to current law. Income will depend on how these factors affect the size and composition of the working population and the level and distribution of wages and earnings. Similarly, the cost will depend on how these factors affect the size and composition of the beneficiary population and the general level of benefits.

Because actual experience is likely to differ from the estimated or assumed values of these factors, this section is included to illustrate the sensitivity of the long-range projections to changes in assumptions by analyzing key assumptions: average annual reduction in death rates for Social Security, average annual growth in health costs for Medicare, total fertility rate, real-wage differential, CPI change, net immigration, and real interest rate.

For this analysis, the intermediate assumptions are used as the reference point, and each selected assumption is varied individually. The variation used for each individual assumption reflects the levels used for that assumption in the low-cost and high-cost projections. For example, when analyzing sensitivity with respect to variation in real wages, income, and expenditure projections using the intermediate assumptions are compared to the outcome when projections are done by changing only the real wage assumption to either low-cost or high-cost alternatives.

The following tables show the PV of the estimated excess of Social Security and Medicare cost over income for the 75-year period, using various assumptions, which are shown in parentheses. The low-cost alternative is characterized by assumptions that improve the financial status of the program (relative to the intermediate assumption) such as slower improvement in mortality (beneficiaries die younger). In contrast, assumptions under the high-cost alternative worsen the financial outlook. All PV are calculated as of January 1, 2020 and are based on estimates of income and cost during the 75-year projection period 2020-2094. Refer to SSA's and HHS's unaudited RSI—Social Insurance section for additional information on the Social Insurance programs sensitivity analysis.

Present Values of Estimated OASDI Expenditures in Excess of Income
Under Various Assumptions, 2020-2094

(Dollar values in billions; values of assumptions shown in parentheses)

	Financing Shortfall Range		
Assumption	Low	Intermediate	High
Average annual reduction in death rates	16,817 (0.4)	19,696 (0.8)	22,891 (1.2)
Total fertility rate	17,815 (2.2)	19,696 (2.0)	21,554 (1.8)
Real-wage differential	15,641 (1.8)	19,696 (1.1)	22,262 (0.5)
CPI change	19,112 (3.0)	19,696 (2.4)	20,250 (1.8)
Net immigration[1]	18,854 (1,598,000)	19,696 (1,261,000)	20,502 (946,000)
Real interest rate	16,717 (2.8)	19,696 (2.3)	23,452 (1.8)

[1] Amounts represent the average annual net immigration over the 75-year projection period.

Source: 2020 OASDI Trustees' Report and SSA.

The increase and decrease discussed below for each projection are relative to the changes shown in the table above over the 75-year projection period.

- The average annual reduction in death rates: If people die younger Social Security income relative to cost would decrease by $2,879 billion; if people live longer shortfall would increase by $3,195 billion.
- Total fertility rate: If there are more workers compared to beneficiaries Social Security income relative to cost would decrease by $1,881 billion; if there are fewer workers compared to beneficiaries the shortfall would increase by $1,858 billion.
- Real-wage differential: Higher real wage growth results in faster income growth relative to expenditure growth; if real-wage growth is higher Social Security income relative to cost would decrease by $4,055 billion; if real-wage growth is lower the shortfall would increase by $2,566 billion.
- CPI change: If the ultimate annual increase in the CPI percentage is higher Social Security income relative to cost would decrease by $584 billion; if the ultimate annual increase in the CPI percentage is lower shortfall would increase by $554 billion.
- Net immigration: If there is a larger increase in immigration levels then Social Security income relative to cost would decrease by $842 billion; if there is a smaller increase in immigration levels the shortfall would increase by $806 billion.
- Real interest rate: If the ultimate real interest rate is higher then Social Security income relative to cost when measured in PV terms would decrease by $2,979 billion; if the ultimate annual real interest rate is lower, then the shortfall would increase by $3,756 billion.

Present Values of Estimated Medicare Part A Expenditures in Excess of Income Under Various Assumptions, 2020-2094

(Dollar values in billions; values of assumptions shown in parentheses)

	Financing Shortfall Range		
Assumption	Low	Intermediate	High
Average annual growth in health costs	(3,879)	4,800	18,727
	(2.7)	(3.7)	(4.7)
Total fertility rate	4,142	4,800	5,449
	(2.2)	(2.0)	(1.8)
Real wage differential	1,952	4,800	6,493
	(1.8)	(1.1)	(0.5)
CPI change	3,507	4,800	6,426
	(3.0)	(2.4)	(1.8)
Net immigration	4,490	4,800	5,093
	(1,598,000)	(1,261,000)	(946,000)
Real interest rate	4,130	4,800	5,566
	(2.8)	(2.3)	(1.8)

Source: CMS

The increase and decrease discussed below for each projection are relative to the changes shown in the table above over the 75-year projection period.

- Average annual growth in health care costs: The financial status of the HI Trust Fund is extremely sensitive to the growth rates for health care service costs. Slower growth rates will produce a lower aggregate cost of providing covered health care services. If a slower growth rate is attained Medicare Part A income relative to cost would decrease by $8,679 billion; if the growth rate is higher the shortfall would increase by $13,927 billion.
- Total fertility rate: If there are more workers compared to beneficiaries Medicare Part A income relative to cost would decrease by $658 billion; if there are fewer workers compared to beneficiaries, the shortfall would increase by $649 billion.
- Real-wage differential: Faster real-wage growth results in smaller HI cash flow deficits. If real-wage growth is higher Medicare Part A income relative to cost would decrease by $2,848 billion; if real wage growth is lower, the shortfall would increase by $1,693 billion.
- CPI change: If the ultimate annual increase in the CPI percentage is higher Medicare Part A income relative to cost would decrease by $1,293 billion; if the ultimate annual increase in the CPI percentage is lower the shortfall would increases by $1,626 billion.
- Net immigration: If there is a larger increase in immigration levels then Medicare Part A relative to cost would decrease by $310 billion; if there is a smaller increase in immigration levels the shortfall would increase by $293 billion.
- Real interest rate: If the ultimate real interest rate is higher then Medicare Part A income relative to cost, when measured in PV terms would decrease by $670 billion; if the ultimate real interest rate is lower, then the shortfall would increase by $766 billion.

Present Values of Estimated Medicare Parts B and D Future Expenditures Less Premium Income and State Transfers Under Three Health Care Cost Growth Assumptions, 2020-2094

(In billions of dollars)

	Government-wide Resources Needed		
Medicare Program[1]	Low (2.7)	Intermediate (3.7)	High (4.7)
Part B	23,507	33,085	48,271
Part D	5,513	7,845	11,588

[1] Annual growth rate is the aggregate cost of providing covered health care services to beneficiaries. The low and high scenarios assume that costs increase 1 percent slower or faster, respectively, than the intermediate assumption.

Source: CMS

The table above shows the effects of various assumptions about the growth in health care costs on the PV of estimated Part B and D expenditures in excess of income in the terms of government-wide resources needed due to the financing mechanism (General Fund transfers) for Medicare Parts B and D. As with Part A, net Part B and D expenditures are very sensitive in the health care cost growth assumption. If a slower growth rate is attained government-wide resources needed for Part B would decrease by $9,578 billion and Part D by $2,332 billion; if the growth rate is higher, government-wide resources needed would increase to $15,186 billion Part B and to $3,743 billion for Part D.

Sustainability of Social Security and Medicare

75-Year Horizon

According to the 2020 Medicare Trustees' Report, the HI Trust Fund is projected to remain solvent until 2026 and, according to the 2020 Social Security Trustees' Report, the OASI and DI Trust Funds are projected to have sufficient asset reserves to pay full benefits on time until 2034 and 2065, respectively. In each case, some general revenues must be used to satisfy the authorization of full benefit payments until the year of trust fund depletion. This occurs when the trust fund interest income and balances accumulated during prior years are needed to pay benefits, which leads to a transfer from general revenues to the trust funds. Moreover, under current law, General Fund transfers to the SMI Trust Fund will occur into the indefinite future and will continue to grow with the growth in health care expenditures.

The potential magnitude of future financial obligations under these three social insurance programs is, therefore, important from a budget perspective as well as for understanding generally the growing resource demands of the programs on the economy. From the 75-year budget perspective, the PV of the additional resources that would be necessary to meet projected expenditures, for the three programs combined, is $65.4 trillion. To put this figure in perspective, it would represent 4.4 percent of the PV of projected GDP over the same period ($1,499 trillion). These resource needs would be in addition to the payroll taxes, benefit taxes, and premium payments. Asset redemptions and Medicare Part B and D general revenue transfers represent formal budget commitments, but no provision exists for covering the Medicare Part A and Social Security Trust Fund deficits once assets are depleted.

The table below shows the magnitudes of the primary expenditures and sources of financing for the three trust funds computed on an open-group basis for the next 75 years and expressed in PV. The data are consistent with the SOSI included in the principal financial statements.

From the government-wide perspective, the PV of the total resources needed for the Social Security and Medicare Programs over and above current-law funding sources (payroll taxes, benefit taxes, and premium payments from the public) is $65,426 billion. From the trust fund perspective, which counts the trust funds ($3,201 billion) and the general revenue transfers to the SMI Program ($40,930 billion) as dedicated funding sources, additional resources needed to fund the programs are $21,295 billion.

Present Values of Costs Less Revenues of 75-Year Open Group Obligations
HI, SMI, and OASDI as of January 1, 2020

(In billions of dollars)	HI	SMI Part B	SMI Part D	OASDI	Total
Revenues from the public:					
Taxes	25,555	-	-	73,899	99,454
Premiums and state transfers	-	13,511	3,190	-	16,701
Total	25,555	13,511	3,190	73,899	116,155
Total costs to the public	30,355	46,596	11,035	93,595	181,581
Net results - budget perspective[1]	4,800	33,085	7,845	19,696	65,426
Revenues from other government accounts	-	33,085	7,845	-	40,930
Trust fund balances as of 1/1/2020	195	100	9	2,897	3,201
Net results - trust fund perspective[1]	4,605	(100)	(9)	16,799	21,295

[1]Net results are computed as costs less revenues and trust fund balances. Negative values are indicative of surpluses.
Source: 2020 OASDI and Medicare Trustees' Reports

Infinite Horizon

The 75-year horizon is consistent with the primary focus of the Social Security and Medicare Trustees' Reports. Experts have noted that limiting the projections to 75 years understates the magnitude of the long-range unfunded obligations because summary measures (such as the actuarial balance and open-group unfunded obligations) reflect the full amount of taxes paid by the next two or three generations of workers, but not the full amount of their benefits. One approach to addressing the limitation of 75-year summary measures is to extend the projections horizon indefinitely, so that the overall results reflect the projected costs and revenues after the first 75 years. The open-group infinite horizon net obligation is the PV of all expected future program outlays less the PV of all expected future program tax and premium revenues. Such a measure is provided in the following table for the three trust funds represented above.

From the budget or government-wide perspective, the values in line 1 plus the values in line 4 are summed in the last line of the table and represent the value of resources needed to finance each of the programs into the infinite future. The total resources needed for all the programs sums to $153.7 trillion in PV terms. This need can be satisfied only through increased borrowing, higher taxes, reduced program spending, or some combination.

The second line shows the value of the trust fund at the beginning of 2020. For the HI and OASDI Programs this represents the extent the programs are funded from the trust fund perspective. From that perspective, when the trust fund is subtracted, an additional $53.0 trillion is needed to sustain the Social Security program into the infinite future, while the Medicare Part A program reflects a projected surplus of $8.0 trillion over the infinite horizon. As described above, from the trust fund perspective, the SMI Program is fully funded; from a government-wide basis, the substantial gap that exists between premiums, state transfer revenue, and program expenditures in the Part B and D Program ($79.5 trillion and $26.0 trillion, respectively) represents future general revenue obligations of the federal budget.

In comparison to the analogous 75-year number in the table above, extending the calculations beyond 2094, captures the full lifetime benefits, plus taxes and premiums of all current and future participants. The shorter horizon understates the total financial needs by capturing relatively more of the revenues from current and future workers and not capturing all the benefits that are scheduled to be paid to them.

Present Values of Costs Less Tax, Premium and State Transfer Revenue through the Infinite Horizon, HI, SMI, OASDI as of January 1, 2020

(In trillions of dollars)	HI	SMI Part B	SMI Part D	OASDI	Total
Present value of future costs less future taxes, premiums, and state transfers for current participants participants	13.1	26.9	5.7	41.8	87.5
Less current trust fund balance	0.2	0.1	-	2.9	3.2
Equals net obligations for past and current participants participants	12.9	26.8	5.7	38.9	84.3
Plus net obligations for future participants	(20.9)	52.7	20.3	14.1	66.2
Equals net obligations through the infinite future for all participants	(8.0)	79.5	26.0	53.0	150.5
Present values of future costs less the present values of future income over the infinite horizon	(7.8)	79.6	26.0	55.9	153.7

Source: 2020 OASDI and Medicare Trustees' Reports

Railroad Retirement, Black Lung, and Unemployment Insurance

Railroad Retirement

The RRB was created in the 1930s to establish a retirement benefit program for the nation's railroad workers. The RRB and the SSA share jurisdiction over the payment of retirement and survivor benefits. Railroad retirement pays full retirement annuities at age 60 to railroad workers with 30 years of service and disability annuities based on total or occupational disability. It also-pays annuities to certain beneficiaries of deceased railroad workers.

Payroll taxes paid by railroad employers and their employees provide a primary source of income for the Railroad Retirement and Survivors' Benefit Program. Other sources of program income include: the RRB-SSA-CMS Financial Interchanges with the Social Security and Medicare Trust Funds, federal income taxes on railroad retirement benefits, appropriations, and earnings on investments.

Revenues in excess of benefit payments are invested to provide additional trust fund income. Legislation enacted in 2001 allowed for Railroad Retirement Account funds transferred to the NRRIT to be invested in non-governmental assets, as well as in governmental securities.

Since its inception, NRRIT has received $21.3 billion from RRB and returned $26.9 billion. During FY 2020, the NRRIT made net transfers of $2.3 billion to the RRB to pay retirement benefits. Administrative expenses of the trust are paid out of trust assets. The balance as of September 30, 2020, and 2019, of non-federal securities and investments of the NRRIT are disclosed in Note 7—Securities and Investments.

Black Lung

The Federal Coal Mine Health and Safety Act of 1969 created the BLDBP to provide compensation, medical, and survivor benefits for eligible coal miners who are totally disabled due to pneumoconiosis (Black Lung Disease) arising out of their coal mine employment and the BLDTF provides benefit payments when no responsible mine operator can be assigned the liability.

Black lung disability benefit payments are funded by excise taxes from coal mine operators based on the domestic sale of coal, as are the program's administrative costs. These taxes are collected by the IRS and transferred to the BLDTF.

P.L. 110-343, *Division B-Energy Improvement and Extension Act of 2008*, enacted on October 3, 2008, among other things, restructured the BLDTF debt by refinancing the outstanding high interest rate repayable advances with low interest rate discounted debt instruments similar in form to zero-coupon bonds, plus a one-time appropriation. This Act also allowed that any subsequent debt issued by the BLDTF may be used to make benefit payments, other authorized expenditures, or to repay debt and interest from the initial refinancing.

Unemployment Insurance

The UI Program was created in 1935 to provide income assistance to unemployed workers who lose their jobs generally through no fault of their own and are unemployed due to a lack of suitable work. The program protects workers during temporary periods of unemployment through the provision of unemployment compensation benefits. The program is administered through a unique system of federal and state partnerships established in federal law but executed through conforming state laws by state officials. The federal government provides broad policy guidance and program direction through the oversight of DOL, while program details are established through individual state UI statutes, administered through state UI entities.

The UI Program is financed through the collection of federal and state unemployment taxes levied on subject employers and deposited in the UTF and federal appropriations. The fund was established to account for the receipt, investment, and disbursement of unemployment taxes. Federal unemployment taxes are used to pay for the administrative costs of the UI Program, including grants to each state to cover the costs of state UI operations and the federal share of extended UI benefits. Federal unemployment taxes are also used to fund an account within the UTF to make advances to state UI accounts when a state's UI account balance has been exhausted and the state is unable to make benefit payments.

Cash Flow Projections

Railroad Retirement Income and Expenditures. Railroad retirement cash flow projections are based on the intermediate set of assumptions used in the RRB's actuarial valuation of the program. Estimated railroad retirement expenditures are expected to exceed estimated income (excluding interest) throughout most of the period, except in 2056 through 2059.

Sensitivity Analysis. The projections of the future financial status of the RRP depend on many economic and demographic assumptions. For additional information on the sensitivity of the long-range projections of the RRP and how the projections are impacted by changes in certain key assumptions, refer to RRB's financial statements.

Black Lung Projected Cash Inflows and Outflows, in Constant Dollars, for the Open Group. The significant assumptions used in the projections show that cash outflows for benefit payments and administrative expenses will exceed cash inflows from excise taxes for all years in the projection period.

Sensitivity Analysis. For the projected cash inflows and outflows with sensitivity analysis, in constant dollars for the open group, the significant assumption for medical cost inflation was increased while other significant assumptions were left unchanged. For additional information on the sensitivity of the projections of the BLDBP and how the projections are impacted by changes in assumptions, refer to DOL's financial statements.

Unemployment Insurance Projected Cash Inflows and Outflows, in Constant Dollars, Under Expected Economic Conditions. The significant assumptions used in the cash flow projections of the UTF show total cash outflow exceeds total cash inflow in FY 2021 and 2022 and total cash inflow exceeds total cash outflow in all other years in the projection period.

Sensitivity Analysis. The effect on the accumulated UTF assets of projected total cash inflows and cash outflows of the UTF, in constant dollars, over the ten-year period ending September 30, 2030, are demonstrated in two sensitivity analysis. Each sensitivity analysis uses an open group, which includes current and future participants in the UI Program. Sensitivity Analysis I assumes lower rates of unemployment and Sensitivity Analysis II assumes higher rates of unemployment. In Sensitivity Analysis I, there are net cash outflows in FY 2021 and 2022, but there is a net cash inflow FY 2023 and net cash inflows continue through 2030. In Sensitivity Analysis II, net cash outflows, are projected in FY 2021 through 2024, but inflows exceed outflows in FY 2025 through 2030; net cash inflows are reestablished in FY 2026 and peak in FY 2028 with a decrease in unemployment rate in FY 2025 and then steadily downward in FY 2026 through 2030. For additional information on the sensitivity of the projections of the UI Program, refer to DOL's financial statements.

Sustainability

Sustainability of Railroad Retirement from a trust fund perspective, when the trust fund balance ($27.3 billion) and the financial interchange and transfers ($85.9 billion) are included, the combined balance of the NRRIT, the Railroad Retirement Account, and the Social Security Equivalent Benefit Account show a slight surplus ($1.3 billion). For additional information related to the sustainability of the RRP, refer to RRB's financial statements.

On September 30, 2020, total liabilities of the BLDTF exceeded assets by nearly $6.0 billion. This net position deficit represents the accumulated shortfall of excise taxes necessary to meet benefit payments, administrative costs, and interest expense incurred prior to and subsequent to the debt refinancing pursuant to P.L. 110-343. Prior to the enactment of P.L. 110-343, this shortfall was funded by repayable advances to the BLDTF, which were repayable with interest. Pursuant to P.L. 110-343, any shortfall will be financed with debt instruments similar in form to zero-coupon bonds, with a maturity date of one year and bear interest at Treasury's 1-year rate.

The ability of the UI Program to meet a participant's future benefit payment needs depends on the availability of accumulated taxes and earnings within the UTF. The effect of projected benefit payments on the accumulated net assets of the UTF is measured, under an open group scenario, which includes current and future participants in the UI Program. As of September 30, 2020, total assets within the UTF exceeded total liabilities by nearly $7.3 billion. At the present time there is a surplus; any surplus of tax revenues and earnings on these revenues over benefit payment expenses is available to finance benefit payments in future periods when tax revenues may be insufficient.

For additional information related to the sustainability of the RRP, BLDBP, and UI refer to RRB's and DOLs financial statements.

Unemployment Trust Fund Solvency

Each state's accumulated UTF net assets or reserve balance should provide a defined level of benefit payments over a defined period. To be minimally solvent, a state's reserve balance should provide for one year's projected benefit payment needs based on the highest levels of benefit payments experienced by the state over the last 20 years. A ratio of 1.0 or greater indicates that the state UTF account balance is minimally solvent. States below this level are vulnerable to exhausting their funds in a recession. States exhausting their reserve balance must borrow funds from either FUA or the private markets to make benefit payments. During FY 2020, the balances in the FUA and EUCA were depleted and the FUA and EUCA borrowed from the General Fund as advances from Treasury. FUA outstanding advances were $36.0 billion as of September; the EUCA repaid its advances by September 30, 2020. Several Unemployment Programs were created due to the COVID-19 pandemic and funded by the CARES Act. Please refer to Note 28—COVID-19 Activity for additional information.

The results of DOL's state by state analysis indicate 37 state UTF accounts and the accounts of the District of Columbia, Puerto Rico, and the Virgin Islands were below the minimal solvency ratio of 1.00 at September 30, 2020.

Deferred Maintenance and Repairs

DM&R result from maintenance not being performed on a timely basis and is the estimated cost to bring government-owned PP&E to an acceptable condition. DM&R exclude the cost of expanding the capacity of assets or upgrading them to serve needs different from those originally intended. The consequences of not performing regular maintenance and repairs could include increased safety hazards, poor service to the public, higher costs in the future, and inefficient operations. Estimated DM&R costs are not accrued in the Statements of Net Cost or recognized as a liability on the Balance Sheets.

The amounts disclosed for DM&R are allowed to be measured using one of the following three methods:

- Condition assessment surveys which are periodic inspections of government-owned property to determine the current condition and estimated cost to bring the property to an acceptable condition.
- Life-cycle cost forecast that is an acquisition or procurement technique that considers operation, maintenance, and other costs in addition to the acquisition cost of assets.
- Any other method of choice that is similar to the condition assessment survey or life-cycle costing methods.

The table below of DM&R is presented as a single estimate in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32.* These amounts were all measured using the condition assessment survey method. Please refer to the individual financial statements of DOD, DOI, VA, DOE, USDA, NASA, HHS, GSA, DHS, State, DOC, and DOT for additional information on DM&R.

Deferred Maintenance and Repairs as of September 30, 2020, and 2019

(In billions of dollars)	2020	2019
Asset category:		
General property, plant, and equipment	182.1	161.4
Heritage assets	25.6	20.9
Stewardship land	0.6	0.5
Total deferred maintenance and repairs	208.3	182.8

Other Claims for Refunds

Other claims for refunds are claims filed for which specific administrative actions such as review by the courts are required before payments can be made and unasserted claims for refund by taxpayers or importers that may or may not become payable depending upon the resolution of subsequent events. As stated in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, unasserted claims for refund such as unfiled claims for refunds or drawbacks for which no claim has been filed, are not known, therefore estimates are not able to be determined, and are not recognized on the balance sheet. Claims filed for refunds where required administrative actions are not yet complete as of the close of the reporting period may not be known however, the refunds, may be reasonably estimable.

Management has estimated amounts that may be paid out as other claims for tax refunds. This estimate represents an amount (principal and interest) that may be paid for claims pending judicial review by the federal courts or, internally, by appeals. The total estimated payout (including principal and interest) for claims pending judicial review by the federal courts is $1.6 billion and $7.8 billion for FYs 2020 and 2019, respectively. For those under appeal, the estimated payout is $1.7 billion and $2.3 billion for FYs 2020 and 2019, respectively. To the extent judgments against the government for these claims prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

Tax Assessments

The government is authorized and required to make inquiries, determinations, and assessments of all taxes that have not been duly paid. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. Under federal accounting standards, unpaid assessments are categorized as taxes receivable if taxpayers agree or a court has determined the assessments are owed. If neither of these conditions are met, the unpaid assessments are categorized as compliance assessments. Assessments with little or no future collection potential are called write-offs. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

Compliance assessments and pre-assessment work in process are $76.1 billion and $77.8 billion for FYs 2020 and 2019, respectively. The amount of allowance for uncollectible amounts pertaining to compliance assessments cannot be reasonably estimated, and thus the net realizable value of the pre-assessment work-in-process cannot be determined. The amount of assessments that entities have statutory authority to collect at the end of the period but that have been written off and excluded from accounts receivable are $95.1 billion and $106.0 billion for FYs 2020 and 2019, respectively.

Federal Oil and Gas Resources

The DOI is responsible for managing the nation's oil and natural gas resources and the mineral revenues on federal lands, both onshore and on the Outer Continental Shelf. This management process can be broken down into six essential analysis components: pre-leasing, post-leasing and pre-production, production and post-production, revenue collection, fund disbursement, and compliance.

Federal Oil and Gas Resources as of September 30, 2020, and 2019

	Offshore		Onshore		Total	
(In billions of dollars)	2020	2019	2020	2019	2020	2019
Oil and lease condensate..................	32.0	30.3	19.2	18.7	51.2	49.0
Natural gas, wet after lease separation.......................................	2.2	2.2	17.3	17.7	19.5	19.9
Total	34.2	32.5	36.5	36.4	70.7	68.9

The above table presents the estimated PV of future federal royalty receipts on estimated proved reserves[14] as of September 30, 2020 and 2019. The federal government's estimated petroleum royalties have as their basis the DOE's EIA estimates of proved reserves. The EIA provides such estimates directly for federal offshore areas and they are adjusted to extract the federal subset of onshore proved reserves. The federal proved reserves were then further adjusted to correspond with the effective date of the actual production for calendar year 2018, the most recently published EIA proved reserves report and then are projected, separately for oil and natural gas, over time to simulate a schedule of when the reserves would be produced. Future royalties are then calculated from these production streams by applying future price estimates by the OMB, production growth estimates from the EIA's 2020 Annual Energy Outlook, and effective royalty rates, adjusted for transportation allowances and other allowable deductions. The valuation method used for gas captures royalties from three products–dry gas, wet gas, and natural gas liquids–which collectively are reported as natural gas, wet after lease separation. The PV of these royalties are then determined by discounting the revenue stream back to the effective date at a public discount rate assumed to be equal to the OMB's estimates of future 30-year Treasury bill rates. The 30-year rate was chosen because this maturity life most closely approximates the productive lives of the proved reserves estimates.

[14] Per the EIA, lease condensate is a mixture consisting primarily of pentanes and heavier hydrocarbons which is recovered as a liquid from natural gas in lease separation facilities. This category excludes natural gas plant liquids, such as butane and propane, which are recovered at downstream natural gas processing plants or facilities. Also per the EIA, natural gas, wet after lease separation, is the volume of natural gas remaining after removal of lease condensate in lease and/or field separation facilities, if any, and after exclusion of nonhydrocarbon gases where they occur in sufficient quantity to render the gas unmarketable. Natural gas liquids may be recovered from volume of natural gas, wet after lease separation, and at natural gas processing plants (https://www.eia.gov/dnav/ng/TblDefs/ng_prod_deep_tbldef2.asp).

Estimated Federal Oil and Gas Petroleum Royalties (Proved Reserves)
As of September 30, 2020, and 2019

	Quantity (In millions)		**Average Purchase Price** ($)		**Average Royalty Rate** (%)	
Petroleum Category	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Oil and lease condensate (Bbl):						
Offshore	5,126.9	4,576.0	42.75	62.62	12.96	13.18
Onshore	3,461.3	3,191.7	40.26	52.50	12.15	12.53
Total	8,588.2	7,767.7				
Natural gas, wet after lease separation (Mcf):						
Offshore	5,934.9	5,413.3	2.18	3.21	10.86	11.79
Onshore	45,488.3	44,592.3	2.10	2.95	9.88	10.55
Total	51,423.2	50,005.6				

Bbl = barrels

Mcf = 1,000 cubic feet

The table above provides the estimated quantity, a weighted average purchase price, and a weighted average royalty rate by category of estimated federal petroleum royalties at the end of FYs 2020 and 2019.[15] The estimated quantities, average purchase prices and royalty rates vary by region; the above table reflects an overall weighted average purchase price and royalty rate, and is not presented on a regional basis, but is instead calculated based on regional averages. The prices and royalty rates are based upon historical (or estimated) averages, excluding prior-period adjustments, if any, and are affected by such factors as accounting adjustments and transportation allowances, resulting in effective average prices and royalty rates. Prices are valued at the lease rather than at the market center, and differ from those used to compute the asset estimated PV, which are forecasted and discounted based upon OMB economic assumptions. For additional details on federal oil and gas resources, refer to the financial statements of DOI. In addition to the oil and gas resources discussed above, the federal government also owns oil and gas resources that are not currently under lease.

[15] Gulf of Mexico proved reserves are royalty bearing volumes. In the Gulf of Mexico, an additional 598.5 million Bbl for FY 2020 and 613.0 million Bbl for FY 2019 of proved oil reserves, and 534.8 million Mcf for FY 2020 and 622.8 million Mcf for FY 2019 of proved gas reserves are not reflected in these totals as they are estimated to be producible royalty free under various royalty relief provisions. The NPV of the royalty value of the royalty free proved reserves volumes in the Gulf of Mexico is estimated to be $3.9 billion for FY 2020 and $4.2 billion for FY 2019.

Federal Natural Resources Other than Oil and Gas

Federal Natural Resources Other than Oil and Gas as of September 30, 2020, and 2019

(In billions of dollars)	**2020**	**2019**
Coal royalties	7.9	8.9
Total	7.9	8.9

The ONRR within DOI is responsible for the management and collection of revenues associated with federal coal leases which are managed by the BLM within DOI. The ONRR achieves optimal value by ensuring that all natural resource revenues are efficiently and accurately collected as well as disbursed to recipients in a timely manner by performing audit and revenue compliance activities.

The Mineral Leasing Act of 1920, as amended, and the *Mineral Leasing Act for Acquired Lands of 1947*, as amended, gives DOI the responsibility for coal leasing on approximately 700 million acres of federal mineral estate which includes 570 million of acres where coal development is allowed. The surface estate of these lands may be under the control of BLM, the U.S. Forest Service (within USDA), private or state landowners, or other federal entities.

Public lands are available for coal leasing after the lands have been evaluated through a multiple-use planning process. DOI receives coal leasing revenues from a bonus paid at the time of the lease, an annual rent payment of $3.00 per acre, and royalties paid on the value of the coal after it has been mined. The royalty rate for surface-mining methods is 12.50 percent and is 8.00 percent for underground mining, and the BLM can approve reduced royalty rates based on maximum economic recovery. Regulations that govern BLM’s coal leasing program are contained in Title 43, Groups 3000 and 3400 of the Code of Federal Regulations.

The above table presents the estimated PV of federal coal royalties under lease contract or other long-term arrangements as of September 30, 2020 and 2019. The federal government’s estimated coal royalties have as their basis the DOI’s BLM estimates of recoverable reserves. The federal recoverable reserves are then further adjusted to correspond with the effective date of the analysis and then are projected over time to simulate a schedule of when the reserves would be produced. Future royalties are then calculated by applying future price estimates and effective royalty rates, adjusted for transportation allowances and other allowable deductions. The PV of these royalties are then determined by discounting the revenue stream back to the effective date at a public discount rate assumed to be equal to the OMB’s estimates of future 30-year Treasury bill rates. The 30-year rate was chosen because this maturity life most closely approximates the productive lives of the recoverable reserves estimates.

In addition to the coal resources discussed above, the federal government has other natural resources under lease contract whereby the lessee is required to pay royalties on the sale of the natural resource. These natural resources include soda ash, potash muriates of potash and langbeinite phosphate, lead concentrate, copper concentrate, and zinc concentrate. Soda ash and potash have the largest estimated PV of future royalties. The federal government also owns coal resources and certain other natural resources that are not currently under lease. For additional details on federal natural resources-other than oil and gas, refer to the financial statements of DOI.

United States Government Other Information (Unaudited) for the Years Ended September 30, 2020, and 2019

Tax Burden

The Internal Revenue Code provides for progressive tax rates, whereby higher earned income is generally subject to higher tax rates. The following tables present the latest available information on income tax and related income, deductions, and credit: for individuals by income level, and for corporations by size of assets.

Individual Income Tax Liability for Tax Year 2018

Adjusted Gross Income (AGI)	Number of Taxable Returns (In thousands)	AGI (In millions of dollars)	Total Income Tax (In millions of dollars)	Average AGI Per Return (In whole dollars)	Average Income Tax per Return (In whole dollars)	Income Tax as a Percentage of AGI
Under $15,000	32,618	40,228	591	1,233	18	1.5%
$15,000 under $30,000	28,782	640,648	14,894	22,259	517	2.3%
$30,000 under $50,000	27,528	1,078,886	49,485	39,192	1,798	4.6%
$50,000 under $100,000	35,146	2,507,316	186,826	71,340	5,316	7.5%
$100,000 under $200,000	21,146	2,878,203	320,536	136,111	15,158	11.1%
$200,000 under $500,000	6,906	1,971,306	327,806	285,448	47,467	16.6%
$500,000 or more	1,648	2,526,852	638,611	1,533,284	387,507	25.3%
Total	153,774	11,643,439	1,538,749			

Corporate Income Tax Liability for Tax Year 2017

Total Assets (In thousands of dollars)	Income Subject to Tax (In millions of dollars)	Total Income Tax After Credits (In millions of dollars)	Percentage of Income Tax After Credits to Taxable Income
Zero Assets	25,145	7,740	30.8%
$1 under $500	7,611	1,514	19.9%
$500 under $1,000	3,784	950	25.1%
$1,000 under $5,000	13,638	4,011	29.4%
$5,000 under $10,000	8,617	2,727	31.7%
$10,000 under $25,000	12,535	4,021	32.1%
$25,000 under $50,000	11,831	3,809	32.2%
$50,000 under $100,000	13,496	4,391	32.5%
$100,000 under $250,000	21,275	6,652	31.3%
$250,000 under $500,000	20,996	6,790	32.3%
$500,000 under $2,500,000	85,366	25,998	30.5%
$2,500,000 or more	777,981	196,257	25.2%
Total	1,002,275	264,860	

Tax Gap

The gross tax gap is the difference between the amount of tax imposed by law and what taxpayers actually pay on time. The tax gap provides an estimate of the level of overall noncompliance and voluntary compliance during the relevant tax periods. Tax gap estimates provide periodic appraisals about the nature and extent of noncompliance for use in formulating tax administration strategies. Estimating the tax gap is inherently challenging and requires assessing the merits of alternative methods, assumptions, and data sources. There is no single approach that can be used for estimating all the components of the tax gap, so multiple methods are used. The most recent estimates covering the Tax Year 2011-2013 timeframe were released in FY 2019.

The gross tax gap is the amount of a tax liability that is not paid voluntarily and on time. The estimated annual average gross tax gap is $441.0 billion. The gross tax gap is comprised of three components: non-filing, underreporting, and underpayment. The estimated gross tax gap for each of these components is $39.0 billion, $352.0 billion, and $50.0 billion, respectively. The gross tax gap estimates are also segmented by type of tax; individual income tax, corporation income tax, employment tax, and estate and excise tax. The estimated gross tax gap for each of these types of tax is $314.0 billion, $42.0 billion, $81.0 billion, and $3.0 billion, respectively.[1]

The net tax gap is the gross tax gap less tax that subsequently will be paid either late through voluntary payments or collected through IRS administrative and enforcement activities and is the portion of the gross tax gap that will not be paid. It is estimated that $60.0 billion of the gross tax gap will eventually be paid resulting in a net tax gap of $381.0 billion. The net tax gap estimates are also segmented by type of tax; individual income tax, corporation income tax, employment tax, and estate and excise tax. The estimated net tax gap for each of these types of tax is $271.0 billion, $32.0 billion, $77.0 billion, and $1.0 billion, respectively.

[1] Individual amounts may not add to totals due to rounding.

The IRS remains committed to finding ways to increase compliance and reduce the tax gap, while minimizing the burden on the vast majority of taxpayers who pay their taxes accurately and on time. For additional information on the Tax Gap, refer to Treasury's financial statements.

Tax Expenditures

The President's FY 2022 *Budget* will not be released before publication of the *Financial Report* for FY 2020. The tax expenditures reported below reflect the narrative and amounts previously published in the FY 2019 *Financial Report*.

As discussed in greater detail in Note 18—Collections and Refunds of Federal Revenue, tax and other revenues reported reflect the effects of tax expenditures, which are special exclusions, exemptions, or deductions or which provide tax credits, preferential tax rates or deferrals of tax liability, that allow individuals and businesses to reduce taxes they may otherwise owe.

The figures reported in the following table are estimates of tax expenditures using data from previous years and economic forecast from the FY 2020 Midsession Review. The largest tax expenditures in FY 2019 are the following (and see the table below):

- The exclusion from workers' taxable income of employers' contributions for health care, health insurance premiums, and premiums for long-term care insurance;
- The exclusion of contributions to and the earnings of employer defined benefit and defined contribution pension funds (minus pension benefits that are included in taxable income);
- Imputed rental income forms part of the total value of goods and services produced in a country. But unlike returns from other investments, the return on homeownership "imputed rent" is excluded from taxable income. In contrast, landlords must count as income the rent they receive, and renters may not deduct the rent they pay. A homeowner is effectively both landlord and renter, but the tax code treats homeowners the same as renters while ignoring their simultaneous role as their own landlords and exempting potential rent they would have paid themselves;
- Preferential tax rates on long-term capital gains; and
- Taxpayers with children under age 17 can qualify for a $2,000 per child tax credit (figure in table includes non-refundable portion of credit).

Largest Income Tax Expenditures as of September 30, 2019

(In billions of dollars)	**2019**
Exclusion of employer contributions for medical insurance premiums & health care	202.3
Defined benefit & defined contribution pension funds	147.3
Exclusion of net imputed rental income	121.3
Preferential tax rates on long term capital gains	111.5
Child tax credit	74.9

Generally, identifying and measuring a tax expenditure requires defining a baseline tax system against which identified tax provisions are exceptions. The tax expenditures prepared for the *Budget* are estimated relative to a simplified comprehensive income tax, which defines income as the sum of consumption and the change in net wealth in a given period of time. 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, for the following reasons:

- Eliminating a tax expenditure may have incentive effects that alter economic behavior, which can affect the resulting magnitudes of the activity or of other tax provisions or government programs. For example, if capital gains were taxed at ordinary rates, capital gain realizations would be expected to decline, resulting in lower tax receipts. Such behavioral effects are not reflected in the estimates.
- Tax expenditures are interdependent even without incentive effects. Repeal of a tax expenditure provision can increase or decrease the tax revenue effect of other provisions. For example, even if behavior does not change, repeal of an itemized deduction could increase revenue costs from other deductions as some taxpayers move into

higher tax brackets. Alternatively, an itemized deduction repeal could lower the revenue foregone from other deductions if taxpayers choose to claim the standard deduction over itemizing. Similarly, if two provisions were repealed simultaneously, the tax liability increase could be greater or less than the sum of the two separate tax expenditures, because each is estimated assuming that the other remains in force.

- Repeal effects may depend on concurrent tax rate changes. Lowering or raising tax rates can decrease or increase the estimated revenues from a particular provision. A $10,000 charitable contributions deduction is worth $3,500 in corporate tax revenues at a 35 percent tax rate, but only $2,100 at a 21 percent tax rate.

The President's FY 2020 *Budget* provided a presentation of Treasury's review of the tax expenditure budget. It focused on potential alternative baselines to a comprehensive income tax, including using a consumption tax, and defining negative tax expenditures (provisions that cause taxpayers to pay too much tax). Relative to a consumption tax baseline, a number of current tax provisions would be negative tax expenditures. More specifically, a consumption tax will not extend to saving or capital income. As an example, the exclusion for contributions to and earnings from retirement accounts would not be treated as a tax expenditure. Some of these also may not necessarily be negative tax expenditures under a comprehensive income tax as a baseline; the current reference law and normal law baselines represent a simplified version of comprehensive income. As an example, some medical expenditures may not be discretionary and perhaps should be excluded from income.

A more comprehensive ranking, including rankings over a 10 year period, and descriptions of tax expenditures can be found at the following location from Treasury's Office of Tax Policy https://home.treasury.gov/policy-issues/tax-policy/tax-expenditures.

Unmatched Transactions and Balances

Unmatched Transactions and Balances as of September 30, 2020 and 2019

(In millions of dollars)	2020	Restated 2019
Balance Sheet:		
Custodial and non-entity liability/asset	(1,155.9)	-
Benefit program contributions payable/receivable	-	109.2
Accounts payable/receivable	(65.0)	450.1
Advances from/to others & deferred credits/prepayments	(385.3)	(442.8)
Non-reciprocating	(355.3)	(12,891.3)
Fund balance with Treasury	(1,100.9)	(1,974.7)
	(3,062.4)	(14,749.5)
Statement of Operations and Changes in Net Position:		
Custodial transfers non-exchange	622.8	388.9
Benefit program revenue/cost	(601.9)	646.6
Non-reciprocating	(4,147.0)	(3,318.3)
Appropriations received/warrants issued	(68.0)	-
Custodial and non-entity collections transferred out/in	(1,003.9)	-
Accrual amounts collected/transferred in	(326.8)	-
Other	(6,071.0)	1,896.3
	(11,595.8)	(386.5)
Unmatched transactions and balances, net	(14,658.2)	(15,136.0)

( ) Parentheses indicate a decrease to Net Position.

The Statement of Operations and Changes in Net Position includes an amount for unmatched transactions and balances that result from the consolidation of federal reporting entities. Transactions between federal entities must be eliminated in consolidation to calculate the financial position of the government. Many of the amounts included in the table represent intra-governmental activity and balances that differed between federal entity trading partners and often totaled significantly more in the absolute than the net amounts shown. The table also reflects other consolidating adjustments and other adjustments that contributed to the unmatched transactions and balances amount. A number of lines in the "Unmatched Transactions and Balances" table were adjusted to zero after intra-governmental difference analysis determined they were immaterial at or below $0.1 billion. The adjustments were added to, or subtracted from, gross cost in the Statement of Net Cost.

Unmatched transactions and balances between federal entities impact not only in the period in which differences originate but also in the periods where differences are resolved. As a result, it would not be proper to conclude that increases or decreases in the unmatched amounts shown in the "Unmatched Transactions and Balances" table reflect improvements or deteriorations in the government's ability to resolve intra-governmental transactions. The federal community considers the identification and accurate reporting of intra-governmental activity a priority.

In FY 2020, a change has been made to the "Unmatched Transactions and Balances" table to display all unmatched transactions and balances in a more consistent manner. The table was changed to display all unmatched transactions and balances between federal entities as the net amount, rather than a change year over year for balance sheet activity as was previously displayed. The top section reflects unmatched intra-governmental transactions and balances associated with assets and liabilities impacting the Balance Sheet. The lower section reflects unmatched intra-governmental transactions and balances associated with current year activity impacting the Statement of Operations and Changes in Net Position. Note, although the section is titled Statement of Operations and Changes in Net Position, the net intra-governmental difference may represent the combination of Statement of Operations and Changes in Net Position and, in some instances, activity on the Statement of Net Cost. For comparative purposes, FY 2019 Unmatched Transactions and Balances were also restated as a result of this change.

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Appendix A: Reporting Entity

This appendix lists the entities (consolidation entities, disclosure entities, or related parties) included in the U.S. government's *Financial Report*. SFFAS No. 47, *Reporting Entity*, provides guidance for identifying entities that are consolidation entities, disclosure entities, and related parties.

The *Financial Report* includes all organizations meeting the inclusion principles of a) budgeted for by elected officials of the government; b) owned by the government; and c) controlled by the government with risk of loss or expectation of benefits. In addition, the *Financial Report* includes organizations where it would be misleading to exclude even though the organization does not meet any of the three inclusion principles. If an organization meets the inclusion principles, a determination of consolidation or disclosure is made.

SFFAS No. 47 identifies consolidation entities as organizations that should be consolidated in the financial statements based on the assessment of the following characteristics as a whole, the organization: a) is financed through taxes and other non-exchange revenues; b) is governed by the Congress or the President; c) imposes or may impose risks and rewards to the government; and d) provides goods and services on a non-market basis. It also includes organizations that would result in misleading or incomplete financial statements, if excluded.

Disclosure entities are entities with which the federal government has relationships that meet the inclusion criteria in SFFAS No. 47, but are afforded a greater degree of autonomy than consolidation entities. These entities may maintain a separate legal identity, have a governance structure that vests most decision-making authorities in a governing body to insulate the organization from political influence, and/or have relative financial independence. Other organizations that are owned or controlled by the government as a result of regulatory actions, or other government intervention actions are, generally, deemed to be disclosure entities if the relationship with the government is not expected to be permanent.

Related parties exist if the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions. Related parties do not meet the principles for inclusion, but are reported in the *Financial Report*, if they maintain relationships of such significance that it would be misleading to exclude.

1. Consolidation Entities included in the Financial Report:

There are a total of 165 entities that meet the consolidation criteria, and as such are included in the *Financial Report*. The lists below describe three groups of consolidation entities that comprise the consolidated government-wide reporting entity for the *Financial Report* and include entities from all three branches of government.

Twenty-Four Chief Financial Officer Act Consolidation Entities

Department of Agriculture
www.usda.gov
Department of Commerce
www.doc.gov
Department of Defense
www.defense.gov
Department of Education
www.ed.gov
Department of Energy
www.energy.gov
Department of Health and Human Services
www.hhs.gov
Department of Homeland Security
www.dhs.gov
Department of Housing and Urban Development
www.hud.gov
Department of the Interior
www.doi.gov
Department of Justice
www.usdoj.gov
Department of Labor
www.dol.gov
Department of State
www.state.gov
Department of Transportation
www.dot.gov
Department of the Treasury
www.treasury.gov
Department of Veterans Affairs
www.va.gov
Environmental Protection Agency
www.epa.gov
General Services Administration
www.gsa.gov
National Aeronautics and Space Administration
www.nasa.gov
National Science Foundation
www.nsf.gov
Office of Personnel Management
www.opm.gov

Small Business Administration
www.sba.gov
Social Security Administration
www.ssa.gov
U.S. Agency for International Development
www.usaid.gov
U.S. Nuclear Regulatory Commission
www.nrc.gov

Sixteen Additional Significant Consolidation Entities

Export-Import Bank of the U.S.
www.exim.gov
Farm Credit System Insurance Corporation
www.fcsic.gov
Federal Communications Commission
www.fcc.gov
Federal Deposit Insurance Corporation
www.fdic.gov
General Fund of the U.S. Government
www.fiscal.treasury.gov/general-fund
Millennium Challenge Corporation
www.mcc.gov
National Credit Union Administration
www.ncua.gov
National Railroad Retirement Investment Trust
www.rrb.gov
Pension Benefit Guaranty Corporation
www.pbgc.gov
Railroad Retirement Board
www.rrb.gov
Securities and Exchange Commission
www.sec.gov
Security Assistance Accounts
www.dsca.mil
Smithsonian Institution
www.si.edu
Tennessee Valley Authority
www.tva.gov
U.S. International Development Finance Corporation*
www.dfc.gov
U.S. Postal Service
www.usps.com

One Hundred Twenty-five Additional Consolidation Entities

400 Years of African-American History Commission
Access Board
Administrative Conference of the U.S.
Advisory Council on Historic Preservation
African Development Foundation
Alyce Spotted Bear and Walter Soboleff Commission on Native Children
American Battle Monuments Commission
Appalachian Regional Commission
Architect of the Capitol
Armed Forces Retirement Home
Barry Goldwater Scholarship and Excellence in Education Foundation
Bureau of Consumer Financial Protection
Central Intelligence Agency
Chemical Safety and Hazard Investigation Board
Christopher Columbus Fellowship Foundation
Commission for the Preservation of America's Heritage Abroad
Commission on Civil Rights
Commission on Combating Synthetic Opioid Trafficking
Commission of Fine Arts
Commission on International Religious Freedom
Commission on Security and Cooperation in Europe
Commission to Eliminate Child Abuse and Neglect Fatalities**
Committee for Purchase from People Who Are Blind or Severely Disabled
Commodity Futures Trading Commission
Congressional Budget Office
Congressional-Executive Commission on the People's Republic of China
Consumer Product Safety Commission
Corporation for National and Community Service
Council of the Inspectors General on Integrity and Efficiency
Court of Appeals for Veterans Claims
Court Services and Offender Supervision Agency for DC
DC Courts
DC Courts–Defender Services
Defense Nuclear Facilities Safety Board
Delta Regional Authority
Denali Commission
Dwight D. Eisenhower Memorial Commission
Election Assistance Commission
Environmental Dispute Resolution Fund
Equal Employment Opportunity Commission
Executive Office of the President
Farm Credit Administration
Federal Election Commission
Federal Financial Institutions Examination Council
Federal Housing Finance Agency
Federal Labor Relations Authority
Federal Maritime Commission

Federal Mediation and Conciliation Service
Federal Mine Safety and Health Review Commission
Federal Permitting Improvement Steering Council
Federal Trade Commission
Government Accountability Office
Government Publishing Office
Gulf Coast Ecosystem Restoration Council
Harry S. Truman Scholarship Foundation
House of Representatives
Institute of Museum and Library Services
Intelligence Community Management Account
Inter-American Foundation
International Trade Commission
James Madison Memorial Fellowship Foundation
Japan-U.S. Friendship Commission
John C. Stennis Center for Public Service Training and Development
John F. Kennedy Center for the Performing Arts
Judiciary
Library of Congress
Marine Mammal Commission
Medicaid and Children's Health Insurance Program Payment and Access Commission
Medicare Payment Advisory Commission
Merit Systems Protection Board
Military Compensation and Retirement Modernization Commission**
Morris K. Udall and Stewart L. Udall Foundation
National Archives and Records Administration
National Capital Planning Commission
National Commission on Military Aviation Safety
National Commission on Military, National and Public Service
National Council on Disability
National Endowment for the Arts
National Endowment for the Humanities
National Gallery of Art
National Labor Relations Board
National Mediation Board
National Railroad Passenger Corporation, Office of the Inspector General
National Security Commission on Artificial Intelligence
National Transportation Safety Board
Neighborhood Reinvestment Corporation
Northern Border Regional Commission
Nuclear Waste Technical Review Board
Occupational Safety and Health Review Commission
Office of Congressional Workplace Rights
Office of Government Ethics
Office of Navajo and Hopi Indian Relocation
Office of Nuclear Waste Negotiator**
Office of Special Counsel
Office of the Federal Coordination for Alaska Natural Gas Transportation Projects**
Open World Leadership Center
Patient Centered Outcomes Research Trust Fund
Peace Corps
Presidio Trust
Privacy and Civil Liberties Oversight Board
Public Buildings Reform Board
Public Defender Service for the DC
Recovery Act Accountability and Transparency Board**
Selective Service System
Senate Commission on Art
St. Lawrence Seaway Development Corporation
State Justice Institute
Surface Transportation Board
Thrift Savings Fund
U.S. Agency for Global Media
U.S. Capitol Police
U.S. Capitol Preservation Commission
U.S. China Economic and Security Review Commission
U.S. Holocaust Memorial Museum
U.S. Institute of Peace
U.S. Interagency Council on Homelessness
U.S. Semiquincentennial Commission
U.S. Senate
U.S. Tax Court
U.S. Trade and Development Agency
Vietnam Education Foundation
Western Hemisphere Drug Policy Commission
Women's Suffrage Centennial Commission
Woodrow Wilson International Center for Scholars
WWI Centennial Commission

*In FY 2020, U.S. International Development Finance Corporation integrated the operations of Overseas Private Investment Corporation and the U.S. Agency for International Development's Development Credit Authority pursuant to the *BUILD Act of 2018*.

**These entities are no longer active and have either returned all remaining fund balances to Treasury during FY 2020 or have remaining fund balances pending final return to Treasury as of September 30, 2020.

2. Disclosure Entities and Related Parties of the Financial Report

The entities included below, after considering various factors including quantitative and qualitative materiality, meet the criteria of SFFAS No. 47 to be reported as disclosure entities or related parties in the *Financial Report*. Information about the government's relationship with these entities is disclosed in Note 26—Disclosure Entities and Related Parties. Additionally, component entities have also identified additional disclosure entities and related parties that do not meet the qualitative or quantitative criteria in SFFAS No. 47 to be reported in the *Financial Report* and are not included in the entities below. The component entity of each disclosure entity is provided in the brackets below. Refer to the financial reports of the component entities for more information on additional disclosure entities and related parties.

Disclosure Entities

Amtrak (National Railroad Passenger Service Corp) [DOT]

Federal Home Loan Mortgage Corporation (Freddie Mac) [Treasury]/[FHFA]

Federal National Mortgage Association (Fannie Mae) [Treasury]/[FHFA]

Federal Reserve System [Treasury]
Special Purpose Vehicles [Treasury]

Related Parties

Federal Home Loan Banks [FHFA]
International Monetary Fund and Multilateral Development Banks [Treasury]
Private Export Funding Corporation [EXIM]

Appendix B: Glossary of Acronyms

This is the current list of acronyms used in the *Financial Report*.

AAP	Accelerated and Advance Payment
ABS	Asset-backed Securities
AGI	Adjusted Gross Income
APM	Alternative Payment Models
ARRA	American Recovery and Reinvestment Act of 2009
ASC	Accounting Standards Codification
AT&T	American Telephone & Telegraph Company
BBA	Bipartisan Budget Act
Bbl	Barrel
BCA	Budget Control Act of 2011
BLDBP	Black Lung Disability Benefit Program
BLDTF	Black Lung Disability Trust Fund
BLM	Bureau of Land Management
BRS	Blended Retirement System
Budget	Budget of the U.S. Government
CARES Act	Coronavirus Aid, Relief and Economic Security Act
CBO	Congressional Budget Office
CCF	Corporate Credit Facility LLC
CDFI	Community Development Financial Institution
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officers
CFO Act	Chief Financial Officers Act of 1990
CFOC	Chief Financial Officers Council
CFTC	Commodity Futures Trading Commission
CMS	Centers for Medicare & Medicaid Services
COLA	Cost of Living Adjustments
COVID-19	Coronavirus Disease 2019
CPFF	Commercial Paper Funding Facility II LLC
CPI	Consumer Price Index
CPIM	Consumer Price Index–Medical
CPI-W	Consumer Price Index for Urban Wage Earners and Clerical Workers
CSRDF	Civil Service Retirement and Disability Fund
CSRS	Civil Service Retirement System
DATA Act	Digital Accountability and Transparency Act of 2014
DEFC	Disaster Emergency Fund Code
DHS	Department of Homeland Security
DI	Disability Insurance
DIF	Deposit Insurance Fund

DM&R	Deferred Maintenance and Repairs
DOC	Department of Commerce
DOD	Department of Defense
DOE	Department of Energy
DOI	Department of the Interior
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
DPI	Disposable Personal Income
Education	Department of Education
EIA	Energy Information Administration
EIP	Economic Impact Payment
EPA	Environmental Protection Agency
ERM	Enterprise Risk Management
ESPC	Energy Savings Performance Contract
EXIM Bank	Export-Import Bank of the U.S.
Fannie Mae	Federal National Mortgage Association
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
FCIC	Federal Crop Insurance Corporation
FCSIC	Farm Credit System Insurance Corporation
FDIC	Federal Deposit Insurance Corporation
FECA	Federal Employees' Compensation Act
Federal Reserve Act	Federal Reserve Act of 1913
Federal Reserve Board	Federal Reserve Board of Governors
FEGLI	Federal Employees' Group Life Insurance
FEMA	Federal Emergency Management Agency
FERS	Federal Employees' Retirement System
FFEL	Federal Family Education Loan
FFMIA	Federal Financial Management Improvement Act of 1996
FHA	Federal Housing Administration
FHFA	Federal Housing Finance Agency
FHLBanks	Federal Home Loan Banks
FHWA	Federal Highway Administration
FICA	Federal Insurance Contribution Act
Financial Report	Financial Report of the U.S. Government
FirstNet	First Responder Network Authority
FOMC	Federal Open Market Committee
FR System	Federal Reserve System
FRBB	Federal Reserve Bank of Boston
FRBNY	Federal Reserve Bank of New York
FRBs	Federal Reserve Banks

Freddie Mac	Federal Home Loan Mortgage Corporation
FRNs	Floating Rate Notes
FRPC	Federal Real Property Council
FRPP	Federal Real Property Profile
FRTIB	Federal Retirement Thrift Investment Board
FTC	Federal Trade Commission
FUA	Federal Unemployment Account
FY	Fiscal Year
GAAP	U.S. Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GDP	Gross Domestic Product
General Fund	General Fund of the U.S. Government
Ginnie Mae	Government National Mortgage Association
GSA	General Services Administration
GSE	Government-Sponsored Enterprises
HHS	Department of Health and Human Services
HI	Hospital Insurance
HQM	High Quality Market
HUD	Department of Housing and Urban Development
IIM	Individual Indian Monies
IMF	International Monetary Fund
IRS	Internal Revenue Service
IT	Information Technology
Joint Committee	Joint Select Committee on Deficit Reduction
LLC	Limited Liability Company
LP	Limited Partnership
LPR	Lawful Permanent Resident
MAC	Moving Average Cost
MACRA	Medicare Access and Children's Health Insurance Program Reauthorization Act of 2015
MBS	Mortgage-Backed Securities
MDBs	Multilateral Development Banks
MERHCF	Medicare Eligible Retiree Health Care Fund
MHPI	Military Housing Privatization Initiative
MLF	Municipal Liquidity Facility LLC
MSELF	Main Street Extended Loan Facility
MSF	Main Street Facilities LLC
MSNLF	Main Street New Loan Facility
MSPLF	Main Street Priority Loan Facility
MTFs	Military Treatment Facilities
MTS	Monthly Treasury Statement
NAB	New Arrangements to Borrow
NASA	National Aeronautics and Space Administration

NAV	Net Asset Value
NCHS	National Center for Health Statistics
NCUA	National Credit Union Administration
NCUSIF	The National Credit Union Share Insurance Fund
NFIP	National Flood Insurance Program
NHE	National Health Expenditure
NOELF	Nonprofit Organization Expanded Loan Facilities
NONLF	Nonprofit Organization New Loan Facility
NPV	Net Present Value
NRRIT	National Railroad Retirement Investment Trust
NWPA	Nuclear Waste Policy Act of 1982
OASDI	Old-Age, Survivors, and Disability Insurance
OASI	Old-Age and Survivors Insurance
OIG	Office of Inspector General
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
ONRR	Office of Natural Resources Revenue
OPEB	Other Postemployment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OTC	Over-the-counter
P3s	Public-Private Partnerships
PAYGO	Pay As You Go
PBGC	Pension Benefit Guaranty Corporation
PEFCO	Private Export Funding Corporation
PHSSEF	Public Health and Social Services Emergency Fund
P.L.	Public Law
PMA	President’s Management Agenda
PMAs	Power Marketing Administrations
PMCCF	Primary Market Corporate Credit Facility
PPACA	Patient Protection and Affordable Care Act
PP&E	Property, Plant, and Equipment
PPP	Paycheck Protection Program
PUA	Pandemic Unemployment Assistance
PV	Present Value
QSMO	Quality Service Management Office
RCRA	Resource Conservation and Recovery Act
R&D	Research and Development
RRB	Railroad Retirement Board
RRP	Railroad Retirement Program
RSI	Required Supplementary Information
SAA	Security Assistance Accounts
SBA	Small Business Administration

SCSIA	Statements of Changes in Social Insurance Amounts
SDRs	Special Drawing Rights
SECA	Self-Employment Contributions Act
SFFAS	Statement of Federal Financial Accounting Standards
SGLI	Service Members Group Life Insurance
SLTFP	Statements of Long-Term Fiscal Projections
SMCCF	Secondary Market Corporate Credit Facility
SMI	Supplementary Medical Insurance
SNAP	Supplemental Nutrition Assistance Program
SNF	Spent Nuclear Fuel
SNS	Strategic National Stockpile
SOMA	System Open Market Account
SOSI	Statements of Social Insurance
SPSPA	Senior Preferred Stock Purchase Agreements
SPV	Special Purpose Vehicle
SSA	Social Security Administration
State	Department of State
TALF	Term Asset Backed Securities II LLC
TCJA	Tax Cuts and Jobs Act of 2017
TFL	TRICARE for Life
TIPS	Treasury Inflation-Protected Securities
TNC yield curve	Yield Curve for Treasury Nominal Coupon Issues
Treasury	Department of the Treasury
TRIP	Terrorism Risk Insurance Program
TSF	Thrift Savings Fund
TSP	Thrift Savings Plan
TTD	Time-to-Death
TVA	Tennessee Valley Authority
UI	Unemployment Insurance
U.S.	United States
U.S.C.	United States Code
USDA	U.S. Department of Agriculture
USPS	United States Postal Service
UTF	Unemployment Trust Fund
VA	Department of Veterans Affairs
VR&E	Vocational Rehabilitation and Employment

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A Century of Non-Partisan Fact-Based Work

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

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

In our audits of the U.S. government's consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019, we found the following:

- Certain material weaknesses[1] in internal control over financial reporting and other limitations on the scope of our work resulted in conditions that continued to prevent us from expressing an opinion on the accompanying accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019.[2]

- Significant uncertainties (discussed in Note 23 to the consolidated financial statements), primarily related to the achievement of projected reductions in Medicare cost growth, prevented us from expressing an opinion on the sustainability financial statements,[3] which consist of the 2020 and 2019 Statements of Long-Term Fiscal Projections;[4] the 2020, 2019, 2018, 2017, and 2016 Statements of Social Insurance;[5] and the 2020 and 2019 Statements of Changes in Social

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

[2]The accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019, consist of the (1) Statements of Net Cost, (2) Statements of Operations and Changes in Net Position, (3) Reconciliations of Net Operating Cost and Budget Deficit, (4) Statements of Changes in Cash Balance from Budget and Other Activities, and (5) Balance Sheets, including the related notes to these financial statements. Most revenues are recorded on a modified cash basis. We previously reported that certain material weaknesses and, for some years, other limitations on the scope of our work prevented us from expressing an opinion on the accrual-based consolidated financial statements of the U.S. government for fiscal years 1997 through 2019.

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

[4]The 2020 and 2019 Statements of Long-Term Fiscal Projections present, for all the activities of the federal government, the present value of projected receipts and non-interest spending under current policy without change, the relationship of these amounts to projected gross domestic product (GDP), and changes in the present value of projected receipts and non-interest spending from the prior year. These statements also present the fiscal gap, which is the combination of non-interest spending reductions and receipts increases necessary to hold debt held by the public as a share of GDP at the end of the projection period to its value at the beginning of the period. The valuation date for the Statements of Long-Term Fiscal Projections is September 30.

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

Insurance Amounts. A material weakness in internal control also prevented us from expressing an opinion on the 2020 and 2019 Statements of Long-Term Fiscal Projections.

- Material weaknesses resulted in ineffective internal control over financial reporting for fiscal year 2020.
- Material weaknesses and other scope limitations, discussed above, limited tests of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements for fiscal year 2020.

This audit report discusses the following in more detail.

- Our report on the accompanying consolidated financial statements, which includes (1) three emphasis of matters—the federal government's response to the Coronavirus Disease 2019 (COVID-19) pandemic, long-term fiscal challenges, and equity investments in the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac); (2) required supplementary information (RSI),[6] and other information[7] included with the consolidated financial statements in the *Fiscal Year 2020 Financial Report of the United States Government* (*2020 Financial Report*); and (3) information on Chief Financial Officers Act of 1990 (CFO Act) agency financial management systems.
- Our report on internal control over financial reporting.
- Our report on compliance with laws, regulations, contracts, and grant agreements.
- The Department of the Treasury's (Treasury) and the Office of Management and Budget's (OMB) comments on a draft of this audit report.

Appendix I discusses our audit objectives, scope, and methodology.

Report on the Consolidated Financial Statements

The Secretary of the Treasury, in coordination with the Director of OMB, is required to annually submit audited financial statements for the U.S. government to the President and Congress. GAO is required to audit these statements.[8] As noted above, the consolidated financial statements consist of the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019, and the sustainability financial statements, consisting of the 2020 and 2019 Statements of Long-Term Fiscal Projections; the 2020, 2019, 2018, 2017, and 2016 Statements of Social Insurance; the 2020 and 2019 Statements of Changes in Social Insurance Amounts; and the related notes to the financial statements.

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[6]The RSI consists of Management's Discussion and Analysis and information in the Required Supplementary Information section of the *Fiscal Year 2020 Financial Report of the United States Government*.

[7]Other information consists of information in the *Fiscal Year 2020 Financial Report of the United States Government* other than the consolidated financial statements, RSI, auditor's report, and Statement of the Comptroller General of the United States.

[8]The Government Management Reform Act of 1994 has required such reporting, covering the executive branch of government, beginning with financial statements prepared for fiscal year 1997. 31 U.S.C. § 331(e). The consolidated financial statements include the legislative and judicial branches.

We performed sufficient audit work to provide this report on the consolidated financial statements. We considered the limitations on the scope of our work regarding the accrual-based consolidated financial statements and the sustainability financial statements in forming our conclusions. We performed our work in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

Management of the federal government is responsible for (1) the preparation and fair presentation of annual consolidated financial statements of the U.S. government in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the consolidated financial statements and auditor's report, and ensuring the consistency of that information with the consolidated financial statements and RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards. We are also responsible for applying certain limited procedures to the RSI and other information included with the consolidated financial statements. Because of the matters discussed below, we were unable to obtain sufficient appropriate evidence to provide a basis for audit opinions on the consolidated financial statements.

Basis for Disclaimers of Opinion on the Consolidated Financial Statements

Accrual-Based Consolidated Financial Statements

The federal government is not able to demonstrate the reliability of significant portions of the accompanying accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019, principally because of limitations related to certain material weaknesses in internal control over financial reporting and other limitations affecting the reliability of these financial statements and the scope of our work, as discussed below.[9] As a result of these limitations, readers are cautioned that amounts reported in the accrual-based consolidated financial statements and related notes may not be reliable.

The federal government did not maintain adequate systems or have sufficient appropriate evidence to support certain material information reported in the accompanying accrual-based consolidated financial statements. The underlying material weaknesses in internal control, which generally have existed for

[9]Such limitations include (1) the Department of Defense received disclaimers of opinion on its fiscal year 2020 and 2019 financial statements; (2) the Small Business Administration received a disclaimer of opinion on its fiscal year 2020 financial statements; (3) the Department of Housing and Urban Development received a qualified opinion on its fiscal year 2019 financial statements (a qualified opinion arises when the auditor is able to express an opinion on the financial statements except for specific areas where the auditor was unable to obtain sufficient and appropriate evidence); (4) as of the date of this audit report, the audited Schedules of the General Fund of the U.S. Government for fiscal year 2020 were not issued (the fiscal year 2019 Schedules of the General Fund were not audited to allow Treasury sufficient time to develop and begin to implement a remediation plan to address the issues we identified as part of our audit of the fiscal year 2018 Schedules of the General Fund); and (5) for fiscal years 2020 and 2019, the financial information for Security Assistance Accounts was unaudited.

years, contributed to our disclaimer of opinion on the accrual-based consolidated financial statements. Specifically, these weaknesses concerned the federal government's inability to

- satisfactorily determine that property, plant, and equipment and inventories and related property, primarily held by the Department of Defense (DOD), were properly reported in the accrual-based consolidated financial statements;

- reasonably estimate the value of loans receivable and loan guarantee liabilities, most notably at the Small Business Administration (SBA);[10]

- reasonably estimate or adequately support amounts reported for certain liabilities, such as environmental and disposal liabilities, or determine whether commitments and contingencies were complete and properly reported;

- support significant portions of the reported total net cost of operations, most notably related to DOD and SBA, and adequately reconcile disbursement activity at certain federal entities;

- adequately account for intragovernmental activity and balances between federal entities;

- reasonably assure that the consolidated financial statements are (1) consistent with the underlying audited entities' financial statements, (2) properly balanced, and (3) in accordance with U.S. generally accepted accounting principles; and

- reasonably assure that the information in the (1) Reconciliations of Net Operating Cost and Budget Deficit and (2) Statements of Changes in Cash Balance from Budget and Other Activities is complete, properly supported, and consistent with the underlying information in the audited entities' financial statements and other financial data.

These material weaknesses continued to (1) hamper the federal government's ability to reliably report a significant portion of its assets, liabilities, costs, and other related information; (2) affect the federal government's ability to reliably measure the full cost, as well as the financial and nonfinancial performance, of certain programs and activities; (3) impair the federal government's ability to adequately safeguard significant assets and properly record various transactions; and (4) hinder the federal government from having reliable, useful, and timely financial information to operate effectively and efficiently. Because of these material weaknesses and other limitations on the scope of our work discussed below, additional issues may exist that were not identified and could affect the accrual-based consolidated financial statements. Appendix II describes these material weaknesses in more detail and highlights the primary effects of these material weaknesses on the accompanying accrual-based consolidated financial statements, the sustainability financial statements, and the management of federal government operations.

Sustainability Financial Statements

Significant uncertainties (discussed in Note 23 to the consolidated financial statements), which primarily relate to the achievement of projected reductions in Medicare cost growth, affect the sustainability financial statements. In addition, the material weakness related to the Reconciliations of Net Operating

[10]A material weakness over loans receivable and loan guarantee liabilities existed in fiscal year 2019 but did not contribute to our disclaimer of opinion on the accrual-based consolidated financial statements. In fiscal year 2020, because of the disclaimer of opinion and material weaknesses at SBA, the material weakness over loans receivable and loan guarantee liabilities contributed to our disclaimer of opinion.

Cost and Budget Deficit and the Statements of Changes in Cash Balance from Budget and Other Activities, discussed above, hampers the federal government's ability to demonstrate the reliability of historical budget information used for certain key inputs to the 2020 and 2019 Statements of Long-Term Fiscal Projections. As a result of these significant uncertainties and this material weakness, readers are cautioned that amounts reported in the 2020 and 2019 Statements of Long-Term Fiscal Projections; the 2020, 2019, 2018, 2017, and 2016 Statements of Social Insurance; the 2020 and 2019 Statements of Changes in Social Insurance Amounts; and the related notes to these financial statements may not fairly present, in all material respects, the sustainability information for those years in accordance with U.S. generally accepted accounting principles.

These significant uncertainties primarily relate to the following:

- Medicare projections in the 2020 and 2019 Statements of Long-Term Fiscal Projections and the 2020, 2019, 2018, 2017, and 2016 Statements of Social Insurance were based on benefit formulas under current law and included a significant reduction in Medicare payment rate updates for productivity improvements for most categories of Medicare providers,[11] based on full implementation of the provisions of the Patient Protection and Affordable Care Act, as amended (PPACA),[12] and physician payment updates specified by the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA).[13]

- Management has noted that actual future costs for Medicare are likely to exceed those shown by the projections under current law presented in the 2020, 2019, 2018, 2017, and 2016 Statements of Social Insurance because of, for example, the likelihood of changes to the scheduled reductions in Medicare payment rate updates for productivity adjustments relating to most categories of Medicare providers and the specified physician payment updates. The extent to which actual future costs exceed the amounts projected under current law because of changes to the scheduled reductions in Medicare payment rate updates for productivity adjustments and specified physician payment updates depends on both the specific changes that might be enacted and whether enacted legislation would include further provisions to help offset such costs. Consequently, there are significant uncertainties concerning the achievement of these projected reductions in Medicare payment rate updates.

- Management has developed an illustrative alternative projection intended to provide additional context regarding the long-term sustainability of the Medicare program and to illustrate the uncertainties in the Statement of Social Insurance projections. The present value of future estimated expenditures in excess of future estimated revenue for Medicare, included in the

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[11]Under the Patient Protection and Affordable Care Act's productivity adjustment provisions, productivity improvements are expected to result in lower overall Medicare spending because of smaller annual increases in the Medicare payment rates paid to many health care providers. This is often referred to as a reduction in Medicare payment rate updates. The health care provider categories affected include, but are not limited to, inpatient/outpatient hospital services, skilled nursing facilities, home health care, ambulance, ambulatory surgical centers, durable medical equipment, and prosthetics.

[12]PPACA, Pub. L. No. 111-148, 124 Stat. 119 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029 (Mar. 30, 2010). In this report, references to PPACA include any amendments made by the Health Care and Education Reconciliation Act of 2010.

[13]MACRA, Pub. L. No. 114-10, title I, § 101, 129 Stat. 87, 89 (Apr. 16, 2015). MACRA included many provisions that affect Medicare, including the repeal of the sustainable growth rate formula for calculating annual updates to Medicare reimbursement payment rates to physicians and certain non-physician medical providers, and established an alternative set of annual updates.

illustrative alternative projection in Note 23, exceeds the $45.7 trillion estimate in the 2020 Statement of Social Insurance by $9.3 trillion.

- Management noted that these significant uncertainties about projected reductions in health care cost growth also affect the projected Medicare and Medicaid costs reported in the 2020 and 2019 Statements of Long-Term Fiscal Projections.

Projections of Medicare costs are sensitive to assumptions about future policymaker decisions and about consumer, employer, and health care provider behavioral responses as policy, incentives, and the health care sector change over time. Such secondary effects are not fully reflected in the sustainability financial statements but could be expected to influence the excess cost growth rate used in the projections.[14] Key drivers of uncertainty about the excess cost growth rate include the future development and deployment of medical technology, the evolution of personal income, and the cost and availability of insurance, as well as federal policy changes, such as the implementation of PPACA. As discussed in the RSI section of the *2020 Financial Report*, the projections are very sensitive to changes in the health care cost growth assumption.

As discussed in Notes 23 and 24 to the consolidated financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the present value of the U.S. government's estimated future receipts and future spending using a projection period sufficient to illustrate long-term sustainability.[15] The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due.

In preparing the sustainability financial statements, management selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy is sustainable. As discussed in the *2020 Financial Report*, current policy is based on current law but includes several adjustments. In the Statements of Long-Term Fiscal Projections, notable adjustments to current law include

- projected spending, receipts, and borrowing levels assume raising or suspending the current statutory limit on federal debt;
- continued discretionary appropriations are assumed throughout the projection period;
- scheduled Social Security and Medicare Part A benefit payments are assumed to occur beyond the projected point of trust fund depletion;
- many mandatory programs with expiration dates prior to the end of the 75-year projection period are assumed to be reauthorized; and
- tax changes under the Tax Cuts and Jobs Act (Public Law 115-97) are assumed to continue beyond 2025.

In the Statements of Social Insurance, the one adjustment to current law is that scheduled Social Security and Medicare Part A benefit payments are assumed to occur beyond the projected point of trust fund depletion. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future revenue and expenditures and, hence, sustainability. Also, the projections assume that debt could continuously rise without severe economic

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[14]The excess cost growth rate is the increase in health care spending per person relative to the growth of GDP per person after removing the effects of demographic changes on health care spending.

[15]The projection period used for the Social Security, Medicare, and Railroad Retirement social insurance programs is 75 years. Beginning in fiscal year 2017, the Black Lung program has a rolling 25-year projection period. For fiscal year 2016, the Black Lung program projection period was through September 30, 2040.

consequences. The RSI section of the *2020 Financial Report* includes unaudited information on how changes in various assumptions would affect the Statements of Long-Term Fiscal Projections and Statements of Social Insurance. The sustainability financial statements are not forecasts or predictions.

The sustainability financial statements are based on the economic assumptions that underlie the *Social Security Trustees' Report*, and those assumptions were developed using data available as of January 1, 2020, prior to the economic downturn. At this time, management cannot reasonably estimate the potential effects of the COVID-19 pandemic on the projections or other sustainability measures (such as projected depletion dates for Social Security and Medicare Hospital Insurance Trust Fund discussed below), which could be significant.

As discussed in the unaudited RSI section of the *2020 Financial Report*, the combined Social Security trust funds are projected to be depleted in 2035.[16] Further, based on the achievement of the cost growth reductions discussed above, the Medicare Hospital Insurance (Part A) trust fund is projected to be depleted in 2026. After depletion, the trust funds would be unable to pay the full amount of scheduled future benefits. For Social Security, future revenues were projected to be sufficient to pay 79 percent of scheduled benefits in 2035, the year of projected trust funds (combined) depletion, and decreasing to 73 percent of scheduled benefits in 2094. For Medicare Hospital Insurance (Part A), future revenues were projected to be sufficient to pay 90 percent of scheduled benefits in 2026, the year of projected trust fund depletion, declining to 78 percent by 2044, and then increasing to 90 percent of scheduled benefits in 2094.

Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be projected with certainty, even if current policy is continued, there will be differences between the projections in the sustainability financial statements and the actual results, and those differences may be material.

Other Limitations on the Scope of Our Work

For fiscal years 2020 and 2019, there were other limitations on the scope of our work, in addition to the material weaknesses and significant uncertainties noted above, that contributed to our disclaimers of opinion on the consolidated financial statements. Such limitations primarily relate to our ability to obtain adequate representations from management. Treasury and OMB depend on representations from certain federal entities to provide their representations to us regarding the U.S. government's consolidated financial statements. Treasury and OMB were unable to provide us with adequate representations regarding the U.S. government's accrual-based consolidated financial statements for fiscal years 2020 and 2019, primarily because certain federal entities provided them insufficient or no representations.

[16]The combined Social Security trust funds consist of the Federal Old-Age and Survivors Insurance trust fund and the Federal Disability Insurance trust fund. For the Federal Old-Age and Survivors Insurance trust fund, future revenues were projected to be sufficient to pay 76 percent of scheduled benefits in 2034, the year of projected trust fund depletion, decreasing to 71 percent in 2094. For the Federal Disability Insurance trust fund, future revenues were projected to be sufficient to pay 92 percent of scheduled benefits in 2065, the year of projected trust fund depletion, decreasing to 90 percent in 2094.

Disclaimers of Opinion on the Consolidated Financial Statements

Accrual-Based Consolidated Financial Statements

Because of the significance of the related matters described in the Basis for Disclaimers of Opinion on the Consolidated Financial Statements section above, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the accrual-based consolidated financial statements. Accordingly, we do not express an opinion on the accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019.

Sustainability Financial Statements

Because of the significance of the related matters described in the Basis for Disclaimers of Opinion on the Consolidated Financial Statements above, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Statements of Long-Term Fiscal Projections for 2020 and 2019; the Statements of Social Insurance for 2020, 2019, 2018, 2017, and 2016; and the Statements of Changes in Social Insurance Amounts for 2020 and 2019. Accordingly, we do not express an opinion on these sustainability financial statements.

Emphasis of Matters

The following key items deserve emphasis in order to put the information in the consolidated financial statements and the Management's Discussion and Analysis section of the *2020 Financial Report* into context. However, our disclaimers of opinion noted above are not modified with respect to these matters.

The Federal Government's Response to the COVID-19 Pandemic

The federal government took unprecedented actions in response to the Coronavirus Disease 2019 (COVID-19) pandemic to protect public health and reduce economic impacts on individuals and businesses in fiscal year 2020. These efforts are reflected in the assets, liabilities, net cost, and the budget deficit reported in the U.S. government's consolidated financial statements for fiscal year 2020.

Significant assets as of September 30, 2020, resulting from the federal government's response to the COVID-19 pandemic include

- equity investments in special purpose vehicles of $108 billion, which the Federal Reserve established to enhance the liquidity of the U.S. financial system;[17]
- advances of $173 billion to state, local, territorial, and tribal governments and Medicare providers;
- almost all of the $181 billion in disaster loans; and
- cash and other monetary assets of $1,927 billion, up from $525 billion as of September 30, 2019.[18]

In addition, loan guarantee liabilities increased to $520 billion as of September 30, 2020, from $22 billion as of September 30, 2019, primarily because of Paycheck Protection Program (PPP) lending

[17]As discussed in Note 26 to the consolidated financial statements, these special purpose vehicles are not consolidated into the government's consolidated financial statements. Treasury and OMB have determined that these entities do not meet the criteria for consolidation.

[18]As discussed in Note 2 of the *2020 Financial Report*, the increase in cash and other monetary assets was due to Treasury maintaining an elevated cash balance to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19-related outflow.

established in response to the COVID-19 pandemic. Because the valuation of certain of these assets and liabilities is based on assumptions and estimates that are inherently subject to uncertainty, actual results may be materially different from the reported amounts.

Major increases in net cost resulting from the federal government's response to the COVID-19 pandemic include costs related to small business loan guarantees, primarily PPP, of $527 billion; economic impact payments of $275 billion; and income maintenance program costs of $461 billion, primarily due to unemployment benefits. COVID-19 pandemic-related budget expenditures totaled $1.6 trillion during fiscal year 2020, increasing the budget deficit. Because of the ongoing deficit, increases in cash and other monetary assets, and COVID-19 pandemic-related spending, federal debt held by the public increased by $4.2 trillion during fiscal year 2020.

The actions the federal government has taken to combat the pandemic and their effects on the financial statements are discussed throughout the *2020 Financial Report* and summarized in Note 28 to the consolidated financial statements.

Subsequent to fiscal year 2020, further legislation was enacted containing provisions that provided additional relief to address the continued impact of the COVID-19 pandemic.[19] The effects of this subsequent legislation are not reflected in the U.S. government's consolidated financial statements for fiscal year 2020. The ultimate cost of these actions and any future actions in response to the pandemic and their impact on the federal government's financial condition will not be fully known for some time.

Long-Term Fiscal Challenges

The 2020 Statement of Long-Term Fiscal Projections and related information in Note 24 and in the unaudited RSI section of the *2020 Financial Report* show that absent policy changes, the federal government continues to face an unsustainable long-term fiscal path. At the end of fiscal year 2020, debt held by the public reached about 100 percent of gross domestic product (GDP), far above the post–World War II (since 1946) average of 47 percent. For the 2020 projections, debt-to-GDP at the end of the 75-year projection period is projected to be 623 percent. Annual budget deficits are projected to continue throughout the 75-year projection period. Over the long term, the imbalance between spending and revenue that is built into current policy and law is projected to lead to continued growth of the debt held by the public as a share of GDP. This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable.

Under the *2020 Financial Report* projections, spending for the major health and retirement programs will increase more rapidly than GDP in the coming decades, in part because of an aging population and projected continued increases in health care costs. These projections for Social Security and Medicare are based on the same assumptions underlying the information presented in the Statement of Social Insurance and assume that the provisions enacted in PPACA designed to slow the growth of Medicare costs are sustained and remain in effect throughout the projection period. The projections also reflect the effects of MACRA, which, among other things, revised the methodology for determining physician payment rates. If, however, the Medicare cost containment measures and physician payment rate methodology are not sustained over the long term—concerns expressed by the Trustees of the Medicare trust funds, the Centers for Medicare & Medicaid Services' Chief Actuary, the Congressional Budget Office (CBO), and others—spending on federal health care programs will grow more rapidly than assumed in the projections. In addition, based on the *2020 Financial Report* projections, spending on net interest (primarily interest on debt held by the public) will surpass Social Security spending and

[19]Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182 (Dec. 27, 2020); and American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (Mar. 11, 2021).

becomes the largest category of spending in 2034. Net interest is projected to increase from 1.6 percent of GDP in fiscal year 2020 to 8.0 percent in fiscal year 2039 and to 28.2 percent in fiscal year 2095.

GAO and CBO also prepare long-term federal fiscal simulations, which continue to show federal debt held by the public rising as a share of GDP in the long term.[20] GAO, CBO, and the *2020 Financial Report* all project that debt held by the public as a share of GDP will surpass its historical high (106 percent in 1946) within the next 4 to 10 years. Each of these long-term projections uses somewhat different assumptions, but their overall conclusions are the same: absent policy changes, the federal government's fiscal path is unsustainable.

Further, the projections do not fully account for emerging issues and unforeseen challenges, such as another economic downturn or large-scale disaster. These unforeseen events, also known as fiscal risks or fiscal exposures, place additional pressure on the federal budget. They result in responsibilities, programs, and activities that may legally commit or create expectations for future federal spending based on current policy, past practices, or other factors. A more complete understanding of them can help policymakers anticipate changes in future spending and can enhance oversight of federal resources.

Currently, policymakers are understandably focused on dealing with the pandemic and its effect on the economy. However, once these issues are addressed, policymakers will need to turn their attention to the serious long term challenges of addressing the federal government's large and growing structural deficits that are driven primarily by rising health care costs and known demographic trends. To address these challenges, policymakers would need to consider policy changes, including revenue increases, spending cuts, or a combination of both. The projections show that the longer policy changes are delayed, the greater such changes will need to be.

Equity Investments in Fannie Mae and Freddie Mac

In 2008, during the financial crisis, the federal government placed Fannie Mae and Freddie Mac under conservatorship and entered into preferred stock purchase agreements with these government-sponsored enterprises (GSE) to help ensure their financial stability. The agreements with the GSEs could affect the federal government's financial condition. As of September 30, 2020, the federal government reported about $109 billion of investments in the GSEs, which is net of about $118 billion in valuation losses. The reported maximum remaining contractual commitment to the GSEs, if needed, is $254.1 billion.

In valuing these equity investments, management considered and selected assumptions and data that it believed provided a reasonable basis for the estimated values reported in the accrual-based consolidated financial statements. However, as discussed in Note 1 to the consolidated financial statements, there are many factors affecting these assumptions and estimates that are inherently subject to substantial uncertainty arising from the uniqueness of the transactions and the likelihood of future changes in general economic, regulatory, and market conditions. As such, there will be differences between the estimated values as of September 30, 2020, and the actual results, and such differences may be material. Also, as discussed in Note 1 to the consolidated financial statements, the assets, liabilities, and results of operations of Fannie Mae and Freddie Mac are not consolidated into the government's consolidated financial statements. Treasury and OMB have determined that these

[20]For more information on GAO's simulations, see GAO, *America's Fiscal Future*, accessed on Mar. 17, 2021, https://www.gao.gov/americas_fiscal_future. For more information on CBO's simulations, see Congressional Budget Office, *The 2021 Long-Term Budget Outlook* (Washington, D.C.: Mar. 4, 2021).

entities do not meet the criteria for consolidation.[21] The ultimate role of the GSEs could affect the federal government's financial condition and the financial condition of certain federal entities, including the Federal Housing Administration (FHA), which in the past expanded its lending role in distressed housing and mortgage markets. In addition, the Government National Mortgage Association (Ginnie Mae) guarantees the performance of about $2.1 trillion in securities backed by federally insured mortgages—$1.2 trillion of which were insured by FHA and $0.9 trillion by other federal entities, such as the Department of Veterans Affairs.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented in the *2020 Financial Report* to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards because of the material weaknesses and other scope limitations discussed in this audit report. We did not audit and do not express an opinion or provide any assurance on the RSI.

Other Information

Other information included in the *2020 Financial Report* contains a wide range of information, some of which is not directly related to the consolidated financial statements. This information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements or RSI. We read the other information included with the consolidated financial statements in order to identify material inconsistencies, if any, with the consolidated financial statements. We did not audit and do not express an opinion or provide any assurance on the other information in the *2020 Financial Report*.

Readers are cautioned that the material weaknesses, significant uncertainties, and other scope limitations discussed in this audit report may affect the reliability of certain information contained in the RSI and other information that is taken from the same data sources as the accrual-based consolidated financial statements and the sustainability financial statements.

CFO Act Agency Financial Management Systems

The federal government's ability to efficiently and effectively manage and oversee its day-to-day operations and programs relies heavily on the ability of entity financial management systems to produce complete, reliable, timely, and consistent financial information for use by executive branch agencies and Congress.[22] The Federal Financial Management Improvement Act of 1996 (FFMIA) was

[21]For additional information on the GSE preferred stock purchase agreements and valuation of the investment in the GSEs, see Note 9 to the consolidated financial statements. For additional information on the criteria used to determine which federal entities are included in the reporting entity for the consolidated financial statements, as well as the reasons for not including certain entities, such as Fannie Mae and Freddie Mac, see app. A of the *2020 Financial Report*.

[22]The Federal Financial Management Improvement Act of 1996, which is reprinted in 31 U.S.C. § 3512 note, defines "financial management systems" to include the financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions.

designed to lead to system improvements that would result in CFO Act agency managers routinely having access to reliable, useful, and timely financial information with which to measure performance and increase accountability throughout the year.

The 24 CFO Act agencies are responsible for implementing and maintaining financial management systems that comply substantially with FFMIA requirements. FFMIA requires auditors, as part of the 24 CFO Act agencies' financial statement audits, to report whether those agencies' financial management systems comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the federal government's *U.S. Standard General Ledger* at the transaction level.

For fiscal year 2020, auditors of nine of the 24 CFO Act agencies reported that the agencies' financial management systems did not comply substantially with one or more of the three FFMIA requirements. For fiscal year 2019, auditors of eight of the 24 CFO Act agencies reported that the agencies' financial management systems did not comply substantially with one or more of the three FFMIA requirements. Agency management at the 24 CFO Act agencies also annually report on FFMIA compliance. For both fiscal years 2020 and 2019, agency management of seven of the 24 CFO Act agencies reported that their agencies' financial management systems did not comply substantially with one or more of the three FFMIA requirements. Based on agency financial reports, differences in the assessments of substantial compliance between the auditors and agency management reflect differences in management's and auditors' views regarding the effect of reported deficiencies on agencies' financial management systems.

Long-standing financial management systems weaknesses at several large CFO Act agencies, along with the size and complexity of the federal government, continue to present a formidable management challenge in providing accountability and contribute significantly to certain material weaknesses and other limitations discussed in this audit report.

Report on Internal Control over Financial Reporting

Management's Responsibility

Management of the federal government is responsible for (1) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, and (2) evaluating the effectiveness of internal control over financial reporting, based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA).[23]

Auditor's Responsibility

The purpose of an audit of financial statements is to express an opinion on the financial statements. An audit of financial statements includes considering internal control over financial reporting to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of internal control over financial reporting. We did not consider all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations.

[23] 31 U.S.C. § 3512(c), (d) (commonly referred to as FMFIA). This act requires executive agency heads to evaluate and report annually to the President and Congress on the adequacy of their agencies' internal control and accounting systems and on actions to correct significant problems.

Our responsibility is to report any material weaknesses or significant deficiencies in internal control over financial reporting for fiscal year 2020 that come to our attention as a result of our audit.[24] Based on the scope of our work and the effects of the other limitations on the scope of our audit noted throughout this audit report, our internal control work was not designed to, and would not necessarily, identify all deficiencies in internal control, including those that might be material weaknesses or significant deficiencies. Therefore, additional material weaknesses or significant deficiencies may exist that were not identified. We performed our work in accordance with U.S. generally accepted government auditing standards.

Definitions and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws (including those governing the use of budget authority), regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Material Weaknesses Resulted in Ineffective Internal Control over Financial Reporting

The material weaknesses discussed in this audit report resulted in ineffective internal control over financial reporting. Consequently, the federal government's internal control did not provide reasonable assurance that a material misstatement of the consolidated financial statements would be prevented, or detected and corrected, on a timely basis.

In addition to the material weaknesses that contributed to our disclaimers of opinion on the accrual-based consolidated financial statements and the sustainability financial statements, which were discussed previously, we found two other material weaknesses in internal control. These other material weaknesses were the federal government's inability to

- determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them and
- identify and resolve information security control deficiencies and manage information security risks on an ongoing basis.

These material weaknesses are discussed in more detail in appendix III, including the primary effects of the material weaknesses on the accrual-based consolidated financial statements and on the management of federal government operations.

We also found three significant deficiencies in the federal government's internal control related to implementing effective internal controls at certain federal entities for the following areas:

- taxes receivable,

[24]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

- federal grants management, and
- Medicare social insurance information.

These significant deficiencies are discussed in more detail in appendix IV.

Further, individual federal entity financial statement audit reports identified additional control deficiencies that the entities' auditors reported as either material weaknesses or significant deficiencies at the individual entity level. We do not consider these additional deficiencies to represent material weaknesses or significant deficiencies with respect to the U.S. government's consolidated financial statements.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report on internal control over financial reporting is solely to describe the scope of our consideration of internal control over financial reporting, and the results of our procedures, and not to provide an opinion on the effectiveness of internal control over financial reporting. This report on internal control over financial reporting is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

Management's Responsibility

Management of the federal government is responsible for the federal government's compliance with laws, regulations, contracts, and grant agreements.

Auditor's Responsibility

An audit of federal financial statements includes testing compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the financial statements, and performing certain other limited procedures. Accordingly, we did not test the federal government's compliance with all laws, regulations, contracts, and grant agreements. Because of the limitations discussed below and the scope of our procedures, noncompliance may occur and not be detected by these tests.

Our objective was not to provide an opinion on the federal government's compliance with laws, regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion. We performed our work in accordance with U.S. generally accepted government auditing standards.

Results of Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our work to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements was limited by certain of the material weaknesses and other scope limitations discussed in this audit report. U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements. Certain component entity audit reports contain instances of noncompliance. None of these instances were deemed to be reportable noncompliance with regard to the accompanying U.S. government's consolidated financial statements.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report on compliance with laws, regulations, contracts, and grant agreements is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report on compliance with laws, regulations, contracts, and grant agreements is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

We provided a draft of this audit report to Treasury and OMB officials, who provided technical comments that we have incorporated as appropriate. Treasury and OMB officials expressed their continuing commitment to addressing the problems this report outlines.

Robert F. Dacey
Chief Accountant
U.S. Government Accountability Office

March 17, 2021

Appendix I

Objectives, Scope, and Methodology

Our objectives were to audit the consolidated financial statements consisting of the (1) accrual-based consolidated financial statements as of and for the fiscal years ended September 30, 2020, and 2019, and (2) sustainability financial statements, which consist of the 2020 and 2019 Statements of Long-Term Fiscal Projections; the 2020, 2019, 2018, 2017, and 2016 Statements of Social Insurance; and the 2020 and 2019 Statements of Changes in Social Insurance Amounts. Our objectives also included reporting on internal control over financial reporting and on compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements.

The Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act of 1994 (GMRA), requires the inspectors general of the 24 CFO Act agencies to be responsible for annual audits of agency-wide financial statements prepared by these agencies.[25] GMRA requires GAO to be responsible for the audit of the U.S. government's consolidated financial statements.[26] The Accountability of Tax Dollars Act of 2002 (ATDA) requires most other executive branch entities to prepare financial statements annually and have them audited.[27] The Office of Management and Budget and the Department of the Treasury (Treasury) have identified 40 federal entities that are significant to the U.S. government's fiscal year 2020 consolidated financial statements, including the 24 CFO Act agencies.[28] We consider these 40 entities to be significant component entities for purposes of our audit of the consolidated financial statements.

For the significant component entities audited by inspectors general and independent public accountants, we performed our work in coordination and cooperation with them to achieve our respective audit objectives. Our audit approach regarding the accrual-based consolidated financial statements primarily focused on determining the current status of the material weaknesses that contributed to our disclaimer of opinion on the accrual-based consolidated financial statements and the other material weaknesses affecting internal control that we reported in our report on the consolidated financial statements for fiscal year 2019.[29] We also separately audited the financial statements of certain component entities, and parts of a significant component entity, including the following.

- We audited and expressed an unmodified opinion on the Internal Revenue Service's (IRS) financial statements as of and for the fiscal years ended September 30, 2020, and 2019.[30] In fiscal years 2020 and 2019, IRS collected about $3.5 trillion and $3.6 trillion, respectively, in tax payments and paid about $736 billion and $452 billion, respectively, in refunds and outlays to taxpayers. For fiscal year 2020, we also reported that although internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting. In addition, we reported that we found no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

[25]31 U.S.C. § 3521(e). GMRA authorized the Office of Management and Budget to designate agency components that also must report financial statements and have them audited. See 31 U.S.C. § 3515(c).

[26]GMRA, Pub. L. No. 103-356, § 405(c), 108 Stat. 3410, 3416-17 (Oct. 13, 1994), *codified at* 31 U.S.C. § 331(e)(2).

[27]ATDA, Pub. L. No. 107-289, 116 Stat. 2049 (Nov. 7, 2002), *codified at* 31 U.S.C. § 3515.

[28]See app. A of the *Fiscal Year 2020 Financial Report of the United States Government* for a list of the 40 entities.

[29]GAO, *Financial Audit: FY 2019 and FY 2018 Consolidated Financial Statements of the U.S. Government*, GAO-20-315R (Washington, D.C.: Feb. 27, 2020).

[30]GAO, *Financial Audit: IRS's FY 2020 and FY 2019 Financial Statements*, GAO-21-162 (Washington, D.C.: Nov. 10, 2020).

- We audited and expressed an unmodified opinion on the Schedules of Federal Debt managed by Treasury's Bureau of the Fiscal Service (Fiscal Service) for the fiscal years ended September 30, 2020, and 2019.[31] For these 2 fiscal years, the schedules reported (1) approximately $21.0 trillion (2020) and $16.8 trillion (2019) of federal debt held by the public,[32] (2) about $5.9 trillion (2020 and 2019) of intragovernmental debt holdings,[33] and (3) about $371 billion (2020) and $404 billion (2019) of interest on federal debt held by the public. We also reported that although internal controls could be improved, Fiscal Service maintained, in all material respects, effective internal control over financial reporting relevant to the Schedule of Federal Debt as of September 30, 2020. In addition, we reported that we found no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested related to the Schedule of Federal Debt.

- We audited and expressed unmodified opinions on the U.S. Securities and Exchange Commission's (SEC) and its Investor Protection Fund's (IPF) financial statements as of and for the fiscal years ended September 30, 2020, and 2019.[34] We also reported that SEC maintained, in all material respects, effective internal control over financial reporting for both the entity as a whole and IPF as of September 30, 2020. In addition, we reported that we found no reportable noncompliance for either SEC or IPF for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

- We audited and expressed an unmodified opinion on the Federal Housing Finance Agency's (FHFA) financial statements as of and for the fiscal years ended September 30, 2020, and 2019.[35] We also reported that FHFA maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020. In addition, we reported that we found no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

- We audited and expressed an unmodified opinion on the Office of Financial Stability's (OFS) financial statements for the Troubled Asset Relief Program (TARP) as of and for the fiscal years ended September 30, 2020, and 2019.[36] We also reported that OFS maintained, in all material respects, effective internal control over financial reporting for TARP as of September 30, 2020. In addition, we reported that we found no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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[31]GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2020 and FY 2019 Schedules of Federal Debt*, GAO-21-124 (Washington, D.C.: Nov. 9, 2020).

[32]Debt held by the public on the Schedules of Federal Debt represents federal debt that Treasury issued and that is held by investors outside of the federal government, including individuals, corporations, state or local governments, the Federal Reserve, and foreign governments.

[33]Intragovernmental debt holdings represent federal debt that Treasury owes to federal government accounts, primarily federal trust funds, such as those established for Social Security and Medicare.

[34]GAO, *Financial Audit: Securities and Exchange Commission's FY 2020 and FY 2019 Financial Statements*, GAO-21-192R (Washington, D.C.: Nov. 16, 2020).

[35]GAO, *Financial Audit: Federal Housing Finance Agency's FY 2020 and FY 2019 Financial Statements*, GAO-21-201R (Washington, D.C.: Nov. 16, 2020).

[36]GAO, *Financial Audit: Office of Financial Stability (Troubled Asset Relief Program) FY 2020 and FY 2019 Financial Statements*, GAO-21-173R (Washington, D.C.: Nov. 10, 2020).

- We audited and expressed an unmodified opinion on the Bureau of Consumer Financial Protection's (BCFP)[37] financial statements as of and for the fiscal years ended September 30, 2020, and 2019.[38] We also reported that BCFP maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020. In addition, we reported that we found no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

We performed work over Treasury processes and controls used to prepare the consolidated financial statements. We also considered our ongoing audit work on the General Fund of the U.S. Government.[39]

We considered the significant entities' fiscal years 2020 and 2019 financial statements and the related auditors' reports that the inspectors general or contracted independent public accountants prepared. We did not audit, and we do not express an opinion on, any of these individual federal entity financial statements.

We considered the disclaimers of opinion issued by the Department of Defense (DOD) Office of Inspector General (OIG) on DOD's department-wide financial statements as of and for the fiscal years ended September 30, 2020, and 2019.[40] The disclaimers of opinion were partially based on the disclaimers of opinion for multiple DOD components, including the Army, Navy, Air Force, U.S. Marine Corps, Defense Health Program, Defense Logistics Agency, U.S. Transportation Command, and U.S. Special Operations Command. DOD OIG also reported 26 material weaknesses in internal control over financial reporting, including those related to (1) property, plant, and equipment; (2) inventory and related property; (3) environmental and disposal liabilities; (4) reconciliations of disbursement activity; (5) intragovernmental transactions; and (6) financial management systems and information security.

We considered the disclaimer of opinion issued by the Small Business Administration's (SBA) independent auditor on SBA's consolidated financial statements as of and for the fiscal year ended September 30, 2020.[41] The disclaimer of opinion was based on SBA's inability to provide adequate evidential matter in support of a significant number of transactions and account balances related to the Paycheck Protection Program and the expanded Economic Injury Disaster Loan program under the CARES Act and related Coronavirus Disease 2019 (COVID-19) relief laws enacted in fiscal year 2020, because of inadequate processes and controls. The independent auditor also reported seven material weaknesses in internal control over financial reporting pertaining to these programs, related to loans receivable and loan guarantee liabilities.

Our audit approach for the 2020 and 2019 Statements of Long-Term Fiscal Projections focused primarily on determining whether the information relating to the Statements of Social Insurance is properly reflected therein and testing the methodology used, as well as evaluating key assumptions.

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[37]The Bureau of Consumer Financial Protection, which was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, Title X, § 1011(a), 124 Stat. 1376, 1964 (July 21, 2010), *classified at* 12 U.S.C. § 5491(a), is often referred to as the Consumer Financial Protection Bureau.

[38]GAO, *Financial Audit: Bureau of Consumer Financial Protection's FY 2020 and FY 2019 Financial Statements*, GAO-21-174R (Washington, D.C.: Nov. 16, 2020).

[39]The General Fund of the U.S. Government is a component of Treasury's central accounting function. It is a stand-alone reporting entity that comprises the activities fundamental to funding the federal government (e.g., issued budget authority, cash activity, and debt financing activities).

[40]Department of Defense, *United States Department of Defense Agency Financial Report for Fiscal Year 2020* (Arlington, Va.: Nov. 16, 2020).

[41]Small Business Administration, *Agency Financial Report for Fiscal Year 2020* (Washington, D.C.: Dec. 18, 2020).

We also evaluated whether the internal control deficiencies related to the accrual-based consolidated financial statements affected certain key inputs used in generating the projections.

Because of the significance of the amounts presented in the Statements of Social Insurance and Statements of Changes in Social Insurance Amounts related to the Social Security Administration (SSA) and the Department of Health and Human Services (HHS), our audit approach regarding these statements focused primarily on reviewing audit work performed with respect to these two federal entities. For each federal entity preparing a Statement of Social Insurance and Statement of Changes in Social Insurance Amounts,[42] we considered the entity's 2020, 2019, 2018, 2017, and 2016 Statements of Social Insurance and the 2020 and 2019 Statements of Changes in Social Insurance Amounts, as well as the related auditor's reports that the inspectors general or contracted independent public accountants prepared.

We performed sufficient audit work to provide our reports on (1) the consolidated financial statements; (2) internal control over financial reporting; and (3) compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements. We considered the limitations on the scope of our work regarding the accrual-based consolidated financial statements and the sustainability financial statements in forming our conclusions. We performed our work in accordance with U.S. generally accepted government auditing standards.

[42]These entities are SSA, HHS, the Railroad Retirement Board, and the Department of Labor.

Appendix II

Material Weaknesses Contributing to Our Disclaimer of Opinion on the Accrual-Based Consolidated Financial Statements

This appendix describes material weaknesses that contributed to our disclaimer of opinion on the federal government's accrual-based consolidated financial statements and highlights the primary effects of these material weaknesses on the accompanying accrual-based consolidated financial statements, the sustainability financial statements, and the management of federal government operations.[43] The federal government did not have sufficient appropriate evidence to support information reported in the accompanying accrual-based consolidated financial statements, as described below.

Property, Plant, and Equipment and Inventories and Related Property

The federal government could not satisfactorily determine that property, plant, and equipment (PP&E) and inventories and related property were properly reported in the accrual-based consolidated financial statements. Most of the PP&E and inventories and related property are the responsibility of the Department of Defense (DOD). As in past years, DOD did not maintain adequate systems or have sufficient records to provide reliable information on these assets. Certain other entities' auditors reported continued deficiencies in internal control procedures and processes related to PP&E.

Deficiencies in internal control over PP&E and inventories and related property could affect the federal government's ability to fully know the assets it owns, including their location and condition. They can also affect the government's ability to effectively (1) safeguard assets from physical deterioration, theft, or loss; (2) account for acquisitions and disposals of such assets and reliably report asset balances; (3) ensure that the assets are available for use when needed; (4) prevent unnecessary storage and maintenance costs or purchase of assets already on hand; and (5) determine the full costs of programs that use these assets.

Loans Receivable and Loan Guarantee Liabilities[44]

The auditor of the Small Business Administration (SBA), which had substantial activity related to the Coronavirus Disease 2019 (COVID-19) pandemic response, reported new internal control deficiencies in fiscal year 2020 related to SBA's implementation of provisions in the CARES Act and related COVID-19 relief laws enacted in fiscal year 2020, including deficiencies associated with the Paycheck Protection Program and the Economic Injury Disaster Loan program. SBA's auditor reported deficiencies in the areas of loan and loan guarantee approvals, reporting and estimating costs for loan guarantees, and overseeing service providers for both programs. In addition, the auditor reported that SBA did not properly design and implement effective entity-level controls to establish an internal control system that produces reliable and accurate financial reporting. These internal control deficiencies significantly increased the risks of misstatements, noncompliance, fraud, and improper payments.

[43]The material weakness related to the Reconciliations of Budget Deficit to Net Operating Cost and Changes in Cash Balance also contributed to our disclaimer on the 2020 and 2019 Statements of Long-Term Fiscal Projections.

[44]A material weakness over loans receivable and loan guarantee liabilities existed in fiscal year 2019, but did not contribute to our disclaimer of opinion on the accrual-based consolidated financial statements. In fiscal year 2020, due to the disclaimer of opinion and material weaknesses at the Small Business Administration, the material weakness over loans receivable and loan guarantee liabilities contributed to our disclaimer of opinion.

In addition, internal control deficiencies continued to exist at several other federal entities. These deficiencies were associated with accounting and reporting for credit programs and the related financing activities, including estimating the cost of credit programs and determining the value of loans receivable and loan guarantee liabilities.

These deficiencies, and the complexities associated with accounting and reporting for credit programs, significantly increase the risk that misstatements in federal entity and government-wide financial statements could occur and go undetected. Further, these deficiencies can adversely affect the entities' ability to support annual budget requests for these programs, make future budgetary decisions, manage program costs, and measure the performance of lending activities.

Liabilities and Commitments and Contingencies

The federal government could not reasonably estimate or adequately support amounts reported for certain liabilities. For example, the DOD auditor was not able to substantiate the completeness and accuracy of its environmental and disposal liabilities. In addition, the DOD auditor reported that DOD could not support a significant amount of its estimated military postretirement health benefits liabilities included in federal employee and veteran benefits payable. These unsupported amounts relate to the cost of direct health care that DOD-managed military treatment facilities provided. In addition, auditors reported internal control deficiencies at several other federal entities that related to material liabilities. Further, the federal government could not determine whether commitments and contingencies, including any related to treaties and other international agreements entered into to further the federal government's interests, were complete and properly reported.

Problems in accounting for liabilities affect the determination of the full cost of the federal government's current operations and the extent of its liabilities. Also, deficiencies in internal control supporting the process for estimating environmental and disposal liabilities could result in improperly stated liabilities. They also could adversely affect the federal government's ability to determine priorities for cleanup and disposal activities and to appropriately consider future budgetary resources needed to carry out these activities. In addition, to the extent disclosures of commitments and contingencies are incomplete or incorrect, reliable information is not available about the extent of the federal government's obligations.

Cost of Government Operations and Disbursement Activity

Reported net cost was affected by the other material weaknesses that contributed to our disclaimer of opinion on the accrual-based consolidated financial statements. As a result, the federal government was unable to support significant portions of the reported total net cost of operations, most notably those related to DOD and SBA.

With respect to disbursements, auditors of DOD and certain other federal entities reported continued control deficiencies in reconciling disbursement activity. For fiscal years 2020 and 2019, inadequate reconciliations of disbursement activity included (1) unreconciled differences between federal entities' and the Department of the Treasury's (Treasury) records of disbursements and (2) unsupported federal entity adjustments, which could also affect the balance sheet.

Unreliable cost information affects the federal government's ability to control and reduce costs, assess performance, evaluate programs, and set fees to recover costs where required or authorized. If disbursements are improperly recorded, this could result in misstatements in the financial statements and in certain data that federal entities provide for inclusion in *The Budget of the United States Government* (President's Budget) concerning obligations and outlays.

Intragovernmental Activity and Balances

Significant progress has been made over the past few years, but the federal government continues to be unable to adequately account for intragovernmental activity and balances between federal entities. Federal entities are responsible for properly accounting for and reporting their intragovernmental activity and balances in their entity financial statements. When preparing the consolidated financial statements, intragovernmental activity and balances between federal entities should be in agreement and must be subtracted out, or eliminated, from the financial statements. If the two federal entities engaged in an intragovernmental transaction do not both record the same intragovernmental transaction in the same year and for the same amount, the intragovernmental transactions will not be in agreement, and if not properly resolved, would result in errors (i.e., differences or unmatched amounts) in the consolidated financial statements. The Office of Management and Budget (OMB) and Treasury have issued guidance directing component entities to reconcile intragovernmental activity and balances with their trading partners and resolve identified differences. In addition, the guidance directs the chief financial officers (CFO) of significant component entities to report to Treasury, their respective inspectors general, and GAO on the extent and results of their intragovernmental activity and balance reconciliation efforts as of the end of the fiscal year.

To support this process during fiscal year 2020, Treasury continued to provide information and assistance to significant component entities to aid in resolving their intragovernmental differences. Treasury also issued additional guidance to entities for specific types of trading partner transactions, including adding new categories and account coding. In addition, Treasury's quarterly scorecard process[45] highlights differences needing the entities' attention, identifies differences that need to be resolved through a formal dispute resolution process,[46] and reinforces the entities' responsibilities to resolve intragovernmental differences. Treasury continued to identify and monitor systemic root causes of intragovernmental differences and related corrective action plans to address the root causes. As a result of these and other actions, a significant number of intragovernmental differences were identified and resolved.

While progress was made, we continued to note that amounts reported by federal entity trading partners to Treasury were not in agreement by significant amounts. Reasons for the differences that several CFOs cited included differing accounting methodologies, accounting errors, and timing differences. Auditors for several significant component entities continued to report that the entities did not have effective processes for reconciling intragovernmental activity and balances with their trading partners. For example, the DOD auditor reported that DOD, which has a substantial amount of intragovernmental activity and balances, did not have accounting systems that were able to capture the trading partner data required to eliminate intradepartmental and intragovernmental transactions, which resulted in a risk of material misstatements. In addition, other material weaknesses reported by the auditor of DOD could contribute to this material weakness.

The federal government's ability to determine the effect of intragovernmental differences on the accrual-based consolidated financial statements is significantly impaired. Addressing the intragovernmental transactions problem remains a difficult challenge and will require federal entities'

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[45]For each quarter, Treasury produces a scorecard for each significant entity, as well as any other component entity reporting significant intragovernmental balances or differences, that reports various aspects of the entity's intragovernmental differences with its trading partners, including the composition of the differences by trading partner and category. Pursuant to Treasury guidance, entities are expected to resolve, with their respective trading partners, the differences identified in their scorecards.

[46]When an entity and its respective trading partner cannot resolve an intragovernmental difference, Treasury guidance directs the entity to request that Treasury resolve the dispute. Treasury will review the dispute and issue a decision on how to resolve the difference, which the entities must follow.

strong and sustained commitment to resolving differences with their trading partners timely, as well as Treasury's and OMB's continued strong leadership.

Preparation of Consolidated Financial Statements

Treasury, in coordination with OMB, has implemented corrective actions in recent years related to the preparation of the consolidated financial statements. Corrective actions included improving systems and implementing new processes for preparing the consolidated financial statements, enhancing guidance for collecting data from component entities, and implementing procedures to address certain internal control deficiencies detailed in our previously issued management reports.[47] However, the federal government's systems, controls, and procedures were not adequate to reasonably assure that the consolidated financial statements are consistent with the underlying audited entity financial statements, properly balanced, and in accordance with U.S. generally accepted accounting principles (U.S. GAAP). During our fiscal year 2020 audit, deficiencies in the preparation of the consolidated financial statements included the following.

- For fiscal year 2020, auditors reported internal control deficiencies at several component entities related to their entity-level controls, including the control environment, risk assessment, information and communication, and monitoring components of internal control, that could affect Treasury's ability to obtain reliable financial information from federal entities for consolidation. For example, DOD did not have sufficient entity-level controls to establish a comprehensive internal control system that will produce reliable financial reporting. Also, the Department of Veterans Affairs (VA) lacked an effective entity-level control system, which, coupled with a decentralized reporting structure and legacy system issues, has led to systemic and pervasive control deficiencies that impede VA's ability to process, summarize, and report reliable financial information in a timely manner.

- For fiscal year 2020, auditors reported internal control deficiencies at several component entities related to the entities' financial reporting processes that could affect information included in the consolidated financial statements. For example, DOD could not demonstrate that its financial statements were consistent with underlying records.

- While progress has been made, Treasury is unable to properly balance the accrual-based consolidated financial statements because of its inability to fully eliminate intragovernmental activity and balances. To make the fiscal years 2020 and 2019 consolidated financial statements balance, Treasury recorded unmatched transactions and balances in the Statements of Operations and Changes in Net Position, Balance Sheets, and Statements of Net Cost. Unmatched transactions and balances primarily represent unresolved differences in intragovernmental activity and balances between federal entities. The Statement of Operations and Changes in Net Position and the Balance Sheet include specific lines for the unmatched transactions and balances, while the unmatched transactions and balances are recorded in existing lines in the Statement of Net Cost.

  Specifically, Treasury recorded net decreases of $11.6 billion and $0.4 billion to net operating cost on the Statements of Operations and Changes in Net Position for fiscal years 2020 and 2019, respectively. Treasury recorded $3.1 billion and $14.7 billion of unmatched transactions and balances on the Balance Sheets as of September 30, 2020 and 2019, respectively. Treasury

[47]Most of the issues we identified in fiscal year 2020 existed in fiscal year 2019, and many have existed for a number of years. Most recently, in August 2020, we reported on the status of the issues we identified to Treasury and OMB and provided recommendations for corrective action. See GAO, *Management Report: Improvements Needed in Controls over the Processes Used to Prepare the U.S. Consolidated Financial Statements*, GAO-20-586 (Washington, D.C.: Aug. 25, 2020).

recorded an additional net $1.8 billion and $4.5 billion of unmatched transactions in the Statements of Net Cost for fiscal years 2020 and 2019, respectively. Unresolved intragovernmental differences (i.e., unmatched transactions and balances) result in errors in the consolidated financial statements. The ultimate effect on the accrual-based financial statements of resolving and correcting these differences cannot be determined and could be material.

- Over the past several years, Treasury has taken significant actions to help ensure that financial information is reported or disclosed in the consolidated financial statements in accordance with U.S. GAAP. For example, Treasury has developed and implemented U.S. GAAP compliance operating procedures and checklists. Also, Treasury, along with the Department of State, is implementing a multiphase approach to review existing treaties and other international agreements to determine which of these agreements may result in commitments or contingencies. However, Treasury's reporting of certain financial information required by U.S. GAAP continues to be impaired. Because of certain control deficiencies noted in this audit report—for example, commitments and contingencies related to treaties and other international agreements—Treasury is precluded from determining if U.S. GAAP requires additional disclosure in the consolidated financial statements, and we are precluded from determining whether the omitted information is material. Further, Treasury's ability to report information in accordance with U.S. GAAP will also remain impaired until federal entities can provide Treasury with the complete and reliable information required to be reported in the consolidated financial statements. For example, in fiscal year 2020 the DOD auditor reported that DOD lacked U.S. GAAP compliant policies and procedures to account for and report the Military Housing Privatization Initiative Program.

In fiscal year 2020, Treasury continued to take corrective actions intended to resolve internal control deficiencies in the processes used to prepare the consolidated financial statements. For example, Treasury improved its accounting and reporting policies related to the Statement of Operations and Changes in Net Position and Funds from Dedicated Collections note. Treasury also made improvements to the processes and procedures for reporting corrections of errors and changes in accounting principle.

However, until these internal control deficiencies have been fully addressed, the federal government's ability to reasonably assure that the consolidated financial statements are consistent with the underlying audited federal component entities' financial statements, properly balanced, and in accordance with U.S. GAAP will be impaired. It is important that Treasury (1) continues to improve its systems and processes and (2) remains committed to maintaining the progress that has been made in this area and building on that progress to make needed improvements that fully address the magnitude of the financial reporting challenges it faces. Resolving the remaining internal control deficiencies continues to be a difficult challenge and will require a strong and sustained commitment from Treasury, OMB, and federal entities.

Reconciliations of Budget Deficit to Net Operating Cost and Changes in Cash Balance

The Reconciliations of Net Operating Cost and Budget Deficit and the Statements of Changes in Cash Balance from Budget and Other Activities (Reconciliation Statements) reconcile (1) the accrual-based net operating cost to the primarily cash-based budget deficit and (2) the budget deficit to changes in cash balances. The budget deficit is calculated by subtracting actual budget outlays (outlays) from actual budget receipts (receipts).[48] The outlays and receipts are key inputs to the Statements of Long-Term Fiscal Projections.

Treasury continued to develop its process for preparing the Reconciliation Statements. One of the two Schedules of the General Fund provides information supporting the Statements of Changes in Cash Balance from Budget and Other Activities.[49] However, as reported in our disclaimer of opinion on the fiscal year 2018 Schedules of the General Fund, Treasury was unable to timely provide sufficient appropriate evidence to support certain information reported in the Schedules of the General Fund. With regard to the Reconciliation Statements, such limitations primarily related to readily identifying and tracing transactions to determine whether they were properly recorded in the Schedules of the General Fund. Specifically, certain amounts are netted and recorded at a summarized level thus preventing Treasury from readily obtaining the necessary details, at the transaction level, to support financial reporting for certain line items in the Statements of Changes in Cash Balance from Budget and Other Activities. During fiscal year 2020, Treasury continued to implement procedures and develop new transaction codes to improve the accounting for and reporting of General Fund transactions and balances that Treasury uses to compute the budget deficit reported in the Reconciliation Statements.[50] Because of the nature and complexity of the issues identified, some of the control deficiencies are expected to be remediated over several years.

As of the end of fiscal year 2020, Treasury's processes and procedures for preparing the reconciliation statements were not effective in (1) identifying and reporting all the items in the Reconciliation Statements, (2) properly supporting amounts used in calculating the budget deficit, and (3) reasonably assuring that the information in these statements was fully consistent with the underlying information in the significant component entities' audited financial statements and other financial data. Consequently, there may be misstatements in the Reconciliation Statements.

In fiscal year 2020, we again noted that several entities' auditors reported internal control deficiencies related to monitoring, accounting, reconciliation, and reporting of budgetary transactions, including deficiencies related to federal entities' budget and accrual reconciliations.[51] These control deficiencies could affect the reporting and calculation of the net outlay amounts in the entities' Statements of Budgetary Resources. In addition, such deficiencies may also affect the entities' ability to report reliable budgetary information to Treasury and OMB and may affect the budget deficit reported in the Reconciliation Statements. Treasury also reports the budget deficit in its *Combined Statement of Receipts, Outlays, and Balances* and in other federal government publications.[52]

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[48]The budget deficit, receipts, and outlays amounts are reported in Treasury's *Monthly Treasury Statement* and the President's Budget.

[49]The General Fund of the U.S. Government is a component of Treasury's central accounting function. It is a stand-alone reporting entity that comprises the activities fundamental to funding the federal government (e.g., issued budget authority, cash activity, and debt financing activities).

[50]GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Year 2018 Schedules of the General Fund*, GAO-19-185 (Washington, D.C.: May 15, 2019). As of the date of this audit report, the audited Schedules of the General Fund of the U.S. Government for fiscal year 2020 were not issued. The fiscal year 2019 Schedules of the General Fund were not audited to allow Treasury sufficient time to develop and begin to implement a remediation plan to address the issues we identified as part of our audit of the fiscal year 2018 Schedules of the General Fund.

[51]Statement of Federal Financial Accounting Standards (SFFAS) 53, *Budget and Accrual Reconciliation: Amending SFFAS 7, and 24, and Rescinding SFFAS 22*, became effective for periods beginning after September 30, 2018, and provides for the budget and accrual reconciliation (BAR) to replace the statement of financing. The BAR explains the relationship between an entity's net outlays on a budgetary basis and its net cost of operations during the period.

[52]Treasury's *Combined Statement of Receipts, Outlays, and Balances* presents budget results and cash-related assets and liabilities of the federal government with supporting details. According to Treasury, this report is the recognized official publication of receipts and outlays of the federal government based on entity reporting.

Appendix III

Other Material Weaknesses

Material weaknesses in internal control discussed in this audit report resulted in ineffective controls over financial reporting. In addition to the material weaknesses discussed in appendix II that contributed primarily to our disclaimer of opinion on the accrual-based consolidated financial statements, we found two other material weaknesses in internal control. This appendix describes these weaknesses and highlights their primary effects on the accrual-based consolidated financial statements and on the management of federal government operations.

Improper Payments

We have reported improper payments—payments that should not have been made or that were made in an incorrect amount—as a material deficiency or material weakness in internal control in our audit reports on the U.S. government's consolidated financial statements since fiscal year 1997. The federal government is unable to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them. Reducing improper payments is critical to safeguarding federal funds.[53] The Payment Integrity Information Act of 2019 (PIIA)[54] requires federal executive agencies[55] to do the following:

1. Review all programs and activities.
2. Identify those that may be susceptible to significant improper payments.
3. Estimate the annual amount of improper payments for those programs and activities identified as susceptible to significant improper payments.
4. Implement actions to reduce improper payments and set reduction targets with respect to the risk-susceptible programs and activities.
5. Report on the results of addressing the foregoing requirements.[56]

Twenty-one agencies reported improper payment estimates totaling about $206 billion for fiscal year 2020, based on improper payment estimates reported individually by 98 federal programs or activities in www.paymentaccuracy.gov.[57] The fiscal year 2020 government-wide total of reported estimated improper payments, among programs and activities that reported estimates, increased by about $31

[53]The Payment Integrity Information Act of 2019 statutorily defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. 31 U.S.C. § 3351(4). Further, when an executive agency's review is unable to discern, because of lacking or insufficient documentation, whether a payment was proper, the agency must treat the payment as improper in producing an improper payment estimate. 31 U.S.C. § 3352(c)(2). This requirement was enacted into the U.S. Code by PIIA, but it is consistent with prior law under the Improper Payments Information Act, as amended, and Office of Management and Budget (OMB) guidance previously required agencies to treat payments with insufficient or lacking documentation as improper.

[54]PIIA, Pub. L. No. 116-117, 134 Stat. 113 (Mar. 2, 2020), which is codified at 31 U.S.C. §§ 3351-58.

[55]An "executive agency," as it is defined under title 31 of the U.S. Code, is a department, agency, or instrumentality in the executive branch of the United States government. 31 U.S.C. § 102.

[56]See 31 U.S.C. § 3352.

[57]An official U.S. government website managed by OMB, www.Paymentaccuracy.gov contains, among other things, information about current and historical rates and amounts of improper payments.

billion from the fiscal year 2019 estimate of about $175 billion.[58] However, the specific programs and activities included in the government-wide total of reported improper payment estimates may change from year to year. While decreases in estimated improper payments were reported for several programs and activities, these were more than offset by increases for certain other programs and activities.[59] For example, the Department of Health and Human Services (HHS) reported an increase of estimated improper payments of about $29 billion for Medicaid in fiscal year 2020.

It is important to note that reported improper payment estimates include overpayments, underpayments, and payments for which the agency could not find sufficient documentation. Estimates may also be based on payment data and sampling drawn from periods that do not coincide with the fiscal year for which the estimates are reported. It is also important to note that the $206 billion of reported improper payment estimates for fiscal year 2020 generally do not include estimates related to the reported $1.6 trillion in fiscal year 2020 budget expenditures to fund response and recovery efforts for the COVID-19 pandemic.[60] In addition, we identified some risk-susceptible programs for which agencies did not report fiscal year 2020 estimated improper payment amounts, including HHS's Temporary Assistance for Needy Families and HHS's Advance Premium Tax Credit.

If an agency's inspector general determines that the entity is not in compliance with the criteria listed in PIIA, such as reporting an improper payment rate of 10 percent or greater for any risk-susceptible program or activity, that agency must submit a plan to Congress describing the actions that it will take to come into compliance. For example, the Department of Defense (DOD) Office of Inspector General (OIG) reported in May 2020 that DOD did not comply with two criteria for fiscal year 2019.[61] Specifically, DOD OIG reported that DOD did not publish reliable improper payment estimates for five of its eight programs, and did not meet its improper payment reduction targets. For fiscal year 2020, agencies reported estimated improper payment rates of 10 percent or greater for 24 risk-susceptible

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[58]Under PIIA, the Director of OMB is required to annually submit a report to Congress and the Comptroller General of the United States that includes a government-wide estimate of improper payments for the preceding fiscal year. A report that includes a government-wide estimate of improper payments for fiscal year 2020 has not yet been submitted. *See* 31 U.S.C. § 3352(f).

[59]For fiscal year 2020, agencies reported decreases in total estimated improper payments in excess of $1 billion for four programs and activities and increases in total estimated improper payments in excess of $1 billion for six programs and activities. The four programs and activities with decreases in excess of $1 billion were the Department of Defense's (DOD) Military Pay; the Department of Health and Human Services' (HHS) Medicare Fee-for-Service; the Department of the Treasury's (Treasury) Earned Income Tax Credit (EITC); and Treasury's Additional Child Tax Credit (ACTC). The six programs and activities with increases in excess of $1 billion were DOD's Civilian Pay; DOD's Military Pay-Army; DOD's Military Pay-Air Force; HHS's Medicaid; HHS's Children's Health Insurance Program (CHIP); and the Department of Labor's (Labor) Unemployment Insurance program. DOD ceased reporting an overall estimate for Military Pay but began reporting improper payment estimates for military pay by branch, including the Army and the Air Force.

[60]See the Payment Integrity enclosure to GAO, *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, GAO-21-191 (Washington, D.C.: Nov. 30, 2020), for our matter for congressional consideration and recommendation to OMB related to estimating improper payments for COVID-19 relief funds.

[61]The DOD OIG report is reporting DOD's fiscal year 2019 compliance with criteria required under the repealed Improper Payments Elimination and Recovery Act of 2010 (Public Law 111-204), which was in effect for fiscal year 2019. The criteria remain the same under PIIA for agencies reporting improper payment estimates for fiscal year 2020 and going forward. *See* 31 U.S.C. § 3351(2).

programs and activities,[62] accounting for about 61 percent of the government-wide total of reported estimated improper payments.[63]

Further, agency auditors continued to report internal control deficiencies over financial reporting in their fiscal year 2020 financial statement audit reports, such as financial system limitations and information system control weaknesses. Such deficiencies could significantly increase the risk that improper payments may occur and not be detected promptly.

The fiscal year 2020 President's Budget included program integrity proposals at multiple agencies aimed at reducing improper payments. Also, efforts continue to implement PIIA requirements to better identify and prevent improper payments, waste, fraud, and abuse, as well as to recover overpayments. In addition, the statutory Do Not Pay initiative under PIIA requires agencies to review prepayment and pre-award procedures and ensure a thorough review of available databases to determine program or award eligibility before the release of any federal funds. PIIA also directs the Office of Management and Budget (OMB) to annually identify a list of high-priority federal programs for greater levels of oversight and review and requires each agency responsible for administering one of these high-priority programs to submit a program report to its inspector general annually and make the report available to the public.[64]

In addition, in March 2018, the President's Management Agenda outlined a long-term vision for modernizing federal operations and improving agencies' ability to achieve outcomes that included a Getting Payments Right initiative. OMB's current goals for this initiative are to (1) build trust in government by better understanding the nature of improper payments and their relationship to payment integrity and (2) demonstrate stewardship of taxpayer dollars by focusing on getting government payments right the first time they are made and preventing monetary loss. Under this initiative, the federal government, through the chief financial officers community, has identified five strategies to reduce monetary loss and prevent improper payments:

- clarify and streamline requirements,
- identify monetary loss root causes,

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[62]The improper payment rate reflects the estimated improper payments as a percentage of total annual outlays.

[63]The 24 programs and activities that reported estimated improper payment rates of 10 percent or greater for fiscal year 2020 were (1) United States Department of Agriculture's (USDA) Food and Nutrition Service (FNS) School Breakfast; (2) USDA's Farm Service Agency (FSA) Hurricane Harvey – Emergency Conservation; (3) USDA's Hurricane Harvey – Wildfires and Hurricane Indemnity Program; (4) USDA's FSA Livestock Forage Disaster; (5) USDA's FSA Noninsured Crop Disaster Assistance; (6) the Corporation for National and Community Service's (CNCS) Foster Grandparent Program; (7) CNCS's Retired and Senior Volunteer program; (8) CNCS's Senior Companion; (9) the Federal Communications Commission's Universal Service Fund (USF)-Lifeline; (10) Department of Education's (Education) Emergency Impact Aid for Displaced Students; (11) Education's Restart; (12) HHS's CHIP; (13) HHS's Medicaid; (14) Department of Homeland Security's (DHS) Public Assistance – Disaster Supplemental Funds; (15) DHS's Urban Search & Rescue – Disaster Supplemental Funds; (16) Small Business Administration's Disaster Loan Disbursements; (17) Treasury's ACTC; (18) Treasury's American Opportunity Tax Credit (AOTC); (19) Treasury's EITC; (20) the Department of Veterans Affairs' (VA) Beneficiary Travel; (21) VA's Communications, Utilities, and Other Rent; (22) VA's Community Care; (23) VA's Medical Care Contracts and Agreements; and (24) VA's Purchased Long Term Services and Support.

[64]*See* 31 U.S.C. § 3352. OMB has designated high-priority programs as those programs and activities with improper payment estimates that exceed $2 billion annually. The 15 programs and activities with reported improper payment estimates greater than $2 billion in fiscal year 2020 were (1) USDA's FNS Supplemental Nutrition Assistance; (2) DOD's Civilian Pay; (3) DOD's Military Pay-Army; (4) HHS's CHIP; (5) HHS's Medicaid; (6) HHS's Medicare Fee-for-Service; (7) HHS's Medicare Advantage; (8) Labor's Unemployment Insurance; (9) Social Security Administration's (SSA) Supplemental Security Income; (10) SSA's Old Age, Survivors, and Disability Insurance; (11) Treasury's ACTC; (12) Treasury's AOTC; (13) Treasury's EITC; (14) VA's Community Care; and (15) VA's Purchased Long Term Services and Support.

- strategic data use (using data to prevent improper payments),
- mitigation strategies (using non-data methods to prevent improper payments), and
- strengthen state partnerships.

Finally, the federal government reported recovery of approximately $22 billion in overpayments for fiscal year 2020.

Until the federal government has implemented effective processes to determine the full extent to which improper payments occur and has taken appropriate actions across agencies and programs and activities to effectively reduce improper payments, it will not have reasonable assurance that the use of federal funds is adequately safeguarded.

Information Security

GAO has reported information security as a government-wide material weakness since fiscal year 1997.[65] During our fiscal year 2020 audit, we found that serious and widespread information security control deficiencies continued to place federal assets at risk of inadvertent or deliberate misuse, financial information at risk of unauthorized modification or destruction, sensitive information at risk of inappropriate disclosure, and critical operations at risk of disruption. Sixteen of the 24 agencies covered by the Chief Financial Officers Act of 1990 reported information security as a material weakness or significant deficiency for fiscal year 2020. Specifically, control deficiencies were identified related to (1) security management; (2) access to computer data, equipment, and facilities; (3) changes to and configuration of information system resources; (4) segregation of incompatible duties; and (5) contingency planning. Such information security control deficiencies increase the risk of unauthorized access to, modification of, or disclosure of sensitive data and programs and disruptions of critical operations.

Security management is the foundation of a security-control structure and reflects senior management's commitment to addressing security risks. Security management programs should provide a framework and continuous cycle of activity for managing risk, developing and implementing effective security policies, assigning responsibilities, and monitoring the adequacy of the entity's information system controls. Without a well-designed security management program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied. Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources. Nearly all of the agencies that reported information security as a material weakness or significant deficiency for fiscal year 2020 identified weaknesses related to their security management programs.

Recent events highlight the urgent need for agencies to identify and resolve weaknesses in their security management programs. In December 2020, the Cybersecurity & Infrastructure Security Agency (CISA) issued an emergency directive and supplemental guidance explaining that an advanced persistent threat[66] actor had been observed leveraging, among other techniques, a software supply

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[65]We have also designated information security as a government-wide high-risk area since 1997. For more information, see GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, GAO-21-119SP (Washington, D.C.: Mar. 2, 2021).

[66]An advanced persistent threat is a type of cyberattack campaign where an adversary that possesses sophisticated levels of expertise and significant resources can attack by using multiple means (e.g., cyber, physical, or deception) to generate opportunities to achieve its objectives which are typically to establish and extend its presence within the information technology infrastructure of organizations for purposes of continually exfiltrating information.

chain[67] compromise of an enterprise network management software suite to conduct a cyberattack campaign against U.S. government agencies, critical infrastructure entities, and private sector organizations. According to CISA, this threat poses a grave risk to the federal, state, local, tribal, and territorial governments, as well as critical infrastructure entities and other private sector organizations. Additionally, in December 2020, the Federal Bureau of Investigation, CISA, and the Office of the Director of National Intelligence formed a Cyber Unified Coordination Group to coordinate a government-wide response to the significant and ongoing cyberattack campaign.

Until agencies identify and resolve these weaknesses and effectively manage information security risks on an ongoing basis, federal data and systems, including financial information, will remain at risk.

[67]The National Institute of Standards and Technology has defined "supply chain" as a set of organizations, people, activities, information, and resources that create and move a product or service from suppliers to an organization's customers.

Appendix IV

Significant Deficiencies

In addition to the material weaknesses discussed in appendixes II and III, we found three significant deficiencies in the federal government's internal control related to maintaining effective internal controls at certain federal entities, as described below.

Taxes Receivable

During fiscal year 2020, a significant deficiency continued to affect the federal government's ability to manage its taxes receivable effectively. While the Department of the Treasury's Internal Revenue Service (IRS) made necessary and appropriate adjustments derived from a statistical estimation process to correct its financial statements, IRS's underlying records did not always reflect the correct amount of taxes owed to the federal government at interim periods and year-end because of financial system limitations and other control deficiencies that led to errors in taxpayers' accounts. Such inaccurate tax records impair management's ability to effectively manage taxes receivable throughout the year and place an undue burden on taxpayers who may be compelled to respond to IRS inquiries caused by errors in taxpayer accounts.

Federal Grants Management

In fiscal year 2020, several federal entities' auditors continued to identify internal control deficiencies related to grants management.[68] Reported deficiencies primarily related to monitoring of grant activities, accounting for grants, and conducting grant close-out. These internal control deficiencies could adversely affect the federal government's ability to provide reliable financial statements as well as reasonable assurance that grants are awarded properly, recipients are eligible, and federal grant funds are used as intended.

Medicare Social Insurance Information

In fiscal year 2020, auditors for the Department of Health and Human Services (HHS) identified internal control deficiencies in certain controls related to the sufficiency of the review of methodologies and related calculations and estimates that HHS used to prepare its Statement of Social Insurance for the Medicare program. Specifically, HHS's auditor identified formula errors in certain spreadsheets that HHS's monitoring and review function did not detect. Such control deficiencies could result in misstatements to the Statement of Social Insurance.

[68]Key entities contributing to the significant deficiency for federal grants management include the Departments of Homeland Security, Housing and Urban Development, and Health and Human Services.

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