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)	2020			2019		
	Cost	Accumulated Depreciation/ Amortization	Net	Cost	Accumulated Depreciation/ Amortization	Net
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

(In billions of dollars)	Civilian 2020	Civilian 2019	Military 2020	Military 2019	Total 2020	Total 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

	Compensation		Burial		Total	
(In billions of dollars)	2020	2019	2020	2019	2020	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

[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.