MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The FY 2021 *Financial Report* provides the President, Congress, and the American people with a comprehensive view of the federal government's financial position and condition, and discusses important financial issues and significant conditions that may affect future operations, including the need to achieve fiscal sustainability over the long term.

Pursuant to 31 U.S.C. § 331(e)(1), Treasury, in cooperation with OMB, must submit an audited (by GAO) financial statement for the preceding fiscal year, covering all accounts and associated activities of the executive branch of the U.S. government[1] to the President and Congress no later than six months after the September 30 fiscal year-end. The first audited *Financial Report* covered FY 1997, making the FY 2021 *Financial Report* the 25th edition of this important vehicle for federal accountability and transparency.

The *Financial Report* is prepared from the financial information provided by 162 federal consolidation entities (see organizational chart on the next page and Appendix A). As it has for the past 24 years, GAO issued a disclaimer of opinion on the accrual-based, consolidated financial statements for the fiscal years ended September 30, 2021 and 2020. GAO also issued a disclaimer of opinion on the sustainability financial statements, which consist of the 2021 and 2020 SLTFP; the 2021, 2020, 2019, 2018, and 2017 SOSI; and the 2021 and 2020 SCSIA. A disclaimer of opinion indicates that sufficient information was not available for the auditors to determine whether the reported financial statements were fairly presented in accordance with GAAP. In FY 2021, 34[2] of the 40 most significant entities earned unmodified ("clean") opinions on their financial statements.

The FY 2021 *Financial Report* consists of:

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

This *Financial Report* addresses the government's financial activity and results as of and for the fiscal years ended September 30, 2021 and 2020. Note 31—Subsequent Events discusses events that occurred after the end of the fiscal year that may affect the government's financial position and condition.

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

Mission & Organization

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

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

[2] The 34 entities include the HHS, which received disclaimers of opinion on its 2021, 2020, 2019, 2018, and 2017 SOSI and on its 2021 and 2020 SCSIA.

Exhibit 1

THE UNITED STATES GOVERNMENT

THE CONSTITUTION

LEGISLATIVE BRANCH

THE CONGRESS
SENATE HOUSE

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

EXECUTIVE BRANCH

THE PRESIDENT
THE VICE PRESIDENT
EXECUTIVE OFFICE OF THE PRESIDENT

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

JUDICIAL BRANCH

THE SUPREME COURT OF THE U.S.

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

CHIEF FINANCIAL OFFICERS ACT AGENCIES (24)

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

SIGNIFICANT CONSOLIDATION ENTITIES (16)

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

OTHER CONSOLIDATION ENTITIES LISTED IN APPENDIX A OF THIS FINANCIAL REPORT (122)

The Government's Financial Position and Condition

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

Table 1
The Federal Government's Financial Position and Condition

	2021	2020*	Increase / (Decrease) $	Increase / (Decrease) %
FINANCIAL MEASURES (Dollars in Billions)				
Gross Cost	**$ (7,294.7)**	**$ (7,195.1)**	**$ 99.6**	**1.4%**
Less: Earned Revenue	$ 462.3	$ 461.6	$ 0.7	0.2%
Gain/(Loss) from Changes in Assumptions	$ (518.4)	$ (679.5)	$ (161.1)	(23.7%)
Net Cost	**$ (7,350.8)**	**$ (7,413.0)**	**$ (62.2)**	**(0.8%)**
Less: Total Tax and Other Unearned Revenues	**$ 4,255.9**	**$ 3,571.6**	**$ 684.3**	**19.2%**
Net Operating Cost	**$ (3,094.9)**	**$ (3,841.4)**	**$ (746.5)**	**(19.4%)**
Budget Deficit	**$ (2,775.6)**	**$ (3,131.9)**	**$ (356.3)**	**(11.4%)**
Assets:				
Cash & Other Monetary Assets	$ 475.0	$ 1,926.9	$ (1,451.9)	(75.3%)
Accounts Receivable, Net	$ 401.0	$ 321.2	$ 79.8	24.8%
Loans Receivable, Net	$ 1,651.0	$ 1,577.4	$ 73.6	4.7%
General Property, Plant & Equipment, Net	$ 1,176.9	$ 1,139.9	$ 37.0	3.2%
Other	$ 1,189.7	$ 990.3	$ 199.4	20.1%
Total Assets	**$ 4,893.6**	**$ 5,955.7**	**$ (1,062.1)**	**(17.8%)**
Liabilities:				
Federal Debt and Interest Payable	$ (22,344.8)	$ (21,082.9)	$ 1,261.9	6.0%
Federal Employee & Veteran Benefits Payable	$ (10,183.0)	$ (9,415.5)	$ 767.5	8.2%
Other	$ (2,249.9)	$ (2,245.6)	$ 4.3	0.2%
Total Liabilities	**$ (34,777.7)**	**$ (32,744.0)**	**$ 2,033.7**	**6.2%**
Unmatched Transactions and Balances[1]	$ (1.7)	$ (3.1)	$ (1.4)	(45.2%)
Net Position	**$ (29,885.8)**	**$ (26,791.4)**	**$ 3,094.4**	**11.5%**
SUSTAINABILITY MEASURES (Dollars in Trillions)				
Social Insurance Net Expenditures:				
Social Security (OASDI)	$ (22.7)	$ (19.7)	$ 3.0	15.2%
Medicare (Parts A, B, & D)	$ (48.2)	$ (45.7)	$ 2.5	5.5%
Other	$ (0.1)	$ (0.1)	$ -	0.0%
Total Social Insurance Net Expenditures	**$ (71.0)**	**$ (65.5)**	**$ 5.5**	**8.4%**
Total Federal Non-Interest Net Expenditures	**$ (97.6)**	**$ (79.5)**	**$ 18.1**	**22.8%**
75-Year Fiscal Gap (Percent of Gross Domestic Product)[2]	**(6.2%)**	**(5.4%)**	**0.8%**	**14.8%**

[1]Unmatched transactions and balances are net adjustments needed to balance the financial statements and are due primairly to unresolved intra-governmental differences. Net unmatched transactions and balances of $0.2 billion for FY 2021 and $11.5 billion for FY 2020 are also included in the Statements of Operations and Changes in Net Position. See Financial Statement Note 1.U.

[2]To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 6.2 percent of GDP on average is needed (5.4 percent of GDP on average in 2020). See Financial Statement Note 26.

*Restated (see Financial Statement Note 1.V and Note 1.W).

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

- This *Financial Report* includes discussion and analysis of the significant impact that the federal government's response to the COVID-19 pandemic had on the government's financial position during FY 2021.
- During FY 2021, the budget deficit decreased by $356.3 billion (11.4 percent) to $2.8 trillion and net operating cost decreased by $746.5 billion (19.4 percent) to $3.1 trillion.
- The government's gross costs of $7.3 trillion, less $462.3 billion in revenues earned for goods and services provided to the public (e.g., Medicare premiums, national park entry fees, and postal service fees), plus $518.4 billion in net losses from changes in assumptions (e.g., interest rates, inflation, disability claims rates) yields the government's net cost of $7.4 trillion, a slight decrease of $62.2 billion or 0.8 percent compared to FY 2020.
- Deducting $4.3 trillion in tax and other revenues results in a "bottom line" net operating cost of $3.1 trillion for FY 2021, a decrease of $746.5 billion or 19.4 percent compared to FY 2020.
- Comparing total FY 2021 government assets of $4.9 trillion to total liabilities of $34.8 trillion (comprised mostly of $22.3 trillion in federal debt and interest payable[3], and $10.2 trillion of federal employee and veteran benefits payable) yields a negative net position of $29.9 trillion.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2021, debt held by the public, excluding accrued interest, was $22.3 trillion. This amount, plus intra-governmental debt ($6.2 trillion) equals gross federal debt, which, with some adjustments, is subject to the statutory debt limit. As of September 30, 2021, the government's total debt subject to the debt limit was $28.4 trillion. Congress and the President most recently increased the debt limit by $480.0 billion in October 2021 and by $2.5 trillion in December 2021.

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

- The SLTFP shows that the PV[4] of total non-interest spending, including Social Security, Medicare, Medicaid, defense, and education, etc., over the next 75 years, under current policy, is projected to exceed the PV of total receipts by $97.6 trillion (total federal non-interest net expenditures from Table 1).
- The SOSI shows that the PV of the government's expenditures for Social Security and Medicare Parts A, B and D, and other social insurance programs over 75 years is projected to exceed social insurance revenues[5] by about $71.0 trillion, a $5.5 trillion increase over 2020 social insurance projections.
- The Social Insurance and Total Federal Non-Interest Net Expenditures measures in Table 1 differ primarily because total non-interest net expenditures from the SLTFP include the effects of general revenues and non-social insurance spending, neither of which is included in the SOSI.

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

- The budget deficit decreased from $3.1 trillion in FY 2020 to $2.8 trillion in FY 2021. The deficit-to-GDP ratio similarly decreased from 15.0 percent in FY 2020 to 12.4 percent in 2021.
- The budget deficit is primarily financed through borrowing from the public. As of September 30, 2021, the $22.3 trillion in debt held by the public, excluding accrued interest, equates to just under 100 percent of GDP.
- The 2021 SOSI projection of $71.0 trillion net PV excess of expenditures over receipts over 75 years represents about 4.4 percent of the PV of GDP over 75 years. The excess of total projected non-interest spending over receipts of $97.6 trillion from the SLTFP represents 5.7 percent of GDP over 75 years. As discussed in this *Financial Report*, changes in these projections can, in turn, have a significant impact on projected debt as a percent of GDP.
- To prevent the debt-to-GDP ratio from rising over the next 75 years, a combination of non-interest spending reductions and receipts increases that amounts to 6.2 percent of GDP on average is needed (5.4 percent of GDP on average in the 2020 projections). The fiscal gap represents 32.4 percent of 75-year PV receipts and 25.0 percent of 75-year PV non-interest spending.

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

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

[5] Social Security is funded by the payroll taxes and revenue from taxation of benefits. Medicare Part A is funded by the payroll taxes, revenue from taxation of benefits, and premiums that support those programs. Medicare Parts B and D are primarily financed by transfers from the General Fund, which are presented, and by accounting convention, eliminated in the SOSI. For the FYs 2021 and 2020 SOSI, the amounts eliminated totaled $43.2 trillion and $40.9 trillion, respectively.

FY 2021 Financial Statement Audit Results

For FY 2021, GAO issued a disclaimer of audit opinion on the accrual-based, government-wide financial statements, as it has for the past 24 years, due to certain material weaknesses in internal control over financial reporting and other limitations on the scope of its work. In addition, GAO issued a disclaimer of opinion on the sustainability financial statements due to significant uncertainties primarily related to the achievement of projected reductions in Medicare cost growth and certain other limitations. GAO's audit report on page 228 of this *Financial Report*, discusses GAO's findings.

In FY 2021, 21 of the 24 entities required to issue audited financial statements under the CFO Act received unmodified audit opinions, as did 13 of 16 additional significant consolidation entities (see Table 11 and Appendix A).[6]

The Government-wide Reporting Entity

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

Fannie Mae and Freddie Mac meet the criteria for disclosure entities and, consequently, are not consolidated into the government's financial statements. However, the values of the investments in such entities, changes in value, and related activity with these entities are included in the consolidated financial statements. The FR System and the SPVs are disclosure entities and are not consolidated into the government's financial statements. See Note 1.A and Note 28—Disclosure Entities and Related Parties for additional information. In addition, per SFFAS No. 31, *Accounting for Fiduciary Activities*, fiduciary funds are not consolidated in the government financial statements.[7]

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

The following pages contain a more detailed discussion of the government's financial results for FY 2021, the budget, the economy, the debt, and a long-term perspective about fiscal sustainability, including the government's ability to meet its social insurance benefits obligations. The information in this *Financial Report*, when combined with the *Budget*, collectively presents information on the government's financial position and condition.

Accounting Differences Between the Budget and the Financial Report

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

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

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[6] The 21 entities include the HHS, which received disclaimers of opinions on its 2021, 2020, 2019, 2018, and 2017 SOSI and its 2021 and 2020 SCSIA. The 13 entities include the FDIC, the NCUA, and the FCSIC, which operate on a calendar year basis (December 31 year-end). Statistic reflects 2020 audit results for these organizations, if 2021 results are not available.

[7] See Note 24—Fiduciary Activities.

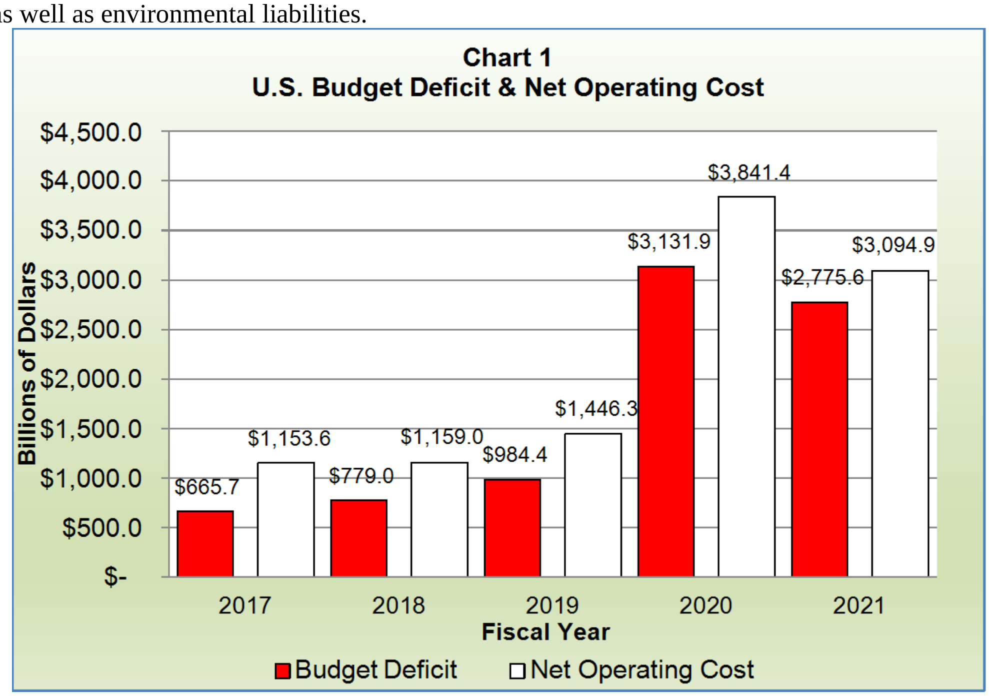
[8] Under GAAP, most U.S. government revenues are recognized on a 'modified cash' basis, (see Financial Statement Note 1.B). The SOSI presents the PV of the estimated future revenues and expenditures for scheduled benefits over the next 75 years for the Social Security, Medicare, RRP; and 25 years for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

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

Budget Deficit vs. Net Operating Cost

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

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



The government's primarily cash-based[9] budget deficit decreased by $356.3 billion (about 11.4 percent) from approximately $3.1 trillion in FY 2020 to about $2.8 trillion in FY 2021 due to an increase in receipts that exceeded an increase in outlays in FY 2021. The $626.0 billion (18.3 percent) increase in receipts can be attributed primarily to higher net individual and corporation income taxes from the improved economy. Outlays increased $269.7 billion (4.1 percent). The increase reflects continued spending from laws enacted during the previous administration, such as the CARES Act and the CAA, and programs created or enhanced by the ARP to provide relief to Americans and support the economy.[10]

With some adjustments, Treasury's September 2021 MTS provides fiscal year-end receipts, spending, and deficit information for this *Report*. The MTS presents primarily cash-based spending, or outlays, for the fiscal year in a number of ways, including by month, by entity, and by budget function classification. The federal budget is divided into approximately 20 categories, or budget functions, as a means of organizing federal spending by primary purpose (e.g., National Defense, Transportation, and Health). Multiple entities may contribute to one or more budget functions, and a single budget function may be associated with only one entity. For example, DOD, DHS, DOE, and multiple other entities administer programs that

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

[10] 10/22/21 press release – Joint Statement by Secretary of the Treasury Janet L. Yellen and Acting Director of the Office of Management and Budget Shalanda D. Young on Budget Results for Fiscal Year 2021. Note that some amounts in this *Financial Report* reflect updates subsequent to publication of the press release.

are critical to the broader functional classification of National Defense. DOD, OPM, and many other entities also administer Income Security programs (e.g., retirement benefits, housing, financial assistance). By comparison, the Medicare program is a budget function category unto itself and is administered exclusively at the federal level by HHS. Federal spending information by budget function and other categorizations may be found in the September 2021 MTS.[11]

The government's largely accrual-based net operating cost decreased by $746.5 billion (19.4 percent) to $3.1 trillion during FY 2021. As explained below, net operating costs are affected by changes in both revenues and costs.

The *Reconciliation of Net Operating Cost and Budget Deficit* statement articulates the relationship between the government's accrual-based net operating cost and the primarily cash-based budget deficit. The difference between the government's budget deficit and net operating cost is typically impacted by many variables. For example, from Table 2, the $319.3 billion net difference for FY 2021 is largely affected by: 1) a $767.5 billion net increase in liabilities for federal employee and veteran benefits payable (see Note 14—Federal Employee and Veteran Benefits Payable); 2) a $112.0 billion increase in value of the government's investments in GSEs (see Note 9—Investments in Government-Sponsored Enterprises); 3) a $150.7 billion increase in advances and prepayments attributed mostly to advances and prepayments for certain COVID-19 related programs (see Note 10—Advances and Prepayments); 4) a $68.0 billion increase in net taxes receivable (see Note 3—Accounts Receivable, Net); and 5) a $75.1 billion timing difference between when credit reform costs are recorded in the budget versus net operating cost (see Note 4—Loans Receivable, Net and Loan Guarantee Liabilities).

Table 2: Net Operating Cost vs. Budget Deficit

Dollars in Billions	2021	2020*
Net Operating Cost	**$ (3,094.9)**	**$ (3,841.4)**
Changes in:		
Federal Employee and Veteran Benefits Payable	$ 767.5	$ 975.2
Investments in Government-Sponsored Enterprises	$ (112.0)	$ 3.2
Advances and Prepayments	$ (150.7)	$ (150.6)
Taxes Receivable	$ (68.0)	$ (91.1)
Timing Differences - Credit Reform Costs	$ (75.1)	$ 44.9
Other, Net	$ (42.4)	$ (72.1)
Subtotal - Net Difference:	$ 319.3	$ 709.5
Budget Deficit	**$ (2,775.6)**	**$ (3,131.9)**

*Restated

The Federal Government's Response to the Pandemic

On March 11, 2020, a novel strain of the Coronavirus (COVID-19) was declared a pandemic by the WHO. A national emergency was declared in the U.S. on March 13, 2020. The global spread of COVID-19, which continued through FY 2021, resulted in a severe global health and economic crisis. During FY 2020 and FY 2021, the federal government took broad action to protect public health from the effects of the unprecedented pandemic, enacting several major pieces of legislation, including:

- *Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020* (P.L. 116-123);
- *Families First Coronavirus Response Act* (FFCRA, P.L. 116-127);
- *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act, P.L. 116-136);
- *Paycheck Protection Program and Health Care Enhancement Act* (PPPHCE Act, P.L. 116-139);
- *Consolidated Appropriations Act, 2021* (CAA, P.L. 116-260); and
- *American Rescue Plan Act of 2021* (ARP, P.L. 117-2).

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

[11] Final MTS for FY 2021 through September 30, 2021 and Other Periods.

Table 3: COVID-19 Response From Relief Laws (FYs 2020-2021)

Dollars in Billions	Appropriations FY 2021*	FY 2020	Total FY 2020-2021*
Department of the Treasury	$ 632.8	$ 975.0	$ 1,607.8
Small Business Administration	$ 242.8	$ 751.8	$ 994.6
Department of Labor	$ 451.5	$ 394.3	$ 845.8
Department of Health and Human Services	$ 233.7	$ 250.4	$ 484.1
Department of Education	$ 251.1	$ 31.0	$ 282.1
Department of Agriculture	$ 91.3	$ 73.2	$ 164.5
Department of Homeland Security	$ 70.0	$ 45.9	$ 115.9
Department of Transportation	$ 70.2	$ 36.0	$ 106.2
Other	$ 165.1	$ 76.0	$ 241.1
Total	**$ 2,208.5**	**$ 2,633.6**	**$ 4,842.1**

*Net of rescissions, transfers, and other adjustments, including rescissions enacted in FY 2021, but which affected 2020 amounts. Does not include indirect appropriations related to COVID-19 activity.

Source: Appropriation Warrants. See Note 30—COVID-19 Activity and Agency Financial Reports for additional information.

Table 3 summarizes the more than $4.8 trillion in appropriations, net of rescissions, enacted for key pandemic-related assistance programs as of September 30, 2021 (i.e., during FY 2020 and FY 2021) by federal agency. Examples of FY 2021 efforts are summarized below.

- Treasury received COVID-19 appropriations of $1.2 trillion under the CAA and ARP in FY 2021 and $975.0 billion under the CARES Act in FY 2020. In FY 2021, the CAA eliminated Treasury's ability to make new loans and investments and rescinded $478.8 billion of $500 billion provided to Treasury under the CARES Act. These changes and the return of unused and permanent authority and obligation adjustments of $71.2 billion resulted in the net appropriations amount of $632.8 billion for FY 2021 shown in Table 3 above. Treasury funding supports several efforts, including $587.0 billion for refundable tax credits (recovery rebates or EIP) in FY 2021. In FY 2021, IRS disbursed $569.5 billion of EIPs to eligible recipients in every state and territory and at foreign addresses. In addition, appropriations of $428.5 billion ($25.0 billion CAA and $403.5 billion ARP) provided for payments to state, local, territorial, and tribal governments to cover eligible costs incurred in response to the pandemic through several funds including: 1) SLFRF; 2) Coronavirus Capital Projects Funds; 3) ERA; 4) HAF; 5) State Small Business Credit Initiative; and 6) Local Assistance and Tribal Consistency Fund. In addition, pursuant to the CARES Act, in response to the COVID-19 pandemic, the government invested in SPVs established by the Federal Reserve Board through the FRBNY and FRBB during FY 2020 for the purpose of enhancing the liquidity of the U.S. financial system.
- SBA received appropriations of $389.3 billion in FY 2021 and $751.8 billion in FY 2020. FY 2021 appropriation totals were reduced by a $146.5 billion rescission under the CAA of amounts appropriated under the CARES Act, resulting in net appropriations for FY 2021 of $242.8 billion as shown in Table 3 above. SBA appropriations primarily funded two programs: 1) the PPP, a loan guarantee program designed to provide a direct incentive for small businesses to retain employees by providing loan forgiveness for amounts used for eligible expenses for payroll and benefit costs, interest on mortgages, rent, and utilities; and 2) SBA also provides loans to small business owners through the EIDL program.
- DOL received $451.5 billion in funding in FY 2021 under ARP and $394.3 billion in FY 2020 under the CARES Act. Through multiple UI programs, DOL expands states' ability to provide UI for many workers impacted by the pandemic, including for workers who are not eligible for regular/traditional unemployment benefits. These programs include, but are not limited to: 1) the FPUC program; 2) the PUA program; and 3) the Short-term Compensation program.
- Through the PHSSEF and other efforts, HHS provides broad support, including, but not limited to: reimbursements to health care providers for expenses or lost revenues attributable to the pandemic, and support for the development and purchase of vaccines, therapeutic treatment, testing, and medical supplies. In FY 2021, HHS received $233.7 billion and $250.4 billion COVID-19 response-related funding in FYs 2021 and 2020, respectively. These funds support testing, contact tracing, surveillance, containment, mitigation to monitor and suppress the spread of COVID-19, as well as support for COVID-19 vaccination programs; and ARP funding provided supplemental relief funding to workers and families for nationwide testing sites and community vaccination sites as well as addressing disparities in obtaining quality healthcare.

- Education COVID-19 appropriations funded a variety of programs administered primarily through grant programs. COVID-19 relief legislation and administrative actions also provided support for student loan borrowers primarily by temporarily suspending nearly all federal loan payments.
- USDA received CAA, ARP, and supplemental CARES Act appropriations in the amount of $91.3 billion in FY 2021 and $73.2 billion in CARES Act funding in FY 2020. This funding extended modifications to federal nutrition assistance programs; funded programs to support agricultural producers, growers, and processors; and provided additional relief to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses.
- DHS received supplemental appropriations of $70.0 billion under CAA and ARP in FY 2021, and $45.9 billion under the CARES Act in FY 2020. DHS funding supports a wide range of efforts including FEMA's Disaster Relief Fund. FEMA is authorized to provide many types of assistance including, but not limited to Public Assistance for emergency protective measures, including vaccination activities, direct federal assistance, personal protective equipment, state and local Emergency Operations Center operations, non-congregate sheltering, medical field stations, medical ships, personnel to support medical sites, National Guard deployments, and crisis counseling.
- DOT received $70.2 billion ($27.0 billion CAA and $43.2 billion ARP) of supplemental COVID-19 appropriations in FY 2021 and $36.0 billion of supplemental appropriations under the CARES Act in FY 2020. DOT funding supports the maintaining and continuing of operations and business needs of various transportation systems in response to COVID-19.
- Many other agencies and programs comprise the "Other" amount shown in Table 3. Note 30—COVID-19 Activity and agency financial statements provide additional details concerning federal agency pandemic response efforts.

Budgetary activity, such as appropriations, obligations, and outlays are different from, but related to financial activity, such as costs, assets, and liabilities. As agencies implement programs, appropriations, obligations, and outlays precipitate a wide range of financial effects, including the incurrence of program costs, and the creation of or changes in assets such as advances or loans receivable, or liabilities such as loan guarantees. These corresponding financial effects stemming from pandemic relief and economic recovery efforts, and the federal government's operations in general are discussed in the following section.

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

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

Financial Effects of the Federal Government's Pandemic Response

The financial effects of the government's response to the COVID-19 pandemic have been broad, impacting many agencies in a variety of ways and to varying degrees. The following include brief discussions of some of the more significant effects of the pandemic on the government's financial results for FY 2021. Please refer to Note 30—COVID-19 Activity and other disclosures in this *Financial Report*, as well as in the individual entities' financial statements for more information.

Costs and Revenues

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

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

Dollars in Billions	2021	2020*	Increase / (Decrease) $	%
Gross Cost	**$ (7,294.7)**	**$ (7,195.1)**	**$ 99.6**	**1.4%**
Less: Earned Revenue	$ 462.3	$ 461.6	$ 0.7	0.2%
Gain/(Loss) from Changes in Assumptions	$ (518.4)	$ (679.5)	$ (161.1)	(23.7%)
Net Cost	**$ (7,350.8)**	**$ (7,413.0)**	**$ (62.2)**	**(0.8%)**
Less: Tax and Other Revenues	**$ 4,255.9**	**$ 3,571.6**	**$ 684.3**	**19.2%**
Net Operating Cost	**$ (3,094.9)**	**$ (3,841.4)**	**$ (746.5)**	**(19.4%)**

*Restated (see Financial Statement Note 1.V and Note 1.W).

Table 4 shows that the government's "bottom line" net operating cost decreased $746.5 billion (19.4 percent) during 2021 from $3.8 trillion to $3.1 trillion. This decrease is due mostly to a slight $62.2 billion (0.8 percent) decrease in entity net costs, offset by a $684.3 billion (19.2 percent) increase in tax and other revenues over the past fiscal year as discussed in the following.

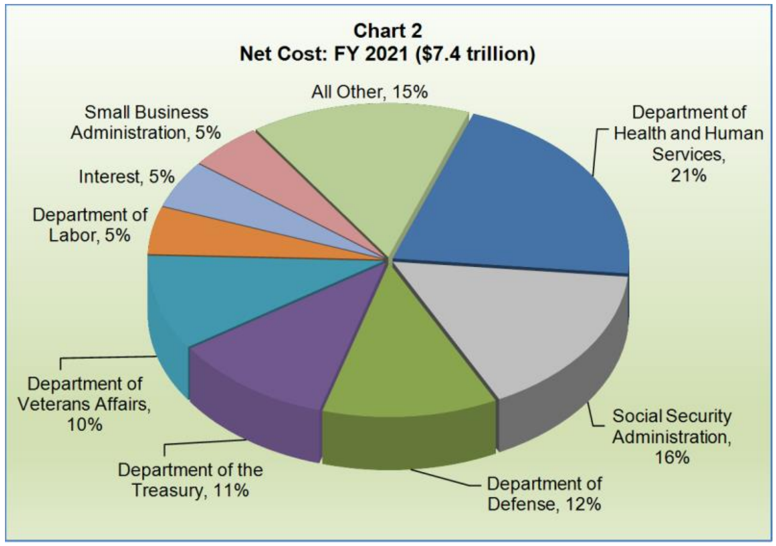
Gross Cost and Net Cost

The Statement of Net Cost starts with the government's total gross costs of $7.3 trillion, subtracts revenues earned for goods and services provided (e.g., Medicare premiums, national park entry fees, and postal service fees), and adjusts the balance for gains or losses from changes in actuarial assumptions used to estimate certain liabilities, including federal employee and veteran benefits to derive its net cost of $7.4 trillion, a slight $62.2 billion (0.8 percent) decrease compared to FY 2020.

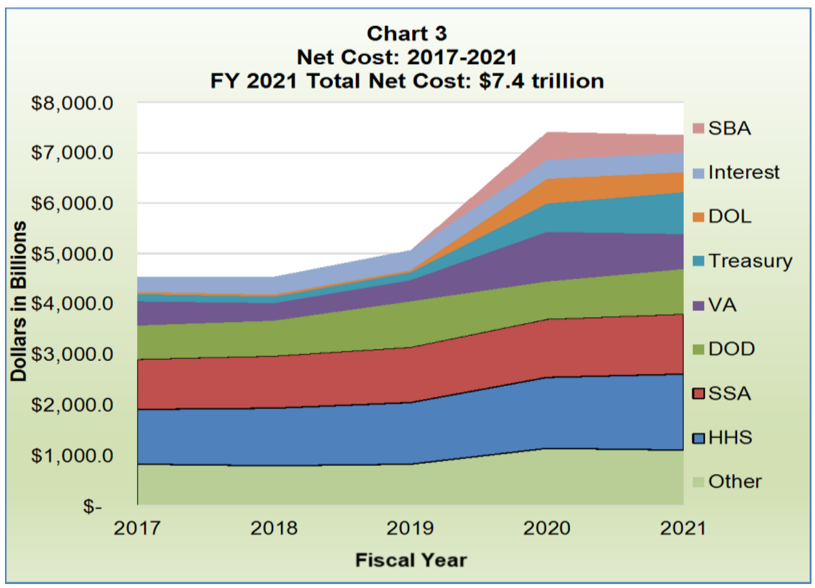
Typically, the annual change in the government's net cost is the result of a variety of offsetting increases and decreases across entities. As referenced earlier, these amounts continue to be impacted by the ongoing federal government's response to the COVID-19 pandemic and the related economic recovery. Including these amounts, offsetting changes in federal entity net cost during FY 2021 included:

- A $211.6 billion decrease in SBA net costs largely driven by a $230.0 billion decrease in loan subsidy costs, including reestimates, attributable to the PPP and Debt Relief programs under the CARES Act. As noted earlier, the PPP provides loan forgiveness for amounts used for eligible expenses for payroll and benefit costs. Under the Debt Relief program, SBA pays six months of principal, interest, and any associated fees that borrowers owe for all current loans in regular servicing status in its 7(a), 504, and Microloan programs, as well as new 7(a), 504, and Microloans disbursed prior to September 27, 2020.
- The $270.1 billion increase in Treasury net costs is largely due to disbursement during FY 2021 of $569.5 billion in refundable tax credits (also referred to as EIP) to eligible recipients in every state and territory and at foreign addresses, compared to $274.7 billion of EIP disbursements during FY 2020, which is partially offset by a $112.0 billion net cost reduction in FY 2021 that is attributable to the increase in liquidation preference of the GSEs senior preferred stock of $31.9 billion and FV gains on the investment in GSEs of $80.1 billion. The increase in GSE senior preferred stock FV is primarily a result of GSE higher projected cash flows, a decrease in the market value of GSEs' other equity securities that comprise its total equity, and a lower discount rate.
- A $100.8 billion net cost increase at HHS was driven largely by $115.4 billion total cost increases across Medicare and Medicaid. Of note, a $63.2 billion increase in Medicaid net cost was largely attributable to a $57.0 billion benefit expense increase related to higher grant awards to states to continue COVID-19 relief efforts. Medicare HI and SMI program benefits expenses also increased. These cost increases were offset by a net decrease in other program costs primarily due to the PHSSEF receiving less funding for COVID-19 relief during FY 2021.
- A significant portion of the $96.4 billion decrease at DOL is attributable to a $100.7 billion decrease in Income Maintenance programs costs, primarily due to decreases in unemployment benefits as less jobless claims are filed. DOL costs related to the COVID-19 pandemic were $313.0 and $352.2 billion in FYs 2021 and 2020, respectively, comprised mostly of unemployment benefit expenses for programs implemented in FY 2020 and extended into FY 2021.

- Entities administering federal employee and veteran benefits programs employ a complex series of assumptions, including but not limited to interest rates, beneficiary eligibility, life expectancy, and medical cost levels, to make actuarial projections of their long-term benefits liabilities. Changes in these assumptions can result in either losses (net cost increases) or gains (net cost decreases). Across the government, these net losses from changes in assumptions amounted to $518.4 billion in FY 2021, a loss decrease (and a corresponding net cost decrease) of $161.1 billion compared to FY 2020. The primary entities that administer programs impacted by these assumptions – typically federal employee pension and benefit programs – are the OPM, DOD, and VA. All three of these entities recorded losses from changes in assumptions in the amounts of $84.9 billion, $346.3 billion, and $82.8 billion, respectively. These actuarial estimates and the resulting gains or losses from changes in assumptions can sometimes cause significant swings in total entity costs from year to year. For example, for FY 2021, changes in net cost at OPM ($30.6 billion increase), DOD ($144.8 billion increase), and VA ($291.8 billion decrease) were impacted by the changes in gains or losses from assumption changes at these entities.



- While most of the $144.8 billion increase in DOD net costs is primarily due to a $100.2 billion loss increase from changes in assumptions as referenced above, the majority of DOD's net costs included military operations, readiness, and support; procurement; military personnel; and R&D, which collectively increased.
- A $36.5 billion increase at SSA, due to a 1.4 percent increase in the number of OASI beneficiaries, combined with a 1.3 percent COLA provided to beneficiaries in 2021. These increases were offset by cost decreases for the DI and Supplemental Security Income benefits programs primarily due to a decrease in the number of beneficiaries.
- A $291.8 billion decrease in VA net cost was impacted largely by a decrease in losses from changes in assumptions underlying VA's compensation, burial, education, and VR&E benefits programs. These assumption changes included, but were not limited to a lower than anticipated numbers of veterans, offset by changes in discount rate and COLA assumptions.

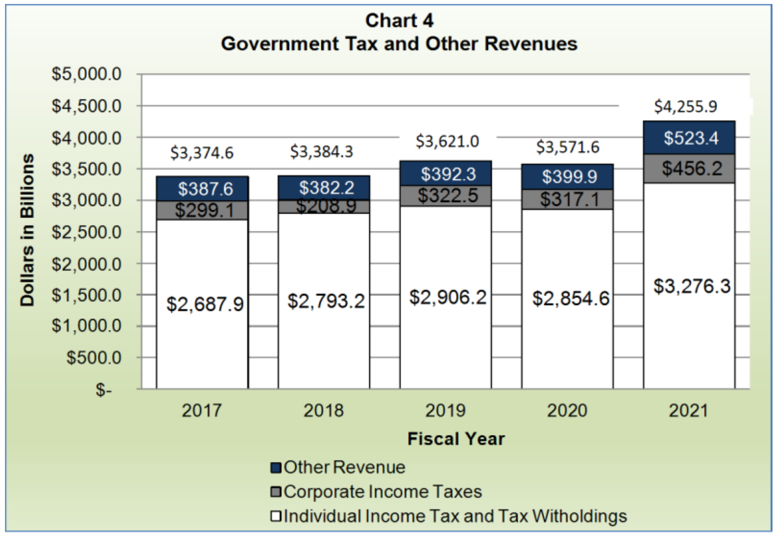


- A $20.9 billion increase in interest on debt held by the public due largely to an increase in inflation adjustments and an increase in outstanding debt held by the public.

Chart 2 shows the composition of the government's net cost for FY 2021. In FY 2021, approximately 85 percent of the federal government's total net cost came from only seven agencies (HHS, SSA, VA, DOD, Treasury, DOL, and SBA), and interest on the debt. The other 150-plus entities included in the government's FY 2021 Statement of Net Cost accounted for a combined 15 percent of the government's total net cost for FY 2021. Chart 3 shows the five-year trend in these costs, illustrating the significant impact that the pandemic had on certain agency costs as summarized above. Aside from pandemic relief costs, as discussed above, HHS and SSA net costs for FY 2021 ($1.5 trillion and $1.2 trillion, respectively) are largely attributable to major social insurance programs administered by these entities. VA net costs of $693.4 billion support health, education and other benefits programs for our nation's Veterans. DOD net costs of $890.6 billion relate primarily to operations, readiness, and support; personnel; research; procurement; and retirement and health benefits. Treasury net costs of $830.8 billion support a broad array of programs that promote conditions for sustaining economic growth and stability, protecting the integrity of our Nation's financial system, and effectively managing the U.S. government's finances and resources. SBA net costs of $347.4 billion support agency programs and services that enable the establishment and vitality of small businesses and by providing assistance in the economic recovery of communities after disasters.

Tax and Other Revenues

As noted earlier, tax and other revenues from the Statement of Operations and Changes in Net Position are deducted from total net cost to derive the government's "bottom line" net operating cost. Chart 4 shows that total tax and other revenue increased by $684.3 billion or 19.2 percent to $4.3 trillion for FY 2021. This increase is attributable mainly to an overall growth in income taxes collections, partially offset by increased refunds. Taxes receivable, which consist of unpaid assessments due from taxpayers, unpaid taxes related to IRC section 965, and deferred payments for employer's share of FICA Social Security resulting from the CARES Act, increased $68.0 billion during FY 2021. This increase was principally due to the two-year deferral of FICA Social Security taxes. Earned revenues from Table 4 are not considered "taxes and other revenue" and, thus, are not shown in Chart 4. Individual income tax and tax withholdings and corporate income taxes accounted for about 77.0 percent and 10.7 percent of total revenue, respectively in FY 2021; other revenues from Chart 4 include Federal Reserve earnings, excise taxes, unemployment taxes, and customs duties.



As previously shown in Table 4, the increase in tax and other revenue combined with the decrease in net cost, yielded a $746.5 billion decrease to the government's bottom line net operating cost to $3.1 trillion for FY 2021.

Please refer to Note 30—COVID-19 Activity, as well as the FY 2021 entities financial statements for additional information about the pandemic's effects on the federal government's costs and revenues.

Tax Expenditures

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

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

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

Assets and Liabilities

The government's net position at the end of the fiscal year is derived by netting the government's assets against its liabilities, as presented in the Balance Sheet (summarized in Table 5).[12] The Balance Sheet does not include the financial value of the government's sovereign powers to tax, regulate commerce, or set monetary policy or value of nonoperational resources of the government, such as national and natural resources, for which the government is a steward. In addition, as is the case with the Statement of Operations and Changes in Net Position, the Balance Sheet includes a separate presentation of the portion of net position related to funds from dedicated collections. Moreover, the government's exposures are broader than the liabilities presented on the Balance Sheet. The government's future social insurance exposures (e.g., Medicare and

[12] As shown in Table 5, the government's Balance Sheet includes an adjustment for unmatched transactions and balances, which represent unresolved differences in intra-governmental activity and balances between federal entities. These amounts are described in greater detail in the Other Information section of this *Financial Report*.

Social Security) as well as other fiscal projections, commitments and contingencies, are reported in separate statements and disclosures. This information is discussed later in this MD&A section, the financial statements, and RSI sections of this *Financial Report*.

Table 5: Assets and Liabilities				
Dollars in Billions	2021	2020*	Increase / (Decrease) $	%
Assets				
Cash & Other Monetary Assets	$ 475.0	$ 1,926.9	$ (1,451.9)	(75.3%)
Accounts Receivable, Net	$ 401.0	$ 321.2	$ 79.8	24.8%
Loans Receivable, Net	$ 1,651.0	$ 1,577.4	$ 73.6	4.7%
General Property, Plant & Equipment, Net	$ 1,176.9	$ 1,139.9	$ 37.0	3.2%
Other	$ 1,189.7	$ 990.3	$ 199.4	20.1%
Total Assets	**$ 4,893.6**	**$ 5,955.7**	**$ (1,062.1)**	**(17.8%)**
Less: Liabilities, comprised of:				
Federal Debt and Interest Payable	$(22,344.8)	$(21,082.9)	$ 1,261.9	6.0%
Federal Employee & Veteran Benefits Payable	$(10,183.0)	$ (9,415.5)	$ 767.5	8.2%
Other	$ (2,249.9)	$ (2,245.6)	$ 4.3	0.2%
Total Liabilities	**$(34,777.7)**	**$(32,744.0)**	**$ 2,033.7**	**6.2%**
Unmatched Transactions and Balances[1]	**$ (1.7)**	**$ (3.1)**	**$ (1.4)**	**(45.2%)**
Net Position	**$(29,885.8)**	**$(26,791.4)**	**$ 3,094.4**	**11.5%**

*Restated (see Financial Statement Note 1.V and Note 1.W).

[1]Unmatched transactions and balances are net adjustments needed to balance the financial statements and are due primarily to unresolved intra-governmental differences. Net unmatched transactions and balances of $0.2 billion for FY 2021 and $11.5 billion for FY 2020 are also included in the Statements of Operations and Changes in Net Position. See Financial Statement Note 1.U.

Assets

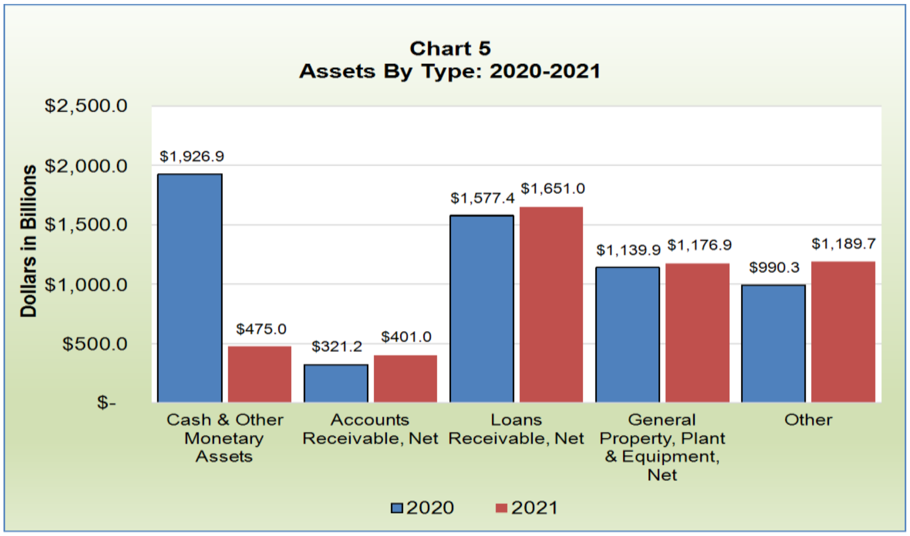
From Table 5, as of September 30, 2021, more than three-fourths of the government's $4.9 trillion in reported assets is comprised of: 1) cash and other monetary assets ($475.0 billion); 2) accounts receivable, net ($401.0 billion); 3) net loans receivable ($1.7 trillion); and 4) net PP&E ($1.2 trillion).[13] Chart 5 compares the balances of these and other Balance Sheet amounts as of September 30, 2021 and 2020, some of which were substantially impacted by the pandemic response.

Cash and other monetary assets ($475.0 billion) is comprised largely of the operating cash of the U.S. government. Operating cash held by Treasury decreased $1.6 trillion (88.8 percent) to $198.4 billion during FY 2021 due to Treasury maintaining an elevated cash balance in FY 2020 to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19 related outflows, combined with needing to reduce the cash balance to well under Treasury's prudent policy level at the end of FY 2021 due to debt ceiling constraints (see Note 2—Cash and Other Monetary Assets).

Treasury comprises approximately 76.0 percent of the government's reported accounts receivable, net, mostly in the form of reported taxes receivable, which consist of unpaid assessments due from taxpayers, unpaid taxes related to IRC section 965, and deferred payments for employer's share of FICA taxes pursuant to the CARES Act. Other accounts receivable, gross increased significantly year to year, primarily as a result of DOL's $18.6 billion increase in benefit overpayments from programs related to COVID-19 as well as a $7.0 billion increase to HHS receivables, primarily due to Medicare (see Note 3—Accounts Receivable, Net).

[13] For financial reporting purposes, other than multi-use heritage assets, stewardship assets of the government are not recorded as part of PP&E. Stewardship assets are comprised of stewardship land and heritage assets. Stewardship land consists of public domain land (e.g., national parks, wildlife refuges). Heritage assets include national monuments and historical sites that among other characteristics are of historical, natural, cultural, educational, or artistic significance. See Note 27—Stewardship PP&E.

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



- Education's Federal Direct Student Loan Program accounted for $1.1 trillion (66.9 percent) of total loans receivable, net. Education has loan programs that are authorized by Title IV of the *Higher Education Act of 1965*. The William D. Ford Federal Direct Loan Program (referred to as the Direct Loan Program), was established in FY 1994 and offered four types of educational loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students, and consolidation loans. During FY 2021, Education direct loan disbursements to eligible borrowers decreased by approximately $12.6 billion to $104.8 billion. While the CARES Act provision supporting student loan borrowers by temporarily suspending nearly all federal student loan payments expired on September 30, 2020, administrative action temporarily suspended payments during FY 2021. In addition, all federal wage garnishments and collections actions for borrowers with federally held loans in default were halted.
- SBA's credit program receivables comprise business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs, offset by an allowance for related program subsidy costs. The CARES Act provides funding for SBA to offer low-interest EIDL 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. These receivables increased to $244.1 billion during FY 2021, stemming from a $62.6 billion increase in direct disaster COVID-19 EIDL funded loans primarily funded from the CARES Act. The loan guarantee PPP provides loan forgiveness for amounts used for eligible expenses for payroll and benefit costs, interest on mortgages, and rent, and utilities, worker protection costs related to COVID-19, uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations. The loan guarantee liability for Small Business Loan Programs which includes the PPP decreased by $284.9 billion primarily due to SBA forgiveness payments to PPP lenders. For additional information on each specific loan program refer to SBA's financial statements.

Federal government general PP&E includes many of the physical resources that are vital to the federal government's ongoing operations, including buildings, structures, facilities, equipment, internal use software, and general purpose land. DOD comprises approximately 68.8 percent of the government's reported general PP&E of $1.2 trillion as of September 30, 2021. See Note 6—General Property, Plant, and Equipment, Net.

"Other" Assets of $1.2 trillion in Table 5 and Chart 5 includes: 1) $369.3 billion in "Advances and Prepayments"; and 2) $26.4 billion of "Investments in SPVs". The $150.7 billion increase in advances and prepayments is largely due to disbursements by Treasury to states, local, territorial, and tribal governments pursuant to the CRF, SLFRF, ERA, and HAF programs to cover eligible costs recipients incur in response to the pandemic (see Note 10—Advances and Prepayments).

In addition, in response to the COVID-19 pandemic, under Section 4003 of the CARES Act, Treasury holds equity investments in SPVs established through the FRBNY and FRBB for the purpose of enhancing the liquidity of the U.S. financial system. These non-federal investment holdings are reported at their FV on the Balance Sheet, and changes in the valuation of these investments are recorded on the Statement of Net Cost. These investments decreased by $82.0 billion during FY 2021 primarily due to an aggregate $86.1 billion of capital contributions that was returned to Treasury by the Federal Reserve in connection with interim and final distributions made pursuant to the amended SPV LLC Agreements. See

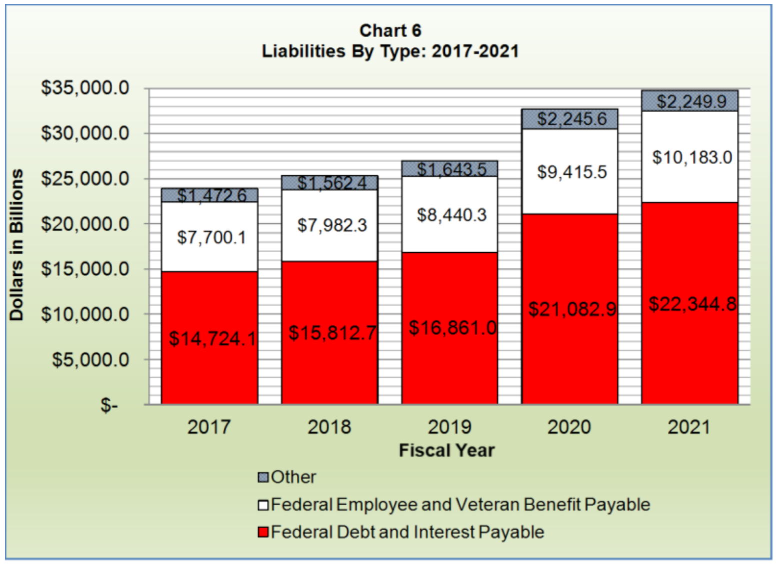
Note 8—Investments in Special Purpose Vehicles, and Note 30—COVID-19 Activity, as well as Treasury's FY 2021 financial statements for additional information.

Please refer to Note 30—COVID-19 Activity, as well as the FY 2021 entities' financial statements for additional information about the pandemic's effects on the federal government's assets and liabilities over the past fiscal year.

In addition, as indicated earlier, Note 31—Subsequent Events, discusses the financial effects of significant events that occurred following the end of the fiscal year, but prior to issuance of this *Financial Report*. These and other subsequent events and their effects are discussed in Note 31.

Liabilities

As indicated in Table 5 and Chart 6, of the government's $34.8 trillion in total liabilities, the largest liability is federal debt and interest payable, the balance of which increased by $1.3 trillion (6.0 percent) to $22.3 trillion as of September 30, 2021.



The other major component of the government's liabilities is federal employee and veteran benefits payable (i.e., the government's pension and other benefit plans for its military and civilian employees), which increased $767.5 billion (8.2 percent) during FY 2021, to about $10.2 trillion. This total amount is comprised of $2.9 trillion in benefits payable for the current and retired civilian workforce, and $7.3 trillion for the military and veterans. OPM administers the largest civilian pension plan, covering more than 2.8 million active employees, including the Postal Service, and more than 2.7 million annuitants, including survivors. The DOD military pension plan covers about 2.1 million current military personnel (including active service, reserve, and National Guard) and approximately 2.3 million retirees and survivors.

Federal Debt

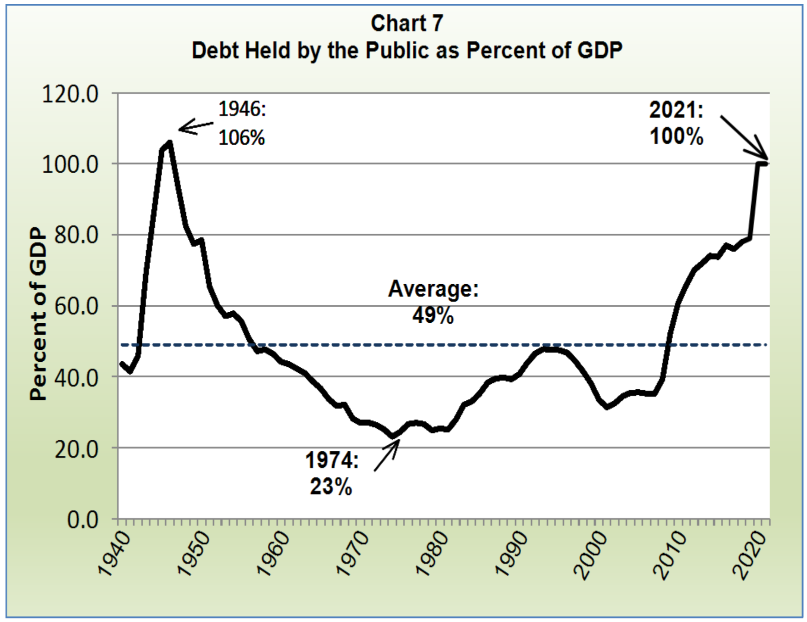
The budget surplus or deficit is the difference between total federal spending and receipts (e.g., taxes) in a given year. The government borrows from the public (increases federal debt levels) to finance deficits. During a budget surplus (i.e., when receipts exceed spending), the government typically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

The government's federal debt and interest payable (Balance Sheet liability), which is comprised of publicly-held debt and accrued interest payable, increased $1.3 trillion (6.0 percent) to $22.3 trillion as of September 30, 2021. It is comprised of Treasury securities, such as bills, notes, and bonds, net of unamortized discounts and premiums issued or sold to the public; and accrued interest payable. The "public" consists of individuals, corporations, state and local governments, FRB, foreign governments, and other entities outside the federal government. As indicated above, budget surpluses have typically resulted in borrowing reductions, and budget deficits have conversely yielded borrowing increases. However, the government's debt operations are generally much more complex. Each year, trillions of dollars of debt matures and new debt is issued to take its place. In FY 2021, new borrowings were $20.4 trillion, and repayments of maturing debt held by the public were $19.2 trillion, both increases from FY 2020.

> Prior to 1917, Congress approved each debt issuance. In 1917, to facilitate planning in World War I, Congress and the President established a dollar ceiling for federal borrowing. With the *Public Debt Act of 1941* (P.L. 77-7), Congress and the President set an overall limit of $65 billion on Treasury debt obligations that could be outstanding at any one time. Since then, Congress and the President have enacted a number of measures affecting the debt limit, including several in recent years. Congress and the President most recently increased the debt limit by $2.5 trillion in December 2021 with the enactment of P.L. 117-73. It is important to note that increasing or suspending the debt limit does not increase spending or authorize new spending; rather, it permits the U.S. to continue to honor pre-existing commitments to its citizens, businesses, and investors domestically and around the world.

In addition to debt held by the public, the government has about $6.2 trillion in intra-governmental debt outstanding, which arises when one part of the government borrows from another. It represents debt issued by Treasury and held by government accounts, including the Social Security ($2.9 trillion) and Medicare ($306.9 billion) trust funds. Intra-governmental debt is primarily held in government trust funds in the form of special nonmarketable securities by various parts of the government. Laws establishing government trust funds generally require excess trust fund receipts (including interest earnings) over disbursements to be invested in these special securities. Because these amounts are both liabilities of Treasury and assets of the government trust funds, they are eliminated as part of the consolidation process for the government-wide financial statements (see Financial Statement Note 13). When those securities are redeemed, e.g., to pay Social Security benefits, the government must obtain the resources necessary to reimburse the trust funds. The sum of debt held by the public and intra-governmental debt equals gross federal debt, which (with some adjustments), is subject to a statutory ceiling (i.e., the debt limit). Note that when intra-government debt decreases, debt held by the public will increase by an equal amount (if the general account of the U.S. government is in deficit), so that there is no net effect on gross federal debt. At the end of FY 2021, debt subject to the statutory limit was $28.4 trillion[14] (see sidebar).

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



- For most of the nation's history, through the first half of the 20th century, the debt-to-GDP ratio has tended to increase during wartime and decline during peacetime.
- Chart 7 shows that wartime spending and borrowing pushed the debt-to-GDP ratio to an all-time high of 106 percent in 1946, soon after the end of World War II, but it decreased rapidly in the post-war years.
- The ratio grew rapidly from the mid-1970s until the early 1990s. Strong economic growth and fundamental fiscal decisions, including measures to reduce the federal deficit and implementation of binding PAYGO rules (which require that new tax or spending laws not add to the deficit), generated a significant decline in the debt-to-GDP ratio, from a peak of 48 percent in FYs 1993-1995, to 31 percent in 2001.
- During the first decade of the 21st century, PAYGO rules were allowed to lapse, significant tax cuts were implemented, entitlements were expanded, and spending related to defense and homeland security increased. By September 2008, the debt-to-GDP ratio was 39 percent of GDP.
- PAYGO rules were reinstated in 2010, but the extraordinary demands of the last economic and fiscal crisis and the consequent actions taken by the federal government, combined with slower economic growth in the wake of the crisis, pushed the debt-to-GDP ratio up to 74 percent by the end of FY 2014.
- The debt was approximately 100 percent of GDP at the end of FY 2021 similar, but slightly below the debt-to-GDP ratio at the end of FY 2020 This ratio decreased slightly during FY 2021, because GDP, which increased as the economy continued to recover from the effects of the pandemic, grew faster than the debt.[15] From Chart 7, since 1940, the average debt-to-GDP ratio is 49 percent.

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[14]During FY 2021, 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 these periods, extraordinary measures taken by Treasury have resulted in federal debt securities not being issued to certain federal government accounts with the securities being restored including lost interest to the affected federal government accounts subsequent to the end of the delay period. On August 2, 2019, the BBA of 2019 (P.L. 116-37) was enacted suspending the statutory debt limit through July 31, 2021. A delay in raising the statutory debt limit occurred from August 1, 2021 through September 30, 2021. During the period of August 2, 2021 through September 30, 2021, Treasury departed from their normal debt management operations and undertook extraordinary measures to avoid exceeding the statutory debt limit. On October 14, 2021, P.L. 117-50 was enacted which raised the statutory debt limit by $480.0 billion, from $28,401.5 billion to $28,881.5 billion. Even with this increase, extraordinary measures continued in order for Treasury to manage below the debt limit. On December 16, 2021, Congress and the President increased the debt limit by $2.5 trillion to $31.4 trillion with the enactment of P.L. 117-73. See Note 13—Federal Debt and Interest Payable and Note 31—Subsequent Events for additional information.

[15]The increase in debt of $1.3 trillion was less than the FY 2021 deficit of $2.8 trillion primarily because of a $1.6 trillion decrease in the government's cash balance.

The Economy in FY 2021

Table 6: National Economic Indicators*

	2021	2020
Real GDP Growth	4.9%	(2.9%)
Personal Consumption Expenditures	7.0%	(2.8%)
Average monthly payroll job change (thousands)	475	(801)
Unemployment rate (percent, end of period)	4.7%	7.9%
CPI	5.4%	1.4%
CPI, excluding food and energy	4.0%	1.7%
Real Disposable Personal Income	(1.1%)	5.6%
Real Average Hourly Earnings	(0.4%)	3.2%

* Some FY 2020 data may differ from the FY 2020 Financial Report due to updates and revisions.

An analysis of U.S. economic performance provides useful background when evaluating the government's financial statements. During the last two fiscal years, the economy's performance has been deeply affected by the COVID-19 global pandemic as well as the U.S. government's extensive measures to prevent infection, support consumers and businesses, and restore growth.

Reflecting the brunt of restrictions implemented after the pandemic's onset in early 2020, the economy contracted by 2.9 percent during FY 2020. Real GDP dropped sharply over the second and third quarters of the fiscal year, as state and local governments implemented stay-at-home orders and required non-essential businesses to close, in order to protect the public and mitigate the impact of the pandemic on health care resources. The U.S. government responded quickly to support American households and small businesses during the pandemic; by late March 2020, three economic aid packages were passed totaling roughly $2.7 trillion. These measures included EIPs, expanded eligibility for unemployment insurance payments, delays in tax and loan payments, and implemented a moratorium on evictions. In addition, Treasury and the SBA launched the PPP – a forgivable loan for small businesses – in March 2020 and received a supplemental appropriation before the first round of applications closed in September 2020. Due to these measures and the rescission of stay-at-home orders, the economy grew in the final quarter of FY 2020 at the fastest quarterly pace in 70 years, accompanied by rapid payroll job and wage growth.

The recovery's momentum continued in FY 2021, with the help of additional government financial support the widespread distribution of vaccines, and the reopening of industries that were hardest hit by the pandemic. Another economic aid package of roughly $900.0 billion was passed in December 2020, which funded smaller EIPs and a second draw of PPP loans for small businesses. Then early in calendar 2021, President Biden signed the ARP into law. The ARP provided an additional $1.9 trillion in economic aid, primarily through EIPs and direct aid to low-to middle-income families and to the economically vulnerable. It also assisted state and local governments, provided additional funding for addressing COVID-19 infections and vaccinating the population, created new loans and grants for small businesses, and extended the deadline for PPP applications.

As summarized in Table 6, the U.S. economy grew briskly in FY 2021 after the contraction in FY 2020. Real (i.e., inflation-adjusted) GDP surged by 4.9 percent over the four quarters of FY 2021, after declining by 2.9 percent during the previous fiscal year. Business fixed investment and PCE rebounded from the temporary collapses seen in the previous fiscal year, and residential investment, government spending, and net exports all continued to support growth to varying degrees. Over the four quarters of FY 2021, business fixed investment expanded by 9.0 percent, swinging sharply from the 7.0 percent drop over the previous four quarters and supported in part by rising oil prices. PCE grew 7.0 percent, reflecting the two rounds of federal financial support as well as pent-up demand as more sectors opened; PCE growth in FY 2021 stood in sharp contrast with the 2.8 percent decline during FY 2020 as domestic demand collapsed.

Residential investment continued to provide consistently strong support for the economy, growing 5.4 percent in FY 2021, after a 7.7 percent gain in FY 2020. Government spending grew more slowly in the latest fiscal year, rising 0.6 percent after a 2.1 percent advance during FY 2020. This deceleration masks the significant further steps undertaken by the U.S. government during the FY 2021 to support the economy, which were largely transfers to households and businesses rather than direct government spending. Net exports posed less of a drag on growth during FY 2021, shaving 1.2 percentage points from real GDP after subtracting 3.3 percentage points during the previous fiscal year. Inventory investment contributed positively to growth in both fiscal years, adding 6.8 percentage points to growth during FY 2020 and adding 2.1 percentage points in the latest fiscal year, as inventories began to be drawn down to meet rising consumption.

The imposition of stay-at-home orders and mandated business closures brought about a severe decline in economic activity in FY 2020, such that more than 22 million payroll jobs were lost over March and April 2020, and the unemployment rate jumped to post-World War II high of 14.7 percent. Thereafter, job creation resumed more quickly than expected, and by the end of FY 2020, the unemployment rate had dropped 6.8 percentage points from the peak to 7.9 percent, and a total of 11.1 million jobs, or 50.6 percent of the total lost, had been recovered. Labor markets continued to improve, if at a slower pace, during FY 2021. By the end of the fiscal year, the unemployment rate had dropped another 3.2 percentage points to 4.7 percent, and a further 5.7 million jobs had been recovered. At the end of FY 2021, the unemployment rate stood only 1.2 percentage points above the half-century low of 3.5 percent registered just before the pandemic's onset, and nearly 76.4 percent of the jobs lost during March and April 2020 had been recovered.

Headline inflation slowed during FY 2020, as the effects of lower oil prices and reduced consumption offset an acceleration in food price inflation. Core inflation (which excludes food and energy) also slowed in FY 2020. However, inflation at the headline and core levels accelerated during FY 2021, reflecting an array of upward but partly temporary pressures, including increased demand for durable goods, supply-side disruptions, the reopening of many service industries, and rising oil prices. The CPI rose 5.4 percent over the 12 months of FY 2021, picking up markedly from the 1.4 percent pace during the previous fiscal year. Core inflation was 4.0 percent over the fiscal year ending September 2021, accelerating from the 1.7 percent pace during FY 2020.

A more rapid pace of inflation offset small but positive gains in income growth during FY 2021, resulting in an erosion of purchasing power in real terms. Real Disposable Personal Income declined 1.1 percent over the 12 months of FY 2021, after advancing 5.6 percent during the previous fiscal year. The pace of nominal average hourly earnings growth increased noticeably in FY 2020, reflecting the temporary unemployment of lower wage workers, and then accelerated further in FY 2021 as labor shortages developed. Faster inflation eroded wages in real terms for most industries, save where nominal wage growth gains were sufficient to offset, such as in the leisure and hospitality sector. Overall, real average hourly earnings declined 0.4 percent during FY 2021, after advancing 3.2 percent during the previous fiscal year. Growth of non-farm labor productivity declined 0.5 percent over the four quarters of FY 2021, after growing 3.6 percent during FY 2020, but the deterioration in the latest fiscal year reflected growth in output that was offset by a faster advance in hours worked, as more workers were rehired.

An Unsustainable Fiscal Path

An important purpose of the *Financial Report* is to help citizens understand current fiscal policy and the importance and magnitude of policy reforms necessary to make it sustainable. This *Financial Report* includes the SLTFP and a related Note Disclosure (Note 26). The Statements display the PV of 75-year projections of the federal government's receipts and non-interest spending[16] for FY 2021 and FY 2020.

Fiscal Sustainability

A sustainable fiscal policy is defined as one where the debt-to-GDP ratio is stable or declining over the long term. The projections based on the assumptions in this *Financial Report* indicate that current policy is not sustainable. This report presents data, including debt, as a percent of GDP to help readers assess whether current fiscal policy is sustainable. The debt-to-GDP ratio was approximately 100 percent at the end of FY 2021, similar to (but slightly below) the ratio at the end of FY 2020. The long-term fiscal projections in this report are based on the same economic and demographic assumptions that underlie the 2021 Social Security and Medicare Trustees' Reports. The data and projections presented in the 2021 Trustees' Reports include the Trustees' best estimates of the effects of the COVID-19 pandemic and the 2020 recession, which were not reflected in last year's reports. As discussed below, if current policy is left unchanged and based on this report's assumptions, the debt-to-GDP ratio is projected to exceed 200 percent by 2041 and reach 701 percent in 2096. Preventing the debt-to-GDP ratio from rising over the next 75 years is estimated to require some combination of spending reductions and revenue increases that amount to 6.2 percent of GDP over the period. While this estimate of the "75-year fiscal gap" is highly uncertain, it is nevertheless nearly certain that current fiscal policies cannot be sustained indefinitely.

Delaying action to reduce the fiscal gap increases the magnitude of spending and/or revenue changes necessary to stabilize the debt-to-GDP ratio as shown in Table 7 below.

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

The projections discussed here assume current policy[17] remains unchanged, and hence, are neither forecasts nor predictions. Nevertheless, the projections demonstrate that policy changes must be enacted to move towards fiscal sustainability.

The Primary Deficit, Interest, and Debt

The primary deficit – the difference between non-interest spending and receipts – is the determinant of the debt-to-GDP ratio over which the government has the greatest control (the other determinants include interest rates and growth in GDP). Chart 8 shows receipts, non-interest spending, and the difference – the primary deficit – expressed as a share of GDP. The

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

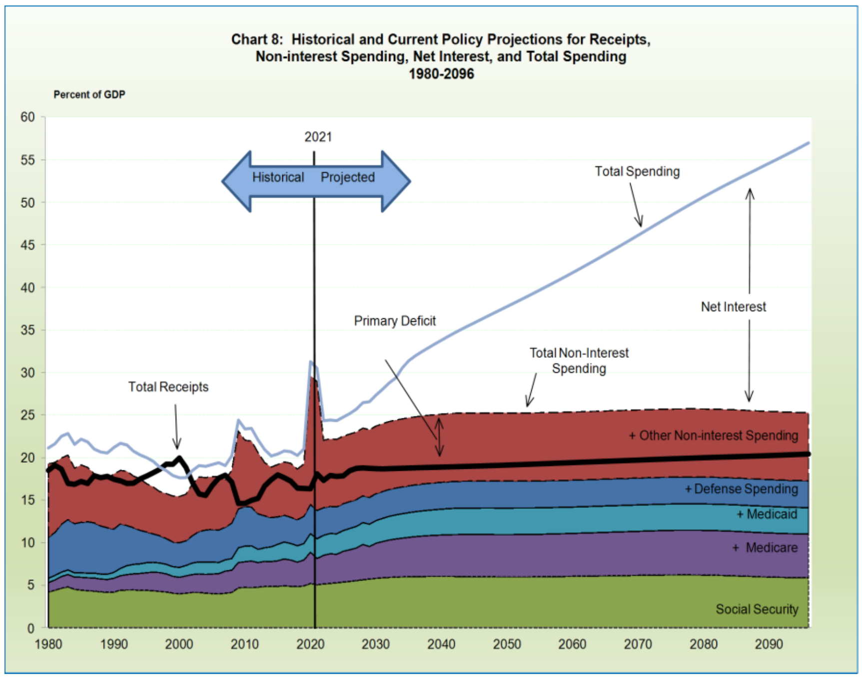
[17] Current policy in the projections is based on current law, but includes certain adjustments, such as extension of certain policies that expire under current law but are routinely extended or otherwise expected to continue (e.g., reauthorization of the Supplemental Nutrition Assistance Program).

primary deficit-to-GDP ratio spiked during 2009 through 2012 due to the 2008-09 financial crisis and the ensuing severe recession, as well as the effects of the government's response thereto. These elevated primary deficits resulted in a sharp increase in the ratio of debt to GDP, which rose from 39 percent at the end of 2008 to 70 percent at the end of 2012. As an economic recovery took hold, the primary deficit ratio fell, averaging 2.1 percent of GDP over 2013 through 2019, The primary deficit-to-GDP ratio again spiked in 2020, rising to 13.3 percent of GDP in 2020, due to increased spending to address the COVID-19 pandemic and lessen the economic impacts of stay-at-home and social distancing orders on individuals, hard-hit industries, and small businesses. Spending remained elevated in 2021 due to additional funding to support economic recovery, but increased receipts reduced the primary deficit-to-GDP to 10.8 percent.

The primary deficit ratio is projected to fall to 4.7 percent in 2022 and then decrease to 4.3 percent in 2027 as the economy grows and spending due to legislation enacted in response to the COVID-19 pandemic decreases. After 2027, however, increased spending for Social Security and health programs due to the ongoing retirement of the baby boom generation and increases in the price of health care services is projected to result in increasing primary deficit ratios that reach 5.0 percent of GDP in 2030. The primary deficit ratio peaks at 6.3 percent in 2043, gradually decreases beyond that point as aging of the population continues at a slower pace, and reaches 4.9 percent of GDP in 2096, the last year of the projection period.

Primary deficit trends are heavily influenced by tax receipts. Receipts as a share of GDP were markedly depressed in 2009 through 2012 because of the recession and the effects of the government's response thereto. The share subsequently increased to 18.0 percent of GDP by 2015, before falling below the 30-year average of 17.1 percent in 2018, after enactment of the TCJA.

Receipts were 18.1 percent of GDP in 2021. After 2025, receipts grow slightly more rapidly than GDP over the projection period as increases in real incomes cause more taxpayers and a larger share of income to fall into the higher individual income tax brackets.



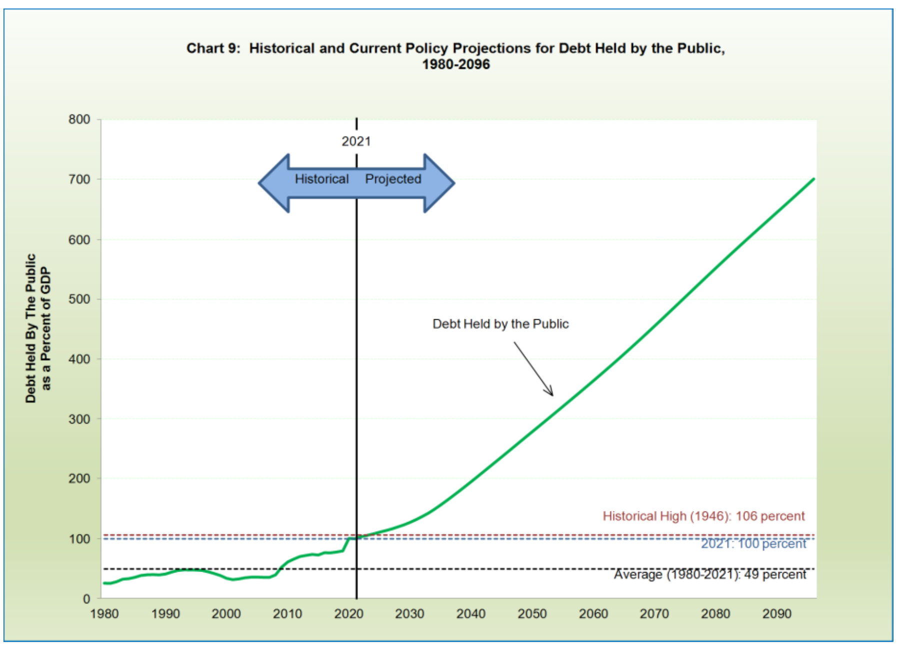
On the spending side, the non-interest spending share of GDP, was 28.9 percent in 2021, slightly less than the share of GDP in 2020. The ratio of non-interest spending to GDP is projected to fall to 22.0 percent in 2022 and remain near that level through 2024. After 2024, the non-interest spending share of GDP is projected to rise gradually, reaching 25.7 percent in 2078, before declining to 25.3 percent in 2096, the end of the projection period. Beginning in 2025, these increases are principally due to faster growth in Medicare and Social Security spending (see Chart 8). The aging of the baby boom generation, among other factors, is projected to increase the spending shares of GDP of Social Security and Medicare are projected to increase by about 0.9 and 1.5 percentage points, respectively, from 2022 to 2041. After 2041, the Social Security and Medicare spending shares of GDP continue to increase in most years, albeit at a slower rate, due to projected increases in health care costs and population aging, before declining toward the end of the projection period.

On a PV basis, deficit projections reported in the FY 2021 *Financial Report* increased in both present-value terms and as a percent of the current 75-year PV of GDP. As discussed in Note 26, the largest factor affecting the projections was the actual budget results for FY 2021 and the budget estimates published in the FY 2022 President's Budget. Actual budget results for FY 2021 lead to higher 75-year PV of spending for mandatory programs other than Social Security, Medicare, and Medicaid. Budgetary estimates result in higher 75-year PVs for individual income tax receipts and outlays for non-defense discretionary programs. The second largest factor was the update of economic and demographic assumptions which increases the imbalance by 0.2 percent of the 75-year PV of GDP ($6.3 trillion). The third largest factor is the effect of new Social Security, Medicare, and Medicaid program-specific actuarial assumptions, which increase this imbalance as a share of the 75-year PV of GDP by 0.2 percentage points ($3.6 trillion). The change in reporting period – the effect of shifting calculations from 2021 through 2095 to 2022 through 2096 – increases the imbalance of the 75-year PV of receipts less non-interest spending by $1.4 trillion.

One of the most important assumptions underlying the projections is the future growth of health care costs. As discussed in Note 25, these future growth rates – both for health care costs in the economy generally and for federal health care programs such as Medicare, Medicaid, and PPACA exchange subsidies – are highly uncertain. In particular, enactment of the PPACA in 2010 and the MACRA in 2015 established cost controls for Medicare hospital and physician payments whose long-term effectiveness of which is not yet clear. The Medicare spending projections in the long-term fiscal projections are based on the projections in the 2021 Medicare Trustees' Report, which assume the PPACA and MACRA cost control measures will be effective in producing a substantial slowdown in Medicare cost growth. As discussed in Note 25, the Medicare projections are subject to much uncertainty about the ultimate effects of these provisions to reduce health care cost growth. For the long-term fiscal projections, that uncertainty also affects the projections for Medicaid and exchange subsidies, because the cost per beneficiary in these programs is assumed to grow at the same reduced rate as Medicare cost growth per beneficiary. The projections in the Medicaid Actuarial Report, which end in 2027, are adjusted to accord with the actual Medicaid spending in FY 2021. Actual Medicaid spending includes temporary spending increases due to changes in enrollment and other temporary measures related to the pandemic. The amounts related to these temporary spending increases cannot be identified, which adds uncertainty to the projections. 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. The most recent Social Security and Medicare Trustees' Reports were released in August 2021. See Note 26—Long-Term Fiscal Projections for additional information.

As discussed in Note 26 for the FY 2021 report, other key assumptions include, but are not limited to the following. For receipts, individual income taxes are based on the share of individual income taxes of salaries and wages in the current law baseline projection in the FY 2022 President's Budget, and the salaries and wages projections in the Social Security 2021 Trustees' Report. That baseline accords with the tendency of effective tax rates to increase as growth in income per capita outpaces inflation (also known as "bracket creep") and the expiration dates of individual income and estate and gift tax provisions of the TCJA.[18] Projections for the other categories of receipts and spending are consistent with the economic and demographic assumptions in the Trustees' Reports and include updates for actual budget results for FY 2021 or budgetary estimates from the FY 2022 President's Budget. Where possible, those budget totals are adjusted before spending is projected to remove outlays for programs or activities that are judged to be temporary, such as spending related to the COVID-19 pandemic and economic recovery. Where not possible, budget totals were not adjusted, resulting in higher projections of future spending, increasing the uncertainty surrounding this year's projections. See Note 26—Long-Term Fiscal Projections for additional information about the assumptions used in this analysis.

The primary deficit-to-GDP projections in Chart 8, projections for interest rates, and projections for GDP together determine the debt-to-GDP ratio projections shown in Chart 9. That ratio was approximately 100 percent at the end of FY 2021 and under current policy is projected to exceed the historic high of 106 percent in 2024, rise to 200 percent by 2041 and reach 701 percent by 2096. The change in debt held by the public from one year to the next generally represents the budget deficit, the difference between total spending and total receipts. The debt-to-GDP ratio rises continually in great part because primary deficits lead to higher levels of debt, which lead to higher net interest expenditures, and higher net interest expenditures lead to higher debt.[19] The continuous rise of the debt-to-GDP ratio indicates that current policy is unsustainable.



These debt-to-GDP projections are higher than the corresponding projections in both the 2020 and 2019 *Financial Reports*. For example, the last year of the 75-year projection period used in the FY 2019 *Financial Report* is 2094. In the FY 2021 *Financial Report*, the debt-to-GDP ratio for 2094 is projected to be 682 percent, which compares with 614 and 474 percent projected for that same year in the FY 2020 *Financial Report* and the FY 2019 *Financial Report*, respectively.[20]

[18] The 2020 projections assumed the individual income and estate and gift tax provisions of the TCJA would continue past their legal expiration on December 31, 2025. See the FY 2020 *Financial Report*.

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

[20] See the Note 24 of the *FY 2020 Financial Report of the U.S. Government* for more information about changes in the long term fiscal projections between FYs 2019 and 2020.

The Fiscal Gap and the Cost of Delaying Policy Reform

The 75-year fiscal gap is one measure of the degree to which current policy is unsustainable. It is the amount by which primary surpluses over the next 75 years must, on average, rise above current-policy levels in order for the debt-to-GDP ratio in 2096 to remain at its level in 2021. The projections show that projected primary deficits average 5.7 percent of GDP over the next 75 years under current policy. If policies were adopted to eliminate the fiscal gap, the average primary surplus over the next 75 years would be 0.6 percent of GDP, 6.2 percentage points higher than the projected PV of receipts less non-interest spending shown in the basic financial statements. Hence, the 75-year fiscal gap is estimated to equal 6.2 percent of GDP. This amount is, in turn, equivalent to 32.4 percent of 75-year PV receipts and 25.0 percent of 75-year PV non-interest spending. The fiscal gap was estimated at 5.4 percent in the FY 2020 *Financial Report*.

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

Table 7 shows the cost of delaying policy reform to close the fiscal gap by comparing policy reforms that begin in three different years. Immediate reform would require increasing primary surpluses by 6.2 percent of GDP on average between 2022 and 2096 (i.e., some combination of reducing spending and increasing revenue by a combined 6.2 percent of GDP on average over the 75-year projection period). Table 7 shows that delaying policy reform forces larger and more abrupt policy reforms over shorter periods. For example, if policy reform is delayed by 10 years, closing the fiscal gap requires increasing the primary surpluses by 7.3 percent of GDP on average between 2032 and 2096. Similarly, delaying reform by 20 years requires primary surplus increases of 9.0 percent of GDP on average between 2042 and 2096. The differences between the required primary surplus increases that start in 2032 and 2042 (7.3 and 9.0 percent of GDP, respectively) and that which starts in 2022 (6.2 percent of GDP) is a measure of the additional burden that delay would impose on future generations. Future generations are harmed by policy reform delay, because the higher the primary surplus is during their lifetimes the greater the difference is between the taxes they pay and the programmatic spending from which they benefit.

Table 7

Cost of Delaying Fiscal Reform

Period of Delay	Change in Average Primary Surplus
Reform in 2022 (No Delay).............................	6.2 percent of GDP between 2022 and 2096
Reform in 2032 (Ten-Year Delay).....................	7.3 percent of GDP between 2032 and 2096
Reform in 2042 (Twenty-Year Delay)...............	9.0 percent of GDP between 2042 and 2096

Conclusion

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

These long-term fiscal projections and the topic of fiscal sustainability are discussed in further detail in Note 26 and the RSI section of this *Financial Report*.

Social Insurance

The long-term fiscal projections reflect government receipts and spending as a whole. The SOSI focuses on the government's "social insurance" programs: Social Security, Medicare, Railroad Retirement, and Black Lung.[21] For these programs, the SOSI reports: 1) the actuarial PV of all future program revenue (mainly taxes and premiums) - excluding interest - to be received from or on behalf of current and future participants; 2) the estimated future scheduled expenditures to be paid to or on behalf of current and future participants; and 3) the difference between 1) and 2). Amounts reported in the SOSI and in the RSI section in this *Financial Report* are based on each program's official actuarial calculations.

This year's projections for Social Security and Medicare are based on the same economic and demographic assumptions that underlie the 2021 Social Security and Medicare Trustees' Reports and the 2021 SOSI, while comparative information presented from last year's report is based on the 2020 Social Security and Medicare Trustees' Reports and the 2020 SOSI. Table 8 summarizes amounts reported in the SOSI, showing that net social insurance expenditures are projected to be $71.0 trillion over 75 years as of January 1, 2021 for the "Open Group," an increase of $5.5 trillion over net expenditures of $65.5 trillion projected in the FY 2020 *Financial Report*.[22] The current-law 2021 amounts reported for Medicare reflect the physician payment levels expected under the MACRA payment rules and the PPACA-mandated reductions in other Medicare payment rates, but not the payment reductions and/or delays that would result from trust fund depletion.[23] Similarly, current-law projections for Social Security do not reflect benefit payment reductions and/or delays that would result from fund depletion. By accounting convention, the transfers from the General Fund to Medicare Parts B and D are eliminated in the consolidation of the SOSI at the government-wide level and as such, the General Fund transfers that are used to finance Medicare Parts B and D are not included in Table 8. For the FYs 2021 and 2020 SOSI, the amounts eliminated totaled $43.2 trillion and $40.9 trillion, respectively. SOSI programs and amounts are included in the broader fiscal sustainability analysis in the previous section, although on a slightly different basis (as described in Note 26).

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

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[21] *The Black Lung Benefits Act* provides for monthly payments and medical benefits to coal miners totally disabled from pneumoconiosis (black lung disease) arising from their employment in or around the nation's coal mines. See https://www.dol.gov/owcp/regs/compliance/ca_main.htm. Railroad Retirement Board's projections are based on economic assumptions that underlie the *28th Actuarial Valuation of the Assets and Liabilities Under the Railroad Retirement Acts as of December 31, 2019 with Technical Supplement.*

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

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

Table 8: Social Insurance Future Expenditures in Excess of Future Revenues

Dollars in Trillions	2021	2020	Increase / (Decrease) $	%
Open Group (Net):				
Social Security (OASDI)	$ (22.7)	$ (19.7)	$ 3.0	15.2%
Medicare (Parts A, B, & D)	$ (48.2)	$ (45.7)	$ 2.5	5.5%
Other	$ (0.1)	$ (0.1)	$ -	0.0%
Total Social Insurance Expenditures, Net (Open Group)	**$ (71.0)**	**$ (65.5)**	$ 5.5	8.4%
Total Social Insurance Expenditures, Net (Closed Group)	**$ (93.6)**	**$ (87.0)**	$ 6.6	7.6%
Social Insurance Net Expenditures as a % of GDP*				
Open Group				
Social Security (OASDI)	(1.3%)	(1.2%)		
Medicare (Parts A, B, & D)	(3.1%)	(3.0%)		
Total (Open Group)	**(4.4%)**	**(4.2%)**		
Total (Closed Group)	**(5.8%)**	**(5.6%)**		

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

* GDP values used are from the 2021 & 2020 Social Security and Medicare Trustees Reports and represent the present value of GDP over the 75-year projection period. As the GDP used for Social Security and Medicare differ slightly in the Trustees Reports, the two values are averaged to estimate the 'Other' and Total Net Social Insurance Expenditures as percent of GDP. As a result, totals may not equal the sum of components due to rounding.

Table 9 identifies the principal reasons for the changes in projected social insurance amounts during 2021 and 2020.

The following briefly summarizes the significant changes for the current valuation (as of January 1, 2021) as disclosed in Note 25—Social Insurance. Note 25 is compiled from disclosures included in the financial statements of those entities administering these programs, including SSA and HHS. See Note 25 for additional information.

Table 9: Changes in Social Insurance Projections

Dollars in Trillions	2021	2020
NPV - Open Group (Beginning of the Year)	**$ (65.5)**	**$ (59.1)**
Changes In:		
Valuation Period	$ (2.2)	$ (2.2)
Demographic data, assumptions, and methods	$ 1.5	$ 3.3
Economic data, assumptions, and methods[1]	$ (1.2)	$ (1.8)
Law or policy	$ (0.2)	$ (0.6)
Methodology and programmatic data[1]	$ (1.2)	$ 0.2
Economic and other healthcare assumptions[2]	$ (3.8)	$ (5.4)
Change in projection base[2]	$ 1.6	$ 0.1
Net Change in Open Group measure	$ (5.5)	$ (6.4)
NPV - Open Group (End of the Year)	**$ (71.0)**	**$ (65.5)**

[1] Relates to Social Security Program.

[2] Relates to Medicare Program.

- Change in valuation period (affects both Social Security and Medicare): This change replaces a small negative net cash flow for 2020 with a much larger negative net cash flow for 2095. As a result, the PV of the estimated future net cash flows decreased (became more negative) by $2.2 trillion.
- Changes in demographic data, assumptions, and methods (affects both Social Security and Medicare): There were two changes to ultimate demographic assumptions compared to prior valuation: the ultimate total fertility rate was increased; and an additional cause of death category was added, by separating dementia out from the all-other-causes category, and ultimate mortality improvement rates were updated for cardiovascular disease. In addition to this ultimate demographic assumption change, the starting demographic value and the way these values transition to the ultimate assumptions were changed. Birth rate data through the third quarter of 2020 indicated somewhat lower birth rates. Death rates increased significantly for 2020 and 2021. Overall, changes to these assumptions caused the PV of the estimated future net cash flows to increase (become less negative) by $1.5 trillion.
- Changes in economic data and assumptions (affects Social Security only): Several changes were made to the ultimate economic assumptions since the last valuation period. The ultimate average real wage differential

increased. Additionally, the real wage differential assumptions for the first ten years of the projection period were also increased. The ultimate age-sex-adjusted unemployment rate was reduced. The higher real wage differential and then combined changes to the unemployment assumption and the labor force methodology increased the PV of estimated future net cash flows. In addition to these changes in ultimate economic assumptions, the starting economic values and the way these values transition to the ultimate assumptions were changed. Near-term interest rates were adjusted downward. Real interest rates are now assumed to be negative for calendar year 2021 through 2024, with a gradual rise to the ultimate real interest rate. The level of potential GDP is assumed to be roughly 1.0 percent lower than the level beginning with the second quarter 2020. The changes to near-term interest rate and the starting values and near-term economic growth assumptions decrease the PV of the estimated future net cash flows. There were no additional notable changes in economic methodology. Overall, changes to these assumptions caused the PV of the estimated future net cash flows to decrease (become more negative) by $1.2 trillion.

- Changes in law or policy (affects both Social Security and Medicare): For Social Security, between the prior valuation and the current valuation, one change in policy is expected to have significant effect on the long-range cost. The DACA policy extends indefinitely the ability of those qualifying to remain in the country and work lawfully. A memorandum was issued on January 20, 2021. Most of the provisions enacted as part of Medicare legislation since the prior valuation date has little or no impact on the program. The following provisions did have financial impact. The CARES Act (P.L. 116-136, enacted on March 27, 2020) included provisions that affect the HI and SMI programs. The CAA (P.L. 116-260, enacted on December 7, 2020) included provisions that affect the HI and SMI Programs. *An Act to Prevent-the-Board Direct Spending Cuts and for Other Purposes* (P.L. 117-7, enacted on April 14, 2021) included provisions that affect the 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 (become more negative) by $0.2 trillion for Social Security and Medicare, with $0.1 trillion each for Social Security and Medicare.
- Changes in methodology and programmatic data (affects Social Security only). Several methodological improvements and updates of program-specific data are included in the current valuation (beginning on January 1, 2020). The most significant are as follows: 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-workers and disabled-workers beneficiaries. Recent data and estimates indicated lower near-term and ultimate levels of revenue from taxation of Social Security benefits than projected. The methodology for projecting retroactive benefits for retired workers was improved to better capture the different rules for workers who become newly entitled prior to normal retirement age versus those who become entitled at or after normal retirement age. Overall, changes in methodology and programmatic data caused the PV of the estimated future net cash flows to decrease (become more negative) by $1.2 trillion for Social Security.
- Changes in economic and other healthcare assumptions (affects Medicare only): The economic assumptions used in the Medicare projections are the same as those used for the OASDI (described above) and are prepared by the Office of the Chief Actuary at SSA. In addition to the economic assumptions changes described above, the healthcare assumptions are specific to the Medicare projections. Changes to these assumptions in the current valuation include: slightly faster projected spending growth for outpatient services and for physician-administered drugs; and higher direct and indirect remuneration and shifts to Medicare Advantage offset higher gross drug prices. The net impact of these changes caused the PV of the estimated future net cash flows to decrease (become more negative) by $3.8 trillion.
- Change in Projection Base (affects Medicare only): Actual income and expenditures in 2020 were different than what was anticipated when the 2020 Medicare Trustees' Report projections were prepared. For Part A and Part B income and expenditure in 2020 were lower than anticipated based on actual experience, mainly due to the impact of the COVID-19 pandemic. Part D was largely unaffected by the pandemic and total income and expenditures were only slightly higher than the estimated based on actual experience. Actual experience of the Medicare Trust Funds between January 1, 2020 and January 1, 2021 is incorporated in the current valuation and is more than projected in the prior valuation. Overall, the net impact of the Part A, B, and D projection base change is an increase (become less negative) in the estimated future net cash flows by $1.6 trillion for Medicare.

As reported in Note 25, uncertainty remains about whether the projected cost savings and productivity improvements will be sustained in a manner consistent with the projected cost growth over time. Note 25 includes an alternative projection to illustrate the uncertainty of projected Medicare costs. As indicated earlier, GAO disclaimed opinions on the 2021, 2020, 2019, 2018 and 2017 SOSI because of these significant uncertainties.

Costs as a percent of GDP of both Medicare and Social Security, which are analyzed annually in the Medicare and Social Security Trustees' Reports, are projected to increase substantially through the mid-2030s because: 1) the number of beneficiaries rises rapidly as the baby-boom generation retires; and 2) the lower birth rates that have persisted since the baby boom cause slower growth in the labor force and GDP.[24] According to the Medicare Trustees' Report, spending on Medicare is projected to rise from its current level of 4.0 percent of GDP to 6.2 percent in 2045 and to 6.5 percent in 2095.[25] As for

[24] A Summary of the 2021 Annual Social Security and Medicare Trust Fund Reports, page 12.

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

Social Security, combined spending is projected to generally increase from its current level of 5.1 percent of GDP to a peak of 6.2 percent for 2077, and then decline to 5.9 percent by 2095. The government collects and maintains funds supporting the Social Security and Medicare programs in trust funds. A scenario in which projected funds expended exceed projected funds received, as reported in the SOSI, will cause the balances in those trust funds to deplete over time. Table 10 summarizes additional current status and projected trend information, including years of projected depletion, for the Medicare Hospital Insurance and Social Security Trust Funds.

Table 10: Trust Fund Status

Fund	Projected Depletion	Projected Post-Depletion Trend
Medicare Hospital Insurance *	2026 (unchanged from FY 2020 Report)	In 2026, trust fund income is projected to cover 91.0 percent of benefits, decreasing to 78.0 percent in 2045, then returning to 91.0 percent by 2095.
Combined Old-Age Survivors and Disability Insurance **	2034 (one year earlier than FY 2020 Report)	In 2034, trust fund income is projected to cover 78.0 percent of scheduled benefits, decreasing to 74.0 percent by 2095.

* Source: 2021 Medicare Trustees Report ** Source: 2021 OASDI Trustees Report

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

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

Reporting on Climate Change

As stated in EO 14008, Tackling the Climate Crisis at Home and Abroad "the United States and the world face a profound climate crisis…Domestic action must go hand in hand with United States international leadership, aimed at significantly enhancing global action." Among other things, the EO "directs each federal agency to develop a plan to increase the resilience of its facilities and operations to the impacts of climate change and directs relevant agencies to report on ways to expand and improve climate forecast capabilities – helping facilitate public access to climate related information and assisting governments, communities, and businesses in preparing for and adapting to the impacts of climate change." As a corollary to EO 14008, EO 14030, Climate-Related Financial Risk, is intended to help the American people understand how climate change could impact their financial security, to strengthen the U.S. financial system so that climate change does not affect the system's stability, and to inform federal government decision-making to mitigate the risks of climate change. Section 5(a) of EO 14030 specifically tasks OMB and the National Economic Council, in consultation with Treasury, to develop recommendations to integrate climate-related financial risk into financial management and reporting, with a focus on the climate-related financial risk of lending programs. Section 5(a) directs the recommendations to include an evaluation of changes to accounting standards where appropriate for federal financial reporting.

Although not required to do so, many agencies included similar types of information about climate change in their FY 2021 financial reports and/or included climate information in different sections of their financial reports.

Approximately one third of the CFO Act agencies referred to their climate action or adaptation plans. SSA has developed plans to prepare for power disruptions, increased flooding in both coastal and non-coastal locations, reduced water supply, and disruptions and damage to transportation infrastructure. VA is implementing changes to building design and resilience standards, developing a facility climate risk list, updating sustainable building certification requirements, preparing for surges in demand for medical supplies and pharmaceuticals, and planning to create a bio-surveillance system and epidemiologic investigation program to surveil for high consequence infections in veterans receiving VA care.

In addition, at least one quarter of the CFO Act agencies discussed climate change in the context of program performance. For example, HHS has established the first national level office established to address climate change and health equity; it is seeking to protect vulnerable communities who disproportionately bear the brunt of pollution and climate-driven disasters (such as drought and wildfires) at the expense of public health. Treasury has initiated work related to: climate transition finance, climate-related economic and tax policy, and climate-related financial risks.

Also, one third of the CFO Act agencies discussed climate change in the forward-looking section of their MD&A. State has a new Special Presidential Envoy for Climate to lead diplomatic engagement on the climate crisis, exercise climate leadership in international fora, increase international climate ambition and ensure that climate change is integrated into all elements of the Administration's foreign policy-making process. DOI's 2022-2026 Strategic Plan will, among other things, address the climate crisis and invest in a clean energy future. DOI will also strengthen climate resilience and conservation partnerships and increase renewable energy production on public lands and waters to support a carbon pollution-free power sector by 2035.

One third of the Inspectors General from CFO Act agencies identified climate change as a management challenge. DOI's Office of Inspector General recognized that climate change is a cross-cutting issue affecting tribal communities, land use, water resources, wildlife, and their habitats, and the frequency and severity of natural disasters. EPA's Office of Inspector General identified climate change as among the top management challenges facing the agency focusing on EPA's role in providing leadership on this issue.

Like Inspectors General, agency heads also recognized the importance of climate change, with about one third of the CFO Act agency heads citing climate change in their financial statements transmittal messages. The NASA Administrator stated that NASA contributes significantly to what is known about Earth's changing climate and cited recent agency efforts related to climate change, disaster mitigation, fighting forest fires, and improving real-time agricultural processes. The Secretary of Transportation noted that the *Infrastructure Investment and Jobs Act* will address the climate crisis by building a network of electric vehicle chargers across the country, by helping make our transportation infrastructure more resilient, and by making it safer and easier for people to get around without a car.

As required by EO 14030, in October, the National Economic Council issued a report[26] laying out a government-wide strategy to address the financial risk that climate change poses to the government and the U.S. economy. In addition, FASAB, which is an advisory committee under the *Federal Advisory Committee Act* and the generally accepted accounting principles standard setter for the federal government, has begun a research project on climate-related financial reporting. The project includes development of draft staff implementation guidance, which is intended to summarize existing FASAB guidance that may be applied to climate-related events or transactions. The project also includes an assessment of the need for additional guidance. Lastly, on December 8, 2021, after the end of FY 2021, EO 14057, Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability, was issued. Among other things, this EO directs agencies to develop plans, processes, and analytic tools that will allow federal agencies and programs to adapt to climate change.

Financial Management

Grants

In FY 2021, the federal government obligated over $1.2 trillion for grants and cooperative agreements and more when accounting for other types of financial assistance, such as loans and direct appropriations. A large portion of grant funding went to support the nation's response to the pandemic through the ARP, the CARES Act, and other COVID-19 funding. Recognizing the need to distribute ARP funding in a timely manner and to also ensure accountability, transparency, and program results, OMB issued Memorandum M-21-20, *Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources*. M-21-20 leveraged ongoing OMB efforts to promote standardization and a shared IT infrastructure, manage risk, and achieve program objectives. It required agencies to apply the requirements of Title 2 of the CFR to all federal financial assistance provided under ARP, to the maximum extent allowed by law, and to consider existing flexibilities in Title 2 of the CFR to both comply with existing requirements and achieve intended program outcomes. Appendix 2 of M-21-20 outlined the flexibilities agencies are required to consider and highlighted *Managing for Results: The Performance Management Playbook for Federal Awarding Agencies* for new programs. The Playbook promotes a common understanding of performance practices in an effort to improve program performance. M-21-20 also emphasized the importance of award descriptions reported to USAspending.gov and the requirement for agencies to consult the relevant QSMO before developing new or modernized technology or considering an existing provider.

In addition to providing guidance to support proper administration of ARP funding, OMB provided guidance on the administration of other COVID-19 emergency programs. In December 2020, OMB issued audit guidance for fourteen new COVID-19 programs in an addendum to the 2020 Compliance Supplement (which is a compendium of applicable statutory, regulatory, and other requirements relevant to the "single audit" requirements for federal financial assistance recipients, including grant recipients). Recognizing the importance of quality subaward data in tracking COVID-19 funding, the 2020 addendum and 2021 Compliance Supplement include instructions for auditors to review compliance with subaward reporting under the *Federal Funding Accountability and Transparency Act*. Improving access to key financial assistance data continues to be a priority for OMB and was highlighted in OMB memorandum M-22-02, *New Financial Assistance Transparency Requirements*, which requires agencies to report additional information to USAspending.gov. Going forward, OMB will continue to prioritize efforts to improve the financial management of grants and other forms of financial assistance, including efforts to improve transparency.

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[26] The report can be found here: A ROADMAP TO BUILD A CLIMATE-RESILIENT ECONOMY (whitehouse.gov).

Payment Integrity

Preventing improper payments in the federal government is a management priority. To be successful in preventing improper payments, there must be a focus on systemic enhancements intended to make payments correctly the first time with an emphasis on minimizing monetary loss. The federal government, through the CFO community, continues to develop strategies to better analyze and prevent monetary loss. In FY 2021, OMB published Memorandum M-21-19, Appendix C to OMB Circular No. A-123, *Requirements for Payment Integrity Improvement*. M-21-19 implements the requirements from the *Payment Integrity Information Act of 2019*. Also in 2021, the CFO Council published two guides on cfo.gov that provide strategies to identify a "tolerable rate" of improper payments and strategies based on behavioral research.

Since FY 2018, agencies with programs reporting more than $100.0 million in monetary loss have provided a quarterly scorecard on PaymentAccuracy.gov. These scorecards provide information on the actions taken and progress made on preventing improper payments that would result in monetary loss to the government. Additional details on these programs' FY 2021 improper payment data can be found at https://paymentaccuracy.gov/. Beginning in FY 2020, PaymentAccuracy.gov also began providing payment integrity information that had previously been reported in agencies financial statements. Information about program compliance, corrective actions, and accountability mechanisms is now available in a consistent format across all programs.

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

Agency Financial Report Audits

Since the passage of the CFO Act, the federal financial community has made significant progress in financial accounting and reporting. As shown in Table 11, for FY 2021, 21 of the 24 CFO Act agencies obtained an unmodified opinion from the independent auditors on their financial statements.[27] In addition, 47 auditor-identified material weaknesses were identified for FY 2021, the same as for FY 2020. Twenty-eight of these are associated with DOD. The other 19 material weaknesses are associated with non-DOD agencies, which represents a slight decline from the 22 reported for FY 2020. Although virtually all federal agencies have adopted and maintained disciplined financial reporting operations, implemented effective internal controls over financial reporting, and integrated transaction processing with accounting records, weaknesses in financial management practices continue to prevent the government as a whole from achieving an audit opinion.

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

Table 11: Agency Audit Results: FY 2021

Agency	Audit Opinion	Auditor-Reported Material Weaknesses: Beginning	New	Resolved	Consolidated	Ending
Department of Agriculture (USDA)	Unmodified	2	0	0	0	2
Department of Commerce (DOC)	Unmodified	0	0	0	0	0
Department of Defense (DOD)	Disclaimer	26	3	1	0	28
Department of Education (Education)	Unmodified	1	0	0	0	1
Department of Energy (DOE)	Unmodified	0	0	0	0	0
Department of Health and Human Services (HHS)*	Unmodified	0	0	0	0	0
Department of Homeland Security (DHS)	Unmodified	2	0	0	0	2
Department of Housing & Urban Development (HUD)	Unmodified	1	0	0	0	1
Department of the Interior (DOI)	Unmodified	1	0	1	0	0
Department of Justice (DOJ)	Unmodified	0	1	0	0	1
Department of Labor (DOL)	Qualified	0	1	0	0	1
Department of State (State)	Unmodified	0	0	0	0	0
Department of Transportation (DOT)	Unmodified	0	0	0	0	0
Department of the Treasury (Treasury)	Unmodified	0	0	0	0	0
Department of Veterans Affairs (VA)	Unmodified	5	0	2	0	3
Agency for International Development (USAID)	Unmodified	0	0	0	0	0
Environmental Protection Agency (EPA)**	Unmodified	0	0	0	0	0
General Services Administration (GSA)	Unmodified	0	0	0	0	0
National Aeronautics & Space Administration (NASA)	Unmodified	0	0	0	0	0
National Science Foundation (NSF)	Unmodified	0	0	0	0	0
Nuclear Regulatory Commission (NRC)	Unmodified	1	1	1	0	1
Office of Personnel Management (OPM)	Unmodified	1	0	0	0	1
Small Business Administration (SBA)	Disclaimer	7	3	0	4	6
Social Security Administration (SSA)	Unmodified	0	0	0	0	0
Totals		**47**	**9**	**5**	**4**	**47**

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

** EPA's FY 2020 ending material weaknesses were incorrectly reported as one rather than zero. EPA's FY 2020 starting material weakness of one was downgraded to a significant deficiency in FY 2020 and there were no new material weaknesses reported for FY 2020.

Financial Management Systems

Federal agencies improved, but continue to face challenges, in implementing financial management systems that meet federal requirements. The number of CFO Act agencies reporting lack of substantial compliance with one or more of the three Section 803(a) requirements of the FFMIA increased to eight in FY 2021, and the number of auditors reporting lack of substantial compliance with one or more of the three Section 803(a) FFMIA requirements remained at nine in FY 2021.

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

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

In January 2021, the HHS was designated as the Grants QSMO. In this capacity, HHS has been and will continue working to modernize and streamline the government's vast and aging legacy grants management systems. The goal of this effort is to allow agencies to successfully manage grants through the entire award cycle and allow grants management systems to interface with agency financial management systems.

Internal Controls

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

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

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

As noted above, the total number of reported material weaknesses for CFO Act agencies was 47 for FY 2021, the same as for FY 2020. Effective internal controls are a challenge at the agency level and at the government-wide level, with GAO reporting that at the government-wide level, material weaknesses resulted in ineffective internal control over financial reporting. While progress is being made at many agencies and across the government in identifying and resolving internal control deficiencies, additional work is needed.

Legal Compliance

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

Conclusion

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

Additional Information

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

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