NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND SEPTEMBER 30, 2019

NOTE 1. Summary of Significant Accounting Policies

REPORTING ENTITY AND PROGRAMS

The U.S. Department of Education (the Department), a cabinet-level agency of the executive branch of the U.S. government, was established by Congress under the *Department of Education Organization Act* (Public Law 96-88), which became effective on May 4, 1980. The mission of the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

The Department is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the Department may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The Department is primarily responsible for administering federal student loan and grant programs and provides technical assistance to loan and grant recipients and other state and local partners. The largest portions of the Department's financial activities relate to the execution of loan and grant programs which are discussed below.

Federal Student Loan Programs. The Department administers direct loan, loan guarantee, and other student aid programs to help students and their families finance the cost of postsecondary education. These include the William D. Ford Federal Direct Loan (Direct Loan) program and the Federal Family Education Loan (FFEL) program.

The Direct Loan program, added to the *Higher Education Act of 1965* (HEA) in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents. The Direct Loan program offers four types of loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students (PLUS), and Consolidation. Evidence of financial need is required for an undergraduate student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

The FFEL program, authorized by the HEA, operates through state and private nonprofit guaranty agencies that provided loan guarantees on loans made by private lenders to eligible students. The *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010*, stated that no new FFEL loans would be made effective July 1, 2010. FFEL program receivables include defaulted FFEL loans and acquired FFEL loans. Acquired FFEL loans include student loan assets acquired using temporary authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. The Department implemented three activities under this authority: loan purchase commitments; purchases of loan participation interests; and a put, or forward purchase commitment, with an Asset-Backed Commercial Paper (ABCP) Conduit. This authority expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. However, under the terms of the Put Agreement with the conduit, ABCP Conduit activity ceased operations in January 2014.

The Department also administers other credit programs for higher education. These include the Federal Perkins Loan program, the Teacher Education Assistance for College and Higher Education Grant (TEACH) program, the Health Education Assistance Loan (HEAL) program, and facilities loan programs that include the Historically Black Colleges and Universities (HBCU) Capital Financing program, along with low-interest loans to institutions of higher education (IHEs) for the building and renovating of their facilities. (See Notes 5 and 10)

Grant Programs. The Department has more than 100 grant programs. The three largest grant programs are Title I of the *Elementary and Secondary Education Act*, Federal Pell Grant (Pell Grant), and the *Individuals with Disabilities Education Act* (IDEA) grants. In addition, the Department offers other discretionary grants under a variety of authorizing legislation awarded using a competitive process, and formula grants using formulas determined by Congress with no application process. (See Note 10)

COVID-19. Congress has passed three coronavirus disease 2019 (COVID-19) relief bills: the Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020: the Families First Coronavirus Response Act: and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The *CARES Act* totaled roughly $2 trillion dollars and included $31 billion for educational purposes. The Department was tasked with promptly disbursing these funds through a variety of grant programs, while ensuring the transparency and accountability of every dollar spent.

The largest component of this funding established a $30.75 billion state stabilization fund for K-12 and higher education. This fund is comprised of categories including (1) the Elementary and Secondary School Emergency Relief Fund, (2) the Higher Education Emergency Relief Fund, (3) the Governor's Emergency Education Relief Fund, and (4) funds provided for Minority Serving Institutions (MSIs), Historically Black Colleges and Universities, and Schools serving low-income students. All of the Education Stabilization Fund is being distributed to recipients through various grant programs. The Department transferred $154 million of the fund to the Department of the Interior to be administered by the Bureau of Indian Education. (See Notes 3, 10, & 11)

The *CARES Act* also provides support for student loan borrowers primarily by suspending nearly all federal loan payments until September 30, interest free. The Department extended certain provisions of the student loan deferrals not covered by the *CARES Act* to defaulted guaranteed loans held by the Department. The Administration subsequently issued a Presidential Memorandum which extended the student loan deferrals for an additional three months through December 31, 2020. The Department also stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default. Funding for the student debt provisions of the *CARES Act* and the Presidential Memorandum are provided through indefinite appropriations. (See Notes 5, 10 and 11)

Other regulatory flexibilities and incentives provided in the *CARES Act* to help students through COVID-19 include:

- Federal Supplemental Educational Opportunity Grants (SEOG) to provide emergency aid to students.
- Work-study payments, which will continue even if students can no longer work on-site.
- Pell Grants, financial aid, and loans originated for this term, which students who have had to leave college campuses will not have to pay back. Moreover, none of this aid will count against students' financial aid lifetime limits.
- Waiving Satisfactory Academic Progress requirements will help to ensure that students do not lose academic standing and the ability to receive federal financial student aid.
- Tax credits that incentivize employers to help pay for student loans.

PROGRAM OFFICES

The Department has three major program offices that administer most of its loan and grant programs:

- Federal Student Aid (FSA) administers financial assistance programs for students pursuing postsecondary education and makes available federal grants, direct loans, and work-study funding to eligible undergraduate and graduate students.
- The Office of Elementary and Secondary Education (OESE) assists state education agencies (SEAs) and local educational agencies (LEAs) to improve the achievement of preschool, elementary, and secondary school students, helps ensure equal access to services leading to such improvement—particularly children with high needs, and provides financial assistance to LEAs whose local revenues are affected by federal activities.
- The Office of Special Education and Rehabilitative Services (OSERS) supports programs that help provide early intervention and special education services to children and youth with disabilities. OSERS also supports programs for the vocational rehabilitation of youth and adults with disabilities, including preemployment transition services and other transition services designed to assist students with disabilities to enter postsecondary education and achieve employment.

Other offices that administer programs and provide leadership, technical assistance, and financial support to state and LEAs and IHEs for reform, strategic investment, and innovation in education include: the Office of

Career, Technical, and Adult Education (OCTAE); Office of Postsecondary Education (OPE); Institute of Education Sciences (IES); and Office of English Language Acquisition (OELA). In addition, the Office for Civil Rights (OCR) works to ensure equal access to education, promotes educational excellence throughout the nation, and serves student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights issues. (See Note 10)

BASIS OF ACCOUNTING AND PRESENTATION

These financial statements were prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the Department, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department, in accordance with Generally Accepted Accounting Principles (GAAP) accepted in the U.S. for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as revised. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control the use of budgetary resources. FSA also issues audited stand-alone financial statements which are included in their annual report.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Intradepartmental transactions and balances have been eliminated from the consolidated financial statements.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

ACCOUNTING FOR FEDERAL CREDIT PROGRAMS

The Department's accounting for its loan and loan guarantee programs is based on the requirements of the *Federal Credit Reform Act of 1990* (FCRA). The purpose of the FCRA is to record the lifetime subsidy cost of direct loans and loan guarantees, in present value terms, at the time the loan is disbursed (subsidy). Components of subsidy costs for loans and guarantees include defaults (net of recoveries); contractual payments to third-party private loan collectors who receive a set percentage of amounts collected; and, as an offset, origination and other fees collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from the Department of Treasury (Treasury) and interest rates charged to particular borrowers is also subsidized (or may provide an offset to subsidy if the Department's rate is less).

Under the FCRA, subsidy cost is estimated using the net present value of future cash flows to and from the Department. In accordance with the FCRA, credit programs either estimate a subsidy cost to the government (a "positive" subsidy), breakeven (zero subsidy cost), or estimate a negative subsidy cost. Negative subsidy occurs when the estimated cost of providing loans to borrowers from Treasury borrowing, collection costs, and loan forgiveness is less than the value of collections from borrowers for interest and fees, in present value terms.

Subsidy cost is an estimate of the present value cost of providing direct loans, but excludes the administrative costs of issuing and servicing the loans. The Department estimates subsidy expense using a set of econometric and financial models, as well as cash flow models.

The Department estimates subsidy costs annually for new loans disbursed in the current year; updates to the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates to previous cost estimates based on new legislation or other government actions that change the terms of existing loans (loan modifications) which alter the estimated subsidy cost and the present value of outstanding loans. Loan modifications can also include modification adjustment gains and losses to account for the difference between the discount rate used to calculate the cost of the modification and the interest rate at which the cohort pays or earns interest.

The subsidy costs of direct loan and loan guarantee programs are budgeted and tracked by the fiscal year in which the loan award is made or the funds committed. Such a grouping of loans or guarantees is referred to as a "cohort." A cohort is a grouping of direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years.

In order to account for the change in the net present value of the loan portfolio over time, the subsidy cost is "amortized" each year. Amortization accounts for the differences in interest rates, accruals, and cash flows over the life of a cohort, ensuring that cost is reflected in subsidy estimates and re-estimates. Amortization of subsidy is calculated as the difference between interest received from borrowers and Treasury (on uninvested funds) and interest paid to Treasury on borrowings.

The FCRA establishes the use of financing, program, and Treasury General Fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991.

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury General Fund receipt accounts. Financing accounts are presented separately in the combined statements of budgetary resources (SBR) as non-budgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the *Budget of the United States Government* (President's Budget).
- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.
- Treasury General Fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans. (See Notes 12 and 13)

The Department records an obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. The Department advances funds to schools based on these estimates. Promissory notes are signed when schools reach individual agreements with borrowers and the schools subsequently report each disbursement of advanced funds to the Department. A new promissory note is usually not required for students in the second or later year of study. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's obligation estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 8.2 percent of the amount obligated for new loan awards will not be disbursed.

When a loan is placed in deferment or forbearance, loan repayment is temporarily suspended with the length of postponement different for each borrower. Interest accrues while a loan is in deferment or forbearance. Loans are cancelled if a person dies, meets disability requirements, or occasionally through the bankruptcy courts. Loans are also cancelled through the Public Service Loan Forgiveness (PSLF) Program, which forgives the remaining balance on a direct loan after 120 qualifying monthly payments are made. These payments must be made under a qualifying repayment plan while working full-time for a qualifying employer. In addition, the Department offers the Pay As You Earn (PAYE) program. This student loan repayment program is designed to help borrowers who struggle to make their normal student loan payments. The plan allows payments to be limited to 10 percent of discretionary income if qualifications are met. Under the PAYE program, if all requirements are met, forgiveness of the remaining balance of a student loan is possible after 20 years of consistent payments.

BUDGETARY RESOURCES

Budgetary resources are amounts available to enter into new obligations and to liquidate them. The Department's budgetary resources include unobligated balances of resources from prior years and new resources, which include appropriations, authority to borrow from Treasury, and spending authority from collections.

Borrowing authority is an indefinite budgetary resource authorized under the FCRA. This resource, when realized, finances the unsubsidized portion of the Direct Loan, FFEL, and other loan programs. In addition, borrowing authority is requested to cover the cost of the initial loan disbursement as well as any related negative subsidy to be transferred to Treasury General Fund receipt accounts. Treasury prescribes the terms and conditions of borrowing authority and lends to the financing account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. Treasury sets a different fixed interest rate to be used for each loan cohort once the loans are substantially disbursed. The Department may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1st of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan, FFEL, and other loan programs. Subsidy and administrative costs of the programs are funded by appropriations. Borrowings are repaid using collections from borrowers, fees, and interest on uninvested funds.

Unobligated balances represent the cumulative amount of budgetary resources that are not obligated and that remain available for obligation under law, unless otherwise restricted. Resources expiring at the end of the fiscal year remain available for five years, but only for upward adjustments of prior year obligations, after which they are cancelled and may not be used. Resources that have not expired at year-end are available for new obligations, as well as upward adjustments of prior-year obligations. Funds are appropriated on an annual, multiyear, or no-year basis. Appropriated funds expire on the last day of availability and are no longer available for new obligations. Amounts in expired funds are unavailable for new obligations but may be used to adjust previously established obligations.

Permanent Indefinite Budget Authority. The Direct Loan, FFEL, and other loan programs have permanent indefinite budget authority through legislation to fund subsequent increases to the estimated future costs of the loan programs. Parts B, Federal Family Education Loan Program, and D, Federal Direct Student Loan, of the HEA pertain to the existence, purpose, and availability of permanent indefinite budget authority for these programs.

Reauthorization of Legislation. Funds for most Department programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue in accordance with congressional budgeting rules. (See Note 12)

ENTITY AND NON-ENTITY ASSETS

Assets are classified as either entity or non-entity assets. Entity assets are those that the Department has authority to use for its operations. Non-entity assets are those held by the Department but not available for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. The Department combines its entity and non-entity assets on the balance sheets and discloses its non-entity assets in the notes. (See Note 2)

FUND BALANCE WITH TREASURY

Fund Balance with Treasury includes amounts available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes cash receipts and cash disbursements for the Department. The Department's records are reconciled with Treasury's records. (See Note 3)

ACCOUNTS RECEIVABLE

Accounts receivable are amounts due to the Department from the public and other federal agencies. Receivables from the public result from overpayments to recipients of grants and other financial assistance programs, as well as disputed costs resulting from audits of educational assistance programs. Amounts due from federal agencies result from reimbursable agreements entered into by the Department with other agencies to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts. The estimate of an allowance for loss on uncollectible accounts is based on the Department's experience in the collection of receivables and an analysis of the outstanding balances. (See Note 4)

GUARANTY AGENCIES' FEDERAL FUNDS

Guaranty Agencies' Federal Funds are primarily comprised of the federal government's interest in the program assets held by state and nonprofit FFEL program guaranty agencies. Section 422A of the HEA required FFEL guaranty agencies to establish federal student loan reserve funds (federal funds). Federal funds include initial federal start-up funds, receipts of federal reinsurance payments, insurance premiums, guaranty agency share of collections on defaulted loans, investment income, administrative cost allowances, and other assets.

The balance in the Federal Fund represents consolidated reserve balances of the 23 guaranty agencies based on the Guaranty Agency financial reports that each agency submits annually to the Department. Although the Department and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit. A year-end valuation adjustment is made to adjust the Department's balances in order to comply with federal accounting principles and disclose funds held outside of Treasury.

Guaranty Agencies' Federal Funds are classified as non-entity assets with the public and are offset by a corresponding liability due to Treasury. The federal funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The federal funds are the property of the U.S. and are reflected in the *Budget of the United States Government*. Payments made to the Department from guaranty agencies' federal funds through a statutory recall or agency closures represent capital transfers and are returned to Treasury's General Fund. (See Notes 2, 4, and 9)

CREDIT PROGRAM RECEIVABLES, NET AND LIABILITIES FOR LOAN GUARANTEES

The financial statements reflect the Department's estimate of the long-term subsidy cost of direct and guaranteed loans in accordance with the FCRA. Loans and interest receivable are valued at their gross amounts less an allowance for the present value of amounts not expected to be recovered and thus having to be subsidized—called an "allowance for subsidy." The difference between the gross amount and the allowance for subsidy is the present value of the cash flows to, and from, the Department that are expected from receivables over their projected lives. Similarly, liabilities for loan guarantees are valued at the present value of the cash outflows from the Department less the present value of related inflows. The estimated present value of net long-term cash outflows of the Department for subsidized costs is net of recoveries, interest supplements, and offsetting fees.

The liability for loan guarantees presents the net present value of all future cash flows from currently insured FFEL loans, including claim payments, interest assistance, allowance payments, and recoveries from assigned loans.

Guaranteed loans that default are initially turned over to guaranty agencies for collection. Defaulted FFEL loans are accounted for as assets and reported at their net present value, similar to direct loans, although they are legally not direct student loans. Credit program receivables, net includes defaulted FFEL loans owned by the Department and held by the Department or guaranty agencies. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over by the guaranty agencies to the Department for collection.

FFEL program receivables include purchased loans and other interests acquired under an expired program. The cash flows related to these receivables include collections on purchased loans and other activities, including transfers of re-estimated subsidy. The cash flows of these authorities also include inflows and outflows associated with the underlying or purchased loans and other related activities, including any positive or negative subsidy transfers.

Capitalization of interest occurs as a result of various initiatives, such as loan consolidations. As a result, interest receivable is reduced and loan principal is increased. (See Note 5)

PROPERTY AND EQUIPMENT, NET AND LEASES

The Department has very limited acquisition costs associated with buildings, furniture, and equipment as all Department and contractor staff are housed in leased buildings. The Department does not own real property for the use of its staff. The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are operating leases.

The Department also leases information technology and telecommunications equipment, as part of a contractor-owned, contractor-operated services contract. Lease payments associated with this equipment have been determined to be operating leases and, as such, are expensed as incurred. The noncancellable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options. (See Notes 4 and 14)

LIABILITIES

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred.

- Liabilities are classified as covered by budgetary resources if budgetary resources are available to pay them. Credit program liabilities funded by permanent indefinite appropriations are also considered covered by budgetary resources.
- Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities.
- Liabilities not requiring appropriated budgetary resources include those related to deposit funds, Subsidy Due to Treasury General Fund for Future Liquidating Account Collections (pre-1992 loan guarantee programs), and Federal Perkins Loan Program balances due to be repaid to the Treasury General Fund. (See Note 6)

DEBT

The Department borrows from Treasury to provide funding for the Direct Loan, FFEL, and other credit programs for higher education. The liability to Treasury from borrowings represents unpaid principal at year-end. The Department repays the principal based on available fund balances. Interest rates are based on the corresponding rate for 10-year Treasury securities and are set for those borrowings supporting each cohort of loans once the loans for that cohort are substantially disbursed. Interest is paid to Treasury on September 30th. In addition, the Federal Financing Bank (FFB) holds bonds issued by a designated bonding authority, on behalf of the Department, for the HBCU Capital Financing program. The debt for other credit programs for higher education includes the liability for full payment of principal and accrued interest for the FFB-financed HBCU Capital Financing program. (See Note 7)

SUBSIDY DUE TO TREASURY GENERAL FUND

The Department must transfer to the Treasury General Fund all excess funding resulting from downward re-estimates of credit program loans that are subject to FCRA requirements. This excess funding is included in the liability for subsidy due to Treasury and will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from OMB. Subsidy due to Treasury also includes future liquidating account collections (estimated collections in excess of estimated outlays) for the Department's pre-1992 FFEL and HEAL loans that, when collected, will also be transferred to the Treasury General Fund. (See Note 8)

ACCOUNTS PAYABLE

Accounts payable include amounts owed by the Department for goods and services received from other entities, as well as payments not yet processed. Accounts payable to the public primarily consists of in-process grant and loan disbursements, including an accrued liability for schools that have disbursed loans prior to requesting funds. (See Note 9)

ACCRUED GRANT LIABILITY

Some grant recipients incur allowable expenditures as of the end of an accounting period but have not been reimbursed by the Department. The Department accrues a liability for these allowable expenditures. The amount is estimated using statistical sampling of unliquidated balances. (See Note 9)

PERSONNEL COMPENSATION AND OTHER EMPLOYEE BENEFITS

Annual, Sick, and Other Leave. The liability for annual leave, compensatory time off, and other vested leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. Sick leave and other types of nonvested leave are expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources. (See Notes 6 and 9)

Retirement Plans and Other Retirement Benefits. Employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, the Department contributes a fixed percentage of pay.

FERS consists of Social Security, a basic annuity plan, and the Thrift Savings Plan. The Department and the employee contribute to Social Security and the basic annuity plan at rates prescribed by law. In addition, the Department is required to contribute to the Thrift Savings Plan a minimum of 1 percent per year of the basic pay of employees covered by this system, match voluntary employee contributions up to 3 percent of the employee's basic pay, and match one-half of contributions between

3 percent and 5 percent of the employee's basic pay. For FERS employees, the Department also contributes the employer's share of Medicare.

Federal Employees' Compensation Act. The *Federal Employees' Compensation Act* (FECA) (Pub. L. 103-3) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The Department reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a two- to three-year period between payment by DOL and reimbursement to DOL by the Department. As a result, the Department recognizes an intragovernmental liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by the Department.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a liability with the public, not covered by budgetary resources. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30th, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value. (See Notes 6 and 9)

IMPUTED COSTS

Services are received from other federal entities at no cost or at a cost less than the full cost to the Department. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed cost in the Statements of Net Cost and are offset by imputed revenue in the Statements of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of services other than those related to employee benefits are not included in the Department's financial statements.

NET COST OF OPERATIONS

As required by the *GPRA Modernization Act of 2010*, the Department's programs have been aligned with the goals presented in the Department's *Strategic Plan*.

Net cost consists of gross costs less earned revenue. Major components of the Department's net costs include credit program subsidy expense, credit program interest revenue and expense, and grant expenses. (See Note 10)

Credit Program Subsidy Expense. Subsidy expense is an estimate of the present value cost of providing loans, excluding the administrative costs of issuing and servicing the loans. In order to estimate subsidy expense, the Department must project lifetime cash flows associated with loans disbursed in a specific fiscal year (i.e., the loan cohort). The Department projects these lifetime cash flows using a set of econometric and financial models, as well as cash flow models. The Department estimates subsidy expenses annually for new loans disbursed in the current year; updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates previous cost estimates based on changes to terms of existing loans (loan modifications). Loan modifications include actions resulting from new legislation or from the exercise of administrative discretion under existing law, which directly or indirectly alters the estimated subsidy cost of outstanding direct loans (or direct loan obligations). (See Notes 5 and 10)

Credit Program Interest Revenue and Expense. The Department recognizes interest revenue from the public when interest is accrued on Direct Loan program loans, defaulted and acquired FFEL loans, and outstanding principal for other loan programs. Interest due from borrowers is accrued at least monthly and is satisfied upon collection or capitalization into the loan principal. Federal interest revenue is recognized on the unused fund balances with Treasury in the financing accounts.

Federal interest expense is recognized monthly on the outstanding borrowing from Treasury (debt) used to finance direct loan and loan guarantee programs. Accrued interest to Treasury is paid on September 30th. The interest rate for federal interest expense is the same as the rate used for federal interest revenue.

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue cash flows. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense. (See Note 10)

NET POSITION

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for amounts in financing accounts, liquidating accounts, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources.

ALLOCATION TRANSFERS

The Department is a party to allocation transfers with other Federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. All financial activity related to this allocation transfer (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations, and budget apportionments are derived.

The Department is a party to allocation transfers as a parent entity to the Department of the Interior and receives allocation transfers as a child entity from the Department of Health and Human Services.

TAXES

The Department is a Federal entity and is not subject to Federal, state or local taxes. Therefore, no provision for income taxes is recorded.

USE OF ESTIMATES

Department management is required to make certain estimates while preparing consolidated financial statements in conformity with GAAP. These estimates are reflected in the assets, liabilities, net cost, and net position of the financial statements and may differ from actual results. The Department's estimates are based on management's best knowledge of current events, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the financial statements include: allocation of Department administrative overhead costs; allowance for subsidy and subsidy expense for direct, defaulted guaranteed, and acquired loans; the liability for loan guarantees; and grant liability and advance accruals. (See Notes 4, 5, 9, and 10)

The Department's estimates for credit programs are calculated using a series of assumption models that are updated using a statistically valid sample of National Student Loan Data System (NSLDS®) data, data from the Debt Management and Collection System, and economic assumptions provided by OMB. Actual results may differ from those assumptions and estimates. Differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guarantees under guidelines in the FCRA. The Department recognizes the sensitivity of credit reform modeling. Slight changes in modeling methodology or data used to derive assumptions can produce largely varied results. The Department therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements. The Department updates its assumption models in accordance with its model update plan, which takes into consideration statutory or new program requirements, major changes to the model structure or methodology, and data updates. This level of granularity in the modeling methodology is essential to the financial reporting and budgeting processes so that the Department can forecast the costs of various program options when making policy decisions. (See Note 5)

RECLASSIFICATIONS

The following reclassifications were made to the prior year financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities and net position, net cost of operations, or budgetary resources.

- The FY 2019 Outlays, Net line of Combined Statements of Budgetary Resources was reclassified to present net disbursements associated with credit financing accounts on a separate Disbursements, Net line to conform to FY 2020 changes in OMB Circular A-136.

- Note 13, Reconciliation of Net Cost to Net Outlays, was reclassified to exclude the credit financing account net disbursement amount that was reclassified on the Combined Statements of Budgetary Resources to conform to FY 2020 changes in OMB Circular A-136.

NOTE 2. Non-Entity Assets

(Dollars in Millions)

	2020		2019	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Non-Entity Assets				
Fund Balance with Treasury	$ 233	$ -	$ 294	$ -
Credit Program Receivables, Net	-	633	-	607
Other Assets				
Guaranty Agencies' Federal Funds	-	1,943	-	1,956
Accounts Receivable, Net	-	42	-	84
Total Non-Entity Assets	**233**	**2,618**	**294**	**2,647**
Entity Assets	135,906	1,170,629	104,690	1,203,065
Total Assets	**$ 136,139**	**$ 1,173,247**	**$ 104,984**	**$ 1,205,712**

The Department's FY 2020 assets are predominantly entity assets (99.8 percent), leaving a small portion of assets remaining as non-entity assets. Non-entity intragovernmental assets primarily consist of balances in deposit and clearing accounts. Non-entity assets with the public primarily consist of guaranty agency reserves (74.2 percent), reported as Guaranty Agencies' Federal Funds, and Federal Perkins Loan program loan receivables (24.2 percent), reported as credit program receivables, net. Federal Perkins Loan program receivables are a non-entity asset because the assets are held by the Department but are not available for use by the Department. The corresponding liabilities for these non-entity assets are reflected in various accounts, including intragovernmental accounts payable, Guaranty Agencies' Federal Funds Due to Treasury, and other liabilities (see Note 9).

NOTE 3. Fund Balance with Treasury

(Dollars in Millions)

	2020			2019
	COVID-19 Funds	All Other Funds	Total	Total
Unobligated Balance				
Available	$ 672	$ 15,774	$ 16,446	$ 13,578
Unavailable	-	24,236	24,236	19,564
Obligated Balance, Not Disbursed	18,944	124,403	143,347	127,291
Authority Temporarily Precluded from Obligation	-	-	-	1
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 11)	-	(48,230)	(48,230)	(55,845)
Other	-	216	216	329
Total Fund Balance with Treasury	**$ 19,616**	**$ 116,399**	**$ 136,015**	**$ 104,918**

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Total unavailable unobligated balance ($24.2 billion) differs from unapportioned and expired amounts on the SBR ($26.1 billion) due to the Guaranty Agencies' Federal Funds ($1.9 billion).

In FY 2020 and FY 2019, $305 and $405 million, respectively, of unused funds from canceled appropriations were returned to Treasury. Such balances are excluded from the amount reported as Fund Balance with Treasury in accordance with Treasury guidelines (see Note 12).

NOTE 4. Other Assets

(Dollars in Millions)

	2020		2019	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Guaranty Agencies' Federal Funds	$ -	$ 1,943	$ -	$ 1,956
Accounts Receivable, Net	3	234	2	251
Advances	120	32	64	35
Property and Equipment, Net	-	6	-	8
Other	1	1	-	6
Total Other Assets	**$ 124**	**$ 2,216**	**$ 66**	**$ 2,256**

Included in the accounts receivable with the public are amounts owed as a result of criminal restitution orders that are to be collected by the Department of Justice on behalf of the Department of Education. Amounts collected for these criminal restitutions are generally returned to the Treasury General Fund. Gross receivables and the allowance for uncollectible amounts as of September 30, 2020 related to criminal restitutions totaled $114 million and ($102) million, respectively.

Changes in property and equipment balances for the current year were as follows:

Property and Equipment
(Dollars in Millions)

	2020		
	Acquisition Value	Accumulated Depreciation	Net
Balance Beginning of the Year	$ 169	$ (161)	$ 8
Dispositions	(2)	1	(1)
Depreciation Expense	-	(1)	(1)
Balance At End of Year	**$ 167**	**(161)**	**6**

NOTE 5. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees

Credit Program Receivables
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy	Net
2020				
Direct Loan Program	$ 1,224,816	$ 92,132	$ (216,404)	$ 1,100,544
FFEL Program	84,765	24,110	(41,495)	67,380
Other Credit Programs for Higher Education	3,364	373	(630)	3,107
Total Credit Program Receivables	**$ 1,312,945**	**$ 116,615**	**$ (258,529)**	**$ 1,171,031**
2019				
Direct Loan Program	$ 1,164,883	$ 83,262	$ (124,438)	$ 1,123,707
FFEL Program	90,218	22,267	(35,718)	76,767
Other Credit Programs for Higher Education	3,225	396	(639)	2,982
Total Credit Program Receivables	**$ 1,258,326**	**$ 105,925**	**$ (160,795)**	**$ 1,203,456**

The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority. The emergency relief measures provided by Congress and the Administration in response to the coronavirus pandemic were recorded as loan modifications and are described in each of the programs below. Per OMB guidance, loan modifications were calculated using the FY 2020 President's Budget formulation discount rates. The net loans receivable or the value of assets related to direct loans is not the same as expected proceeds from selling the loans.

What follows is additional analysis of the activity, costs, and adjustments for each of the loan programs.

DIRECT LOAN PROGRAM

The federal government makes loans directly to students and parents through participating IHEs under the Direct Loan program. Direct loans are originated and serviced through contracts with private vendors.

Direct Loan program loan receivables include defaulted and nondefaulted loans owned by the Department. Of the $1,317.0 billion in gross loan receivables, as of September 30, 2020, $100.3 billion (7.6 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $99.7 billion (8.0 percent) as of September 30, 2019.

Direct Loan Program Loan Disbursements by Loan Type
(Dollars in Millions)

	2020	2019
Stafford	19,126	$ 19,984
Unsubsidized Stafford	46,077	48,142
PLUS	21,735	22,709
Consolidation	30,427	39,829
Total Disbursements	**$ 117,365**	**$ 130,664**

The allocation of disbursements for the first three loan types is estimated based on historical trend information.

Student and parent borrowers may prepay existing loans without penalty through a new consolidation loan. Under the FCRA and requirements provided by OMB regulations, the retirement of direct loans being consolidated is considered a collection of principal and interest. This receipt is offset by the disbursement related to the newly created consolidation loan. Underlying direct or guaranteed loans, performing or nonperforming, are paid off in their original cohort; new consolidation loans are originated in the cohort in which the new consolidation loan was obligated. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort subsidy costs. The net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect subsidy costs associated with anticipated future consolidation loans.

Direct loan consolidations were $30.4 billion during FY 2020 and $39.8 billion during FY 2019. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows associated with that cohort.

Direct Loan Program Interest Expense and Revenues (See Note 10)
(Dollars in Millions)

	2020	2019
Interest Expense on Treasury Borrowing	$ 34,705	$ 33,817
Total Interest Expense	**$ 34,705**	**$ 33,817**
Interest Revenue from the Public	28,161	59,815
Interest Revenue on Uninvested Funds	4,786	4,082
Administrative Fees	163	210
Amortization of Subsidy	1,595	(30,290)
Total Revenues	**$ 34,705**	**$ 33,817**

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2020	2019
Subsidy Expense for Direct Loans Disbursed in the Current Year		
Interest Rate Differential	$ 19,022	$ 11,440
Defaults, Net of Recoveries	1,925	1,862
Fees	(1,676)	(1,720)
Other	(14,131)	(14,563)
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	**5,140**	**(2,981)**
Modifications and Re-estimates		
Loan Modifications		
Modification Adjustment Transfer Gain	(265)	-
Modification Adjustment Transfer Loss	347	-
Loan Modifications	39,576	-
Total Loan Modifications	**39,658**	**-**
Net Upward Subsidy Re-estimates		
Interest Rate Re-estimates	(967)	(981)
Technical and Default Re-estimates	57,077	65,472
Total Net Upward Subsidy Re-estimates	**56,110**	**64,491**
Total Modifications and Re-estimates	95,768	64,491
Direct Loan Subsidy Expense	**$ 100,908**	**$ 61,510**

Subsidy Expense for Direct Loans Disbursed in the Current Year. The two major components of the total subsidy expense for direct loans disbursed in the current year (subsidy transfers) are Interest Rate Differential and Other Components. Interest rate differential is attributable to the difference between the borrowers' interest payments due to the Department and the Department's estimated cost to finance the direct loan on a present value basis. The Other Components of subsidy transfers primarily consists of contract collection costs, program review collections, fees, and loan forgiveness.

Loan Modifications. Loan modifications for the Direct Loan program for FY 2020 included the following:

- *CARES Act*. The *CARES Act* automatically suspended principal and interest payments and set interest rates to 0 percent on federally held student loans starting in March through September 30, 2020. The relief for borrowers resulted in an upward modification cost of $24.6 billion, with an additional $459 million for cancelled loans for students that did not complete the semester due to a qualifying emergency. There was a net positive $82 million modification adjustment transfer associated with this modification, bringing the total to $25.0 billion.

- Presidential Memorandum ("Memorandum on Continued Student Loan Payment Relief During the COVID-19 Pandemic"). On August 8, 2020, the Administration issued a Presidential Memorandum that continued the temporary suspension of payments and the waiver of all interest on federally held student loans through December 31, 2020. The relief for borrowers resulted in an upward modification cost of $13.5 billion. There was a net negative $66 million modification adjustment transfer associated with this modification, bringing the total to $13.6 billion.

- Total and Permanent Disability. The Department recorded an upward modification for costs associated with the regulatory action to provide proactive discharge (unless the borrower elects to reject the discharge) to borrowers for whom the Department of Veterans Affairs provides information showing the borrower has a total and permanent disability. These discharges resulted in an upward modification cost of $1.0 billion. There was a net negative $98 million modification adjustment transfer associated with this modification, bringing the total to $1.1 billion.

Net Upward Subsidy Re-estimates for All Prior Year Loan Cohorts. The Direct Loan program subsidy re-estimate increased subsidy expense in FY 2020 by $56.1 billion. Re-estimated costs only include cohorts that are 90 percent disbursed (i.e., cohort years 1994–2019). The re-estimate reflects the assumption updates and other changes described below.

In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates, including interest rates provided by OMB, loan volume, and contract collection costs.

- IDR Model Changes (including PSLF). The Department completed a standard IDR data update to reflect the immediate prior cycle for defaults, prepayments and Death, Disability, and Bankruptcy (DDB). The DDB update includes adjustments for the Total Permanent Disability for Veterans regulation. In addition, an existing borrower income file was calibrated using an additional year of IDR application data through 2018. The additional year of borrower income data taken from IDR applications has been substantially lower than projected. As such, the Department reduced its projections of future borrower income by 35%, increasing costs associated with IDR. The Department also analyzed the actual PSLF approval rates and supplementary data. As a result of that analysis, the PSLF approval rate was adjusted downward for initial cohorts to better reflect the actual data. Trends indicate that there has been some improvement in PSLF approval rates over time as borrowers better understand the application process. PSLF estimates were revised to reflect the most recent borrower behavior and adjust the temporal element to ramp up PSLF forgiveness over time. The combined effect of these updates led to a net upward re-estimate of $35.5 billion.

- Repayment Plans. The Department updated the data and made an adjustment to exclude special consolidation of FFEL loans in FY 2012 and FY 2013 from the model. These loans are modeled separately and were less likely to enroll in income dependent repayment plans than typical consolidation loans. The combined effect of these changes led to a net upward re-estimate of $6.5 billion.

- Default. In addition to the adjustments for the *CARES Act*, the Department updated the data and incorporated actual unemployment rates from the Bureau of Labor Statistics through June 2020. The combined effect of these changes led to a net upward re-estimate of $1.8 billion.

- 2019 Cohort Assumption Changes. The technical re-estimate cannot reflect the impacts of certain assumption changes applicable to the current year loan cohort until the following fiscal year per OMB guidance. The current year's re-estimate includes a net upward adjustment of $4.8 billion for these current year assumption changes attributable to the FY 2019 cohort.

- Interest on the Re-estimate. Interest on re-estimates is the amount of interest that would have been earned or paid by each cohort on the subsidy re-estimate, if the re-estimated subsidy had been included as part of the original subsidy estimate. The interest on the re-estimate calculated on the overall subsidy re-estimate resulted in a net upward re-estimate of $5.9 billion.

- Interactive Effects. The re-estimate includes a net upward re-estimate of $1.5 billion attributed to the interactive effects of the assumption changes described above. Each assumption described above is run independently. The interactive effect is a result of combining all assumptions together to calculate the final re-estimate.

Direct Loan Subsidy Rates—Cohort 2020

	Interest Differential	Defaults	Fees	Other	Total
Stafford	25.47%	2.61%	-1.06%	-12.99%	14.03%
Unsubsidized Stafford	19.27%	2.28%	-1.06%	-19.74%	0.75%
PLUS	8.16%	1.46%	-4.24%	-18.63%	-13.25%
Consolidation	14.70%	1.16%	0.00%	4.88%	20.74%
Weighted Average Total	**17.01%**	**1.88%**	**-1.33%**	**-11.66%**	**5.90%**

[*] The Other component reflects costs associated with loan cancelations and the interactive effects of payment plans on the components of subsidy.

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior years cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

The subsidy costs of the Department's student loan programs, especially the Direct Loan program, are highly sensitive to changes in actual and forecasted interest rates. The formulas for determining program interest rates are established by statute; the existing loan portfolio has a mixture of borrower and lender rate formulas. Interest rate projections are based on probabilistic interest rate scenario inputs developed and provided by OMB.

Direct Loan Program Reconciliation of Allowance for Subsidy
(Dollars in Millions)

	2020	2019
Beginning Balance of Allowance for Subsidy	**$ 124,438**	**$ 40,663**
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	5,140	(2,981)
Adjustments		
Loan Modifications	39,658	-
Fees Received	1,609	1,693
Loans Written Off	(7,833)	(9,096)
Subsidy Allowance Amortization	(1,595)	30,290
Other Activities	(1,123)	(622)
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**160,294**	**59,947**
Net Upward Subsidy Re-estimates	56,110	64,491
Ending Balance of Allowance for Subsidy	**$ 216,404**	**$ 124,438**

The estimation process used to determine the amount of positive or negative subsidy expense each fiscal year, and subsequently the cumulative taxpayer cost of the program (allowance for subsidy), is subject to various external risk factors which often show strong interdependence with one another. These risks include uncertainty about changes in the general economy, changes in the legislative and regulatory environment, and changing trends in borrower performance with regard to contractual cash flows within the loan programs.

Due to the complexity of the Direct Loan program, there is inherent projection risk in the process used for estimating long-term program costs. As stated, some uncertainty stems from potential changes in student loan legislation and regulations because these changes may fundamentally alter the cost structure of the program. Operational and policy shifts may also affect program costs by causing significant changes in borrower repayment timing. Actual performance may deviate from estimated performance, which is not unexpected given the long-term nature of these loans (cash flows may be estimated up to 40 years), and the multitude of projection paths and possible outcomes. The high percentage of borrowers in Income Driven Plans has made projection of borrower incomes a key input for the estimation process. This uncertainty is directly tied to the macroeconomic climate and is another inherent program element that displays the interrelated risks facing the Direct Loan program.

Loans written off result from borrowers having died, becoming disabled, or declaring bankruptcy. The interest rate re-estimate reflects the cost of finalizing the Treasury borrowing rate to be used for borrowings received to fund the disbursed portion of the loan awards obligated.

FEDERAL FAMILY EDUCATION LOAN PROGRAM.

FFEL was established in FY 1965 and is a guaranteed loan program. As a result of the *Student Aid and Fiscal Responsibility Act*, no new FFEL loans have been made since July 1, 2010. Federal guarantees on FFEL program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to the Department through an ECASLA authority (acquired FFEL loans), consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled.

FFEL Guaranteed Loans Outstanding
(Dollars in Billions)

		2020
Outstanding Principal of Guaranteed Loans, Face Value	$	128.9
Amount of Outstanding Principal Guaranteed	$	128.9

As of September 30, 2020, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately $128.9 billion.

Additionally, the FFEL program guarantees outstanding interest balances. As of September 30, 2020, the interest balances outstanding for guaranteed loans held by lenders was approximately $4.6 billion.

The Department's total FFEL program guarantees (principal and interest) are approximately $133.5 billion as of September 30, 2020. Of the total guaranteed amount, the Department would expect to pay a smaller amount to the guaranty agencies. The guarantee rates range from 75 to 100 percent of the principal and interest balance depending on the type of claim, when the loan was made, and the guaranty agency's claim experience. For purposes of disclosing the Department's total risk exposure for FFEL guarantees, the highest reimbursement rate of 100 percent is assumed.

Defaulted and acquired FFEL loans are accounted for as assets as shown in the following table.

FFEL Program Loan Receivables
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2020				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,627	$ 5,809	$ (8,249)	$ 1,187
FFEL GSL Program (Post-1991)	33,057	9,121	(22,286)	19,892
Total Defaulted FFEL Guaranteed Loans	36,684	14,930	(30,535)	21,079
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	16,009	2,797	(4,102)	14,704
Loan Participation Purchase	30,683	6,005	(6,424)	30,264
ABCP Conduit	1,389	378	(434)	1,333
Total Acquired FFEL Loans	48,081	9,180	(10,960)	46,301
FFEL Program Loan Receivables	**$ 84,765**	**$ 24,110**	**$ (41,495)**	**$ 67,380**
2019				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,729	$ 5,858	$ (8,776)	$ 811
FFEL GSL Program (Post-1991)	33,780	8,561	(20,113)	22,228
Total Defaulted FFEL Guaranteed Loans	37,509	14,419	(28,889)	23,039
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	17,536	2,519	(2,531)	17,524
Loan Participation Purchase	33,696	4,983	(3,843)	34,836
ABCP Conduit	1,477	346	(455)	1,368
Total Acquired FFEL Loans	52,709	7,848	(6,829)	53,728
FFEL Program Loan Receivables	**$ 90,218**	**$ 22,267**	**$ (35,718)**	**$ 76,767**

FFEL Program Subsidy Expense
(Dollars in Millions)

	2020	2019
Loan Modification Costs		
FFEL Guaranteed Loan Program		
Net Modification Adjustment Transfer (Gain)/Loss	$ (9)	$ -
Loan Modifications	835	-
Total FFEL Guaranteed Loan Program Loan Modifications	**826**	**-**
Loan Purchase Commitment		
Net Modification Adjustment Transfer (Gain)/Loss	(7)	-
Loan Modifications	958	-
Total Loan Purchase Commitment Loan Modifications	**951**	**-**
Loan Participation Purchase		
Net Modification Adjustment Transfer (Gain)/Loss	(10)	-
Loan Modifications	1,658	-
Total Loan Participation Purchase Loan Modifications	**1,648**	**-**
Total Loan Modification Costs	**3,425**	**-**
Upward/(Downward) Subsidy Re-estimates		
FFEL Loan Guarantee Program	(3,451)	6,866
Loan Purchase Commitment	802	2,144
Loan Participation Purchase	1,376	3,644
Total FFEL Program Subsidy Re-estimates	**(1,273)**	**12,654**
FFEL Program Subsidy Expense	**$ 2,152**	**$ 12,654**

Loan Modifications. Loan modifications for the FFEL Loan program for FY 2020 included the following:

- *CARES Act*. The *CARES Act* automatically suspended principal and interest payments and set interest rates to 0 percent on federally held student loans, including loans purchased under ECASLA, starting in March through September 30, 2020. The relief for borrowers resulted in a net upward modification cost of $1,775 million that included a positive modification transfer of $15 million.

- Presidential Memorandum ("Memorandum on Continued Student Loan Payment Relief During the COVID-19 Pandemic"). On August 8, 2020, the Administration issued a Presidential Memorandum that continued the temporary suspension of payments and the waiver of all interest on federally held student loans through December 31, 2020. The relief for borrowers resulted in an upward modification cost of $1,051 million that included a positive modification transfer of $9 million.

- Secretary's Discretion. The Department extended certain provisions of the student loan deferrals not covered by the *CARES Act* to defaulted guaranteed loans held by the Department, resulting in an upward modification cost of $492 million that included a positive modification adjustment transfer of $4 million.

- Total and Permanent Disability. The Department recorded an upward modification for costs associated with the regulatory action to provide proactive discharge (unless the borrower elects to reject the discharge) to borrowers for whom the Department of Veterans Affairs provides information showing the borrower has a total and permanent disability. These discharges resulted in an upward modification cost of $127 million across the FFEL and ECASLA programs.

Net Downward Subsidy Re-estimates. The FFEL subsidy re-estimate decreased subsidy expense in FY 2020 by $1.3 billion. The net downward re-estimates in these programs were due primarily to interest rates provided by OMB used in the calculation of special allowance payments, updated disability discharges, and prepayment rates.

FFEL Program Reconciliation of Liabilities for Loan Guarantees
(Dollars in Millions)

	2020	2019
Beginning Balance of Post-1991 FFEL Loan Guarantee Liability	**$ 5,205**	**$ 2,591**
Adjustments		
Loan Modifications	826	-
Interest Supplements Paid	(757)	(1,332)
Claim Payments to Lenders	(4,285)	(5,583)
Fees Received	1,215	1,385
Interest on Accumulation on the Liability Balance	(1,064)	(1,096)
Other Activities	3,195	2,374
Net Upward/(Downward) Subsidy Re-estimates	(3,451)	6,866
Ending Balance of Post-1991 FFEL Loan Guarantee Liability	**884**	**5,205**
Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees	1	1
FFEL Liabilities for Loan Guarantees	**$ 885**	**$ 5,206**

Liabilities for Loan Guarantees is included as a component of other liabilities on the balance sheets (see Note 9).

Other activity includes negative special allowance collections, collections on defaulted FFEL loans, guaranty agency expenses, and loan cancellations due to death, disability, or bankruptcy.

Allowance for Subsidy Reconciliation for Acquired FFEL Loans
(Dollars in Millions)

	Loan Purchase Commitment	Loan Participation Purchase	ABCP Conduit	Total
2020				
Beginning Balance of Allowance for Subsidy	**$ 2,531**	**$ 3,843**	**$ 455**	**$ 6,829**
Adjustments				
Loan Modifications	951	1,648	-	2,599
Subsidy Allowance Amortization	3	(89)	-	(86)
Loan Written Off	(140)	(271)	(16)	(427)
Other Activities	(45)	(83)	(5)	(133)
Ending Balance of Allowance for Subsidy Before Re-estimates	**$ 3,300**	**$ 5,048**	**$ 434**	**$ 8,782**
Net Upward Subsidy Re-estimates	802	1,376	-	2,178
Ending Balance of Allowance for Subsidy	**$ 4,102**	**$ 6,424**	**$ 434**	**$ 10,960**
2019				
Beginning Balance of Allowance for Subsidy	**$ 21**	**$ (458)**	**$ 426**	**$ (11)**
Adjustments				
Subsidy Allowance Amortization	571	1,027	52	1,650
Loan Written Off	(165)	(308)	(18)	(491)
Other Activities	(40)	(62)	(5)	(107)
Ending Balance of Allowance for Subsidy Before Re-estimates	**$ 387**	**$ 199**	**$ 455**	**$ 1,041**
Net Upward Subsidy Re-estimates	2,144	3,644	-	5,788
Ending Balance of Allowance for Subsidy	**$ 2,531**	**$ 3,843**	**$ 455**	**$ 6,829**

OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION

Receivables, Net for Other Credit Programs for Higher Education

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2020				
Federal Perkins Loans	$ 615	$ 202	$ (184)	$ 633
TEACH Program Loans	764	88	(182)	670
HEAL Program Loans	396	29	(38)	387
Facilities Loan Programs	1,589	54	(226)	1,417
Total	**$ 3,364**	**$ 373**	**$ (630)**	**$ 3,107**
2019				
Federal Perkins Loans	$ 532	$ 235	$ (160)	$ 607
TEACH Program Loans	764	99	(247)	616
HEAL Program Loans	396	33	(34)	395
Facilities Loan Programs	1,533	29	(198)	1,364
Total	**$ 3,225**	**$ 396**	**$ (639)**	**$ 2,982**

Federal Perkins Loan Program. Loans made through the Federal Perkins Loan program were low-interest federal student loans for undergraduate and graduate students with exceptional financial needs. Schools made these Perkins loans to their students and are responsible for servicing the loans throughout the repayment term. Borrowers who undertake certain public, military, or teaching service employment are eligible to have all or part of their loans cancelled.

The Perkins Loan program was a revolving loan program where the loan repayments collected from former students were utilized to make new loans to current students. The Department provided most of the capital used by schools to make these loans to eligible students. Participating schools provided the remaining program funding. In some statutorily defined cases, funds were provided by the Department to reimburse schools for loan cancellations. The above schedule includes only Perkins loans which were assigned to the Department when schools discontinued their participation in the program. For these assigned Perkins loans, collections of principal, interest, and fees, net of amounts paid to cover contract collection costs totaled $38 million and $80 million for FY 2020 and FY 2019, respectively.

The *Federal Perkins Loan Program Extension Act of 2015* (Extension Act) eliminated the authorization for schools to make new Perkins loan disbursements as of September 30, 2017, and ended all Perkins loan disbursements by June 30, 2018. Prior to the authority for new Perkins loans ending, collections made by the schools would go back into each school's Perkins fund to be utilized to make more loans. Schools are required to return to the Department the federal share of any excess beyond what is needed (excess liquid capital).

Schools are not required to liquidate and close out their programs now that no new Perkins loans are being made. Schools continue to take in collections and are required to return the federal share of the capital that is collected to the Department on an annual basis. Schools returned $1,279 million and $10 million to the Department in FY 2020 and FY 2019, respectively, for the federal share of collected cash.

Schools will continue to service outstanding Perkins loans to recover the money they contributed to their Perkins funds for as long as it is feasible to do so or until the eventual wind-down of their portfolios. Schools that liquidate and close out their programs must transfer any outstanding portfolio to the Department and liquidate any final cash. Most recent data from the 2018-2019 reporting year shows a $5.2 billion outstanding principal balance on Perkins loans held by schools, and the Department's equity interest on this portfolio is $4.3 billion.

The amounts collected by the Department annually for defaulted Perkins loans and for the return of the federal share of schools' Perkins capital contributions are returned to the Treasury General Fund (see Note 12).

TEACH Grant Program. The Department awards annual grants of up to $4,000 to eligible undergraduate and graduate students who agree to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. The maximum lifetime grant for students is $16,000 for undergraduate programs and $8,000 for graduate programs. For students failing to fulfill the service requirement, the grants are converted to direct unsubsidized Stafford Loans. The relief for borrowers provided by the *CARES Act* and Executive Action loan deferrals resulted in upward modification costs of $11 million and $5 million, respectively. The regulatory action to provide Total and Permanent Disability discharges resulted in an upward modification of less than $0.1 millions.

TEACH Subsidy Rates—Cohort 2020

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	70.46%	0.35%	0.00%	-41.88%	28.93%

* The Other component reflects costs associated with loan cancellations and the interactive effects of payment plans on the components of subsidy.

HEAL Program. The Department assumed responsibility in FY 2014 for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL program is structured as required by the FCRA. A liquidating account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed prior to 1992. All loan activity for 1992 and beyond is recorded in corresponding financing accounts. The relief for borrowers provided by the Executive Action and the Department's extension of the *CARES Act* provisions for loan deferrals resulted in upward modification costs of $1 million and $2 million, respectively.

Facilities Loan Programs. The Department also administers the HBCU Capital Financing program. Since 1992, this program has given HBCUs access to financing for the repair, renovation, and in exceptional circumstances, the construction or acquisition of facilities, equipment, and infrastructure through federally insured bonds. The Department has authorized a designated bonding authority to make loans to eligible institutions, charge interest, and collect principal and interest payments. In compliance with HEA, as amended, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default.

The total amount of support for HBCU programs, along with any accrued interest and unpaid servicing fees, will be capitalized to principal and be reamortized through the original maturity date of June 1, 2037. The Department has approximately $1.5 billion in outstanding borrowing from the FFB to support loans made to HBCU institutions and $453 million obligated to support near term lending as of September 30, 2020.

The *CARES Act* authorized the Secretary to grant a deferment to HBCU institutions that have loans under the HBCU Capital Financing for the duration of the national emergency period. The relief for HBCU institutions provided by the *CARES Act* resulted in an upward modification cost of $32 million.

The Department administers the College Housing and Academic Facilities Loan program, the College Housing Loan program, and the Higher Education Facilities Loan program. From 1952 to 1993, these programs provided low-interest financing to IHEs for the construction, reconstruction, and renovation of housing, academic, and other educational facilities.

NOTE 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2020		2019	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Liabilities Not Covered by Budgetary Resources				
Other Liabilities				
Accrued Unfunded Annual Leave	$ -	$ 47	$ -	$ 35
FECA Liabilities	2	13	3	11
Total Liabilities Not Covered by Budgetary Resources	**2**	**60**	**3**	**46**
Liabilities Not Requiring Budgetary Resources				
Subsidy Due to Treasury General Fund	1,451	-	1,239	-
Federal Perkins Loan Program	619	-	593	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	36	239	123	303
Total Liabilities Not Requiring Budgetary Resources	**2,106**	**239**	**1,955**	**303**
Total Liabilities Covered by Budgetary Resources	1,255,189	6,859	1,300,035	11,864
Total Liabilities	**$ 1,257,297**	**$ 7,158**	**$ 1,301,993**	**$ 12,213**

NOTE 7. Debt

(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Accrued Interest	Ending Balance
2020					
Debt to Treasury					
Direct Loan Program	$ 1,192,138	$ 116,883	$ (148,922)	$ -	$ 1,160,099
FFEL Program	94,671	10,997	(16,682)	-	88,986
Other Credit Programs for Higher Education	702	154	(72)	-	784
Total Debt to Treasury	1,287,511	128,034	(165,676)	-	1,249,869
Debt to the Federal Financing Bank					
Other Credit Programs for Higher Education	1,482	165	(142)	13	1,518
Total	**$ 1,288,993**	**$ 128,199**	**$ (165,818)**	**$ 13**	**$ 1,251,387**
2019					
Debt to Treasury					
Direct Loan Program	$ 1,150,610	$ 137,583	$ (96,055)	$ -	$ 1,192,138
FFEL Program	107,261	-	(12,590)	-	94,671
Other Credit Programs for Higher Education	609	123	(30)	-	702
Total Debt to Treasury	1,258,480	137,706	(108,675)	-	1,287,511
Debt to the Federal Financing Bank					
Other Credit Programs for Higher Education	1,473	74	(65)	-	1,482
Total	**$ 1,259,953**	**$ 137,780**	**$ (108,740)**	**$ -**	**$ 1,288,993**

The Department borrows from Treasury's Bureau of the Public Debt and the Federal Financing Bank to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2020, debt decreased 2.9 percent from $1,289.0 billion in the prior year to $1,251.4 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Approximately 92.7 percent of the Department's debt, as of September 30, 2020, is attributable to the Direct Loan program. The majority of the net borrowing activity (borrowing less repayments) for the year was designated for funding new Direct Loan disbursements.

During FY 2020, TEACH net borrowing of $59 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2020, debt in HBCU increased by $85 million, or 5.7 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

NOTE 8. Subsidy Due to Treasury General Fund

(Dollars in Millions)

	2020	2019
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ 1,773	$ 2,718
FFEL Program	74	6,345
Total Credit Program Downward Subsidy Re-estimates	**1,847**	**9,063**
Future Liquidating Account Collections		
FFEL Program	1,436	1,239
Other Credit Programs for Higher Education	15	-
Total Future Liquidating Account Collections	**1,451**	**1,239**
Total Subsidy Due to Treasury General Fund	**$ 3,298**	**$ 10,302**

NOTE 9. Other Liabilities

(Dollars in Millions)

	2020		2019	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Accounts Payable	$ -	$ 3,773	$ -	$ 3,765
Accrued Grant Liability	-	1,939	-	2,637
Guaranty Agencies' Funds Due to Treasury	1,943	-	1,956	-
Loan Guarantee Liability	-	1,123	-	5,436
Federal Perkins Loan Program	619	-	593	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	36	239	123	303
Advances from Others and Deferred Credits	2	-	3	8
Accrued Unfunded Annual Leave	-	47	-	35
FECA Liabilities	2	13	3	11
Accrued Payroll and Benefits	-	23	-	17
Employer Contributions and Payroll Taxes	8	1	7	1
Custodial Liabilities	2	-	1	-
Total Other Liabilities	**$ 2,612**	**$ 7,158**	**$ 2,686**	**$ 12,213**

NOTE 10. Net Cost of Operations

As required by the *GPRA Modernization Act of 2010*, the Department's programs have been aligned with the goals presented in the Department's *Strategic Plan* as shown below. Goals 3 and 4 in the *Strategic Plan* are considered crosscutting goals, and therefore costs and revenues associated with these activities are included in the net cost programs associated with Goals 1 and 2. Programs associated with COVID-19 activities are administered by multiple program offices but are summarized separately. (See also Note 11)

Program Offices	Strategic Goal	Net Cost Program
NET COST STATEMENT PROGRAM ALIGNMENT WITH STRATEGIC PLAN		
OESE OSERS Other: OCTAE IES OELA OCR	**Goal 1:** Support state and local efforts to improve learning outcomes for all P-12 students in every community.	Improve learning outcomes for all P–12 students
FSA OSERS Other: OCTAE IES OPE OCR	**Goal 2:** Expand postsecondary education opportunities, improve outcomes to foster economic opportunity and promote an informed, thoughtful, and productive citizenry.	Expand postsecondary opportunities, improve outcomes to foster economic opportunity, and promote productive citizenry
All Offices	**Goal 3:** the quality, accessibility, and use of education data through better management, increased privacy protections, and transparency.	Crosscutting Goal
All Offices	**Goal 4:** Reform the effectiveness, efficiency, and accountability of the Department.	Crosscutting Goal

Gross Costs and Earned Revenue by Program

(Dollars in Millions)

	2020					
	FSA	OESE	OSERS	COVID-19	Other	Total
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS						
Gross Cost						
Grants	$ -	$ 22,544	$ 12,801	$ 1,839	$ 2,145	$ 39,329
Other	-	67	-	-	749	816
Earned Revenue	-	-	-	-	(129)	(129)
Net Program Costs	**-**	**22,611**	**12,801**	**1,839**	**2,765**	**40,016**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY						
Direct Loan Program						
Gross Cost						
Credit Program Interest Expense	34,705	-	-	-	-	34,705
Subsidy Expense	62,348	-	-	38,825	-	101,173
Administrative Expenses	1,425	-	-	-	-	1,425
Earned Revenue						
Subsidy Expense	(2)	-	-	(263)	-	(265)
Interest & Administrative Fees	(33,110)	-	-	-	-	(33,110)
Subsidy Amortization	(1,595)	-	-	-	-	(1,595)
Net Cost of Direct Loan Program	**63,771**	**-**	**-**	**38,562**	**-**	**102,333**
FFEL Program						
Gross Cost						
Credit Program Interest Expense	4,021	-	-	-	-	4,021
Subsidy Expense	(1,145)	-	-	3,325	-	2,180
Subsidy Amortization (Guaranteed Loans)	(1,064)	-	-	-	-	(1,064)
Guaranty Agencies	126	-	-	-	-	126
Administrative Expenses	156	-	-	-	-	156
Earned Revenue						
Subsidy Expense	(1)	-	-	(27)	-	(28)
Interest & Administrative Fees	(2,871)	-	-	-	-	(2,871)
Subsidy Amortization (Acquired FFEL Loans)	(86)	-	-	-	-	(86)
Guaranty Agencies	(123)	-	-	-	-	(123)
Net Cost of FFEL Program	**(987)**	**-**	**-**	**3,298**	**-**	**2,311**
Other Credit Programs for Higher Education						
Gross Cost						
Credit Program Interest Expense	23	-	-	-	59	82
Subsidy Expense	9	-	-	51	-	60
Administrative Expenses	2	-	-	-	-	2
Earned Revenue						
Subsidy Expense	-	-	-	(2)	-	(2)
Interest & Administrative Fees	(26)	-	-	-	(52)	(78)
Subsidy Amortization	1	-	-	-	(5)	(4)
Other	(1,281)	-	-	-	(3)	(1,284)
Net Cost of Other Credit Programs for Higher Education	**(1,272)**	**-**	**-**	**49**	**(1)**	**(1,224)**
Non-Credit Programs						
Gross Cost						
Grants	28,113	25	3,494	9,420	4,304	45,356
Other	348	-	3	10	270	631
Earned Revenue	-	-	-	-	(5)	(5)
Net Cost of Non-Credit Programs	**28,461**	**25**	**3,497**	**9,430**	**4,569**	**45,982**
Net Program Costs	**89,973**	**25**	**3,497**	**51,339**	**4,568**	**149,402**
Total Program Gross Costs	**129,067**	**22,636**	**16,298**	**53,470**	**7,527**	**228,998**
Total Program Earned Revenues	**(39,094)**	**-**	**-**	**(292)**	**(194)**	**(39,580)**
Net Cost of Operations	**$ 89,973**	**$ 22,636**	**$ 16,298**	**$ 53,178**	**$ 7,333**	**$ 189,418**

Gross Costs and Earned Revenue by Program

(Dollars in Millions)

2019	FSA	OESE	OSERS	Other	Total
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS					
Gross Cost					
Grants	$ -	$ 22,873	$ 12,630	$ 2,369	$ 37,872
Other	-	74	2	784	860
Earned Revenue	-	(5)	-	(37)	(42)
Net Program Costs	**-**	**22,942**	**12,632**	**3,116**	**38,690**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY					
Direct Loan Program					
Gross Cost					
Credit Program Interest Expense	33,817	-	-	-	33,817
Subsidy Expense	61,510	-	-	-	61,510
Administrative Expenses	1,369	-	-	-	1,369
Earned Revenue					
Subsidy Expense	-	-	-	-	-
Interest & Administrative Fees	(64,107)	-	-	-	(64,107)
Subsidy Amortization	30,290	-	-	-	30,290
Net Cost of Direct Loan Program	**62,879**	**-**	**-**	**-**	**62,879**
FFEL Program					
Gross Cost					
Credit Program Interest Expense	3,838	-	-	-	3,838
Subsidy Expense	12,654	-	-	-	12,654
Subsidy Amortization (Guaranteed Loans)	(1,096)	-	-	-	(1,096)
Guaranty Agencies	212	-	-	-	212
Administrative Expenses	151	-	-	-	151
Earned Revenue					
Subsidy Expense	-	-	-	-	-
Interest & Administrative Fees	(4,392)	-	-	-	(4,392)
Subsidy Amortization (Acquired FFEL Loans)	1,650	-	-	-	1,650
Guaranty Agencies	(128)	-	-	-	(128)
Net Cost of FFEL Program	**12,889**	**-**	**-**	**-**	**12,889**
Other Credit Programs for Higher Education					
Gross Cost					
Credit Program Interest Expense	22	-	-	37	59
Subsidy Expense	(4)	-	-	48	44
Administrative Expenses	2	-	-	16	18
Earned Revenue					
Subsidy Expense					
Interest & Administrative Fees	(50)	-	-	(49)	(99)
Subsidy Amortization	28	-	-	12	40
Other	(111)	-	-	(1)	(112)
Net Cost of Other Credit Programs for Higher Education	**(113)**	**-**	**-**	**63**	**(50)**
Non-Credit Programs					
Gross Cost					
Grants	32,208	24	3,559	4,092	39,883
Other	182	-	3	263	448
Earned Revenue	-	-	(1)	(9)	(10)
Net Cost of Non-Credit Programs	**32,390**	**24**	**3,561**	**4,346**	**40,321**
Net Program Costs	**108,045**	**24**	**3,561**	**4,409**	**116,039**
Total Gross Costs	**144,865**	**22,971**	**16,194**	**7,609**	**191,639**
Total Earned Revenues	**(36,820)**	**(5)**	**(1)**	**(84)**	**(36,910)**
Net Cost of Operations	**$ 108,045**	**$ 22,966**	**$ 16,193**	**$ 7,525**	**$ 154,729**

Credit Program Interest Expense and Revenues
(Dollars in Millions)

	Gross Interest Expense	Subsidy Amortization	Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization	Net Revenue
	Intragovernmental	With the Public		Intragovernmental	With the Public	With the Public	
2020							
Direct Loan Program	$ 34,705	$ -	$ 34,705	$ 4,786	$ 28,324	$ 1,595	$ 34,705
FFEL Program	4,021	(1,064)	2,957	1,435	1,436	86	2,957
Other Credit Programs for Higher Education	82	-	82	14	64	4	82
Total	**$ 38,808**	**$ (1,064)**	**$ 37,744**	**$ 6,235**	**$ 29,824**	**$ 1,685**	**$ 37,744**
2019							
Direct Loan Program	$ 33,817	$ -	$ 33,817	$ 4,082	$ 60,025	$ (30,290)	$ 33,817
FFEL Program	3,838	(1,096)	2,742	905	3,487	(1,650)	2,742
Other Credit Programs for Higher Education	59	-	59	11	88	(40)	59
Total	**$ 37,714**	**$ (1,096)**	**$ 36,618**	**$ 4,998**	**$ 63,600**	**$ (31,980)**	**$ 36,618**

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue cash flows. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense.

Grant Expenses by Appropriation
(Dollars in Millions)

	2020	2019
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS		
CARES Act	$ 1,839	$ -
Education for the Disadvantaged	15,750	16,318
Special Education—IDEA Grants	12,801	12,630
School Improvement Programs	4,755	4,477
Impact Aid	1,466	1,420
Innovation and Improvement	907	945
English Language Acquisition	676	749
Career, Technical, and Adult Education	383	480
Hurricane Education Recovery	253	345
Institute of Education Sciences	179	195
Other	320	313
Subtotal	39,329	37,872
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY		
CARES Act	$ 9,420	$ -
Student Financial Assistance		
Pell Grants	25,882	30,530
Federal Work-Study Program	1,203	1,030
Federal Supplemental Educational Opportunity Grants	1,028	648
Rehabilitation Services	3,133	3,210
Higher Education	2,738	2,528
Career, Technical, and Adult Education	1,284	1,282
Special Education—IDEA Grants	118	124
Hurricane Education Recovery	25	24
Institute of Education Sciences	42	45
Other	483	462
Subtotal	45,356	39,883
Total Grant Costs	**$ 84,685**	**$ 77,755**

The Department has more than 100 grant programs. Descriptions of *CARES Act* funded grant programs are provided in Note 11. Descriptions of non-*CARES Act* major grant program areas are as follows:

STUDENT FINANCIAL ASSISTANCE

- **Pell Grants**—provides need-based grants to students to promote access to postsecondary education. Grant amounts are dependent on: the student's expected family contribution; the cost of attendance (as determined by the institution); the student's enrollment status (full-time or part-time); and whether the student attends for a full academic year or less. Pell grants are the single largest source of grant aid for postsecondary education.

- **Federal Work-Study Program**—provides funds by formula to enable eligible institutions to offer employment to students based on financial needs. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. This program is administered by the schools that participate in the Federal Work-Study program. Hourly earnings under this program must be at least the Federal minimum wage. Federal funding, in most cases, pays 75 percent of a student's hourly wage, with the remaining 25 percent paid by the employer.

- **Federal Supplemental Educational Opportunity Grants**—provides funds by formula to enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered directly by the financial aid office at each participating school.

Education for the Disadvantaged—primarily consists of grants that provide financial assistance through SEAs to LEAs and public schools with high numbers or percentages of poor children to help ensure that all children meet challenging state academic content and student academic achievement standards. Also provides funds to states to support educational services to children of migratory farmworkers and fishers, and to neglected or delinquent children and youth in State-run institutions, attending community day programs, and correctional facilities.

Special Education—consists primarily of IDEA Grants that provide funds by formula to states to assist them in providing a free appropriate public education in the least restrictive environment for children with disabilities ages 3 through 21 and assists states in providing early intervention services for infants and toddlers birth through age two and their families. Also provides discretionary grants to IHEs and other nonprofit organizations to support research, demonstrations, technical assistance and dissemination, technology, personnel development and parent-training, and information centers.

School Improvement Programs—provides funds to SEAs to make competitive subgrants to LEAs that demonstrate the greatest need for the funds and the strongest commitment to use the funds to provide adequate resources in order to substantially raise the achievement of students in their lowest-performing schools.

Rehabilitation Services—provides funds to states and other agencies to support vocational rehabilitation and other services to individuals with disabilities to maximize their employment, independence, and integration into the community and the competitive labor market.

Higher Education—includes Institutional Service grants designed to improve academic quality, institutional management and fiscal stability, and strengthen physical plants and endowments of IHEs, with an emphasis on institutions that enroll large proportions of minority and financially disadvantaged students. Also includes Student Service grant programs supporting low-income, first-generation students and individuals with disabilities as they progress through the academic pipeline from middle school to graduate school, in addition to programs focused on college readiness, campus-based childcare, and graduate fellowships. Also includes International and Foreign Language Education grant and fellowship programs that strengthen foreign language instruction, area/international studies teaching and research, professional development for educators, and curriculum development at the K-12, graduate, and postsecondary levels.

Career, Technical, and Adult Education—includes programs that are related to adult education and literacy, career and technical education, community colleges and correctional education.

Impact Aid—provides funds to LEAs to replace the lost local revenue that would otherwise be available to educate federal connected children. (The property on which the children live and their parents work is exempt from local property taxes, limiting a central source of revenue used by most communities to finance education.)

Innovation and Improvement—includes programs that support nontraditional programs that improve student achievement and attainment; supports the development of educational television and digital media programs targeted at preschool and early elementary school children and their families to promote early learning and school readiness, with a particular interest in reaching low-income children; and supports LEAs and their partners in implementing, evaluating, and refining tools and approaches for developing the non-cognitive skills of middle-grades students in order to increase student success.

English Language Acquisition—provides funds primarily by formula to states to improve services for English learners. Also provides discretionary funds to support national activities, including professional development to increase the supply of high-quality teachers of English learners and a national clearinghouse on English language acquisition.

Hurricane Education Recovery—provides one-time emergency-relief grants, funded by supplemental appropriations acts enacted in response to specific events, to support schools and students directly affected by natural disasters. Assists students displaced or disrupted by such disasters as well as eligible agencies and institutions that require funding to cover unexpected expenses and return to normal operations.

Institute of Education Sciences—provides funding to: support research, development, and dissemination activities that provide parents, teachers, and schools with evidence-based information on effective educational practices; support statistical data collection activities conducted by the National Center for Education Statistics; support the ongoing National Assessment of Educational Progress and the National Assessment Governing Board; support research to build the evidence base on improving special education and early intervention services and outcomes for infants, toddlers, and children with disabilities; and support studies, evaluations, and assessments related to IDEA.

NOTE 11. COVID-19 Activity

(Dollars in Millions)

FY 2020	Appropriation	Appropriation Transfer	Obligated	Unobligated	Outlays	Transfers to General Fund	Net Costs (See Note 10)
CARES Act							
Education Stabilization Fund							
Elementary and Secondary School Emergency Relief Fund	$ 13,229	$ -	$ 13,229	$ -	$ 1,552	$ -	$ 1,552
Higher Education Emergency Relief Fund							
Higher Education Funds to Students	6,279	-	6,188	91	5,382	-	5,396
Higher Education Funds to Institutions	6,279	-	6,127	152	3,320	-	3,387
MSIs							
Minority Serving Institutions	270	-	265	5	66	-	66
Historically Black Colleges & Universities	577	-	577	-	161	-	161
Tribally Controlled Colleges and Universities	50	-	50	-	17	-	17
Strengthening Institutions Program	149	-	141	8	43	-	43
Fund for the Improvement of Postsecondary Education	349	-	145	204	64	-	65
Governor’s Emergency Education Relief Fund	2,953	-	2,905	48	535	-	536
Outlying Areas	154	-	154	-	21	-	21
Bureau of Indian Education	154	(154)	-	-	-	-	-
Discretionary Grants	307	-	307	-	-	-	-
Total Education Stabilization Fund	**30,750**	**(154)**	**30,088**	**508**	**11,161**	**-**	**11,244**
Safe Schools & Citizenship Education	100	-	-	100	-	-	-
Gallaudet University	7	-	7	-	2	-	2
Howard University	13	-	13	-	13	-	13
HBCU Loan Deferment	62	-	32	30	32	-	32
Student Aid Administration	40	-	17	23	9	-	9
Program Administration	8	-	4	4	-	-	-
Inspector General	7	-	-	7	-	-	-
Total CARES Act Direct Appropriations	**30,987**	**(154)**	**30,161**	**672**	**11,217**	**-**	**11,300**
Student Loan Deferrals							
Direct Loan Program	25,246	-	25,246	-	25,246	236	25,010
FFEL Program	1,770	-	1,770	-	1,770	15	1,755
TEACH Program	11	-	11	-	11	-	11
Total CARES Act Student Loan Deferrals	**27,027**	**-**	**27,027**	**-**	**27,027**	**251**	**26,776**
Total CARES Act	**58,014**	**(154)**	**57,188**	**672**	**38,244**	**251**	**38,076**
Secretary's Discretion Student Loan Deferrals							
FFEL Program	496	-	496	-	496	4	492
HEAL Program	2	-	2	-	2	-	2
Total Secretary's Discretion Student Loan Deferrals	**498**	**-**	**498**	**-**	**498**	**4**	**494**
Presidential Memorandum Student Loan Deferrals							
Direct Loan Program	13,579	-	13,579	-	13,579	27	13,552
FFEL Program	1,059	-	1,059	-	1,059	9	1,050
HEAL Program	1	-	1	-	1	-	1
TEACH Program	5	-	5	-	5	-	5
Total Presidential Memorandum Student Loan Deferrals	**14,644**	**-**	**14,644**	**-**	**14,644**	**36**	**14,608**
Total COVID-19 Activity	**$ 73,156**	**$ (154)**	**$ 72,330**	**$ 672**	**$ 53,386**	**$ 291**	**$ 53,178**

The *CARES Act* provided direct appropriations to the Department to fund a variety of programs administered primarily through grant programs, as described below. Obligated and unobligated *CARES Act* funds remaining to be disbursed total $19.6 billion (see Note 3). Indirect appropriations were provided to fund loan modifications resulting from student loan deferrals authorized under the *CARES Act* and extended by the Administration's Presidential Memorandum. The Department also extended the provisions of the student loan deferrals to guaranteed loans not covered by the *CARES Act*. (See Note 5)

Elementary and Secondary School Emergency Relief (ESSER) Fund—$13,229 million provided for SEAs and LEAs to support continued learning for K-12 students whose education has been disrupted by COVID-19. Education leaders have the flexibility to use ESSER funds for immediate needs, such as tools and resources for distance education, ensuring student health and safety, and developing and implementing plans. Local leaders are empowered with the flexibility to determine how to use their ESSER funds, as long as they are used in ways that comply with applicable federal education laws. ESSER funds have important safeguards in place to ensure that this funding goes to help students continue learning. SEAs must allocate 90 percent of their ESSER funds to LEAs, including public charter schools, in proportion to the amount of FY 2019 funds the LEA received under Title I, Part A of the Elementary and Secondary Education Act. Up to 10 percent of the SEA's award may be retained for the state agency to use to address needs related to responding to COVID-19. After one year, SEAs must return any funds that have not been awarded, and the Secretary will reallocate those funds to the states.

Higher Education Emergency Relief (HEER) Fund—$13,953 million provided for IHEs to address needs directly related to COVID-19, including transitioning courses to distance education and granting aid to students for educational costs such as food, housing, course materials, health care, and child care. The fund is distributed through the following grant programs.

- **Higher Education Funds to Students**—$6,279 million provided institutions to provide emergency financial aid grants to students whose lives have been disrupted, many of whom are facing financial challenges and struggling to make ends meet. Institutions have the responsibility of determining how grants will be distributed to students, how the amount of each student grant is calculated, and the development of any instructions or directions that are provided to students about the grant.

- **Higher Education Funds to Institutions**—$6,279 million provided to higher education institutions. Institutions can use up to one-half of the total funds to cover any costs associated with significant changes to the delivery of instruction due to COVID-19. Institutions are encouraged to use the funds to expand remote learning programs, build IT capacity to support such programs, and train faculty and staff to operate effectively in a remote learning environment. They are also encouraged to use the funds to expand support for students with the most significant financial needs arising from the COVID-19 pandemic, including eligible expenses under a student's cost of attendance, such as course materials, technology, health care, childcare, food, and housing.

- **Minority Serving Institutions (MSIs)**—$270 million provided to MSIs to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. MSIs include institutions that are eligible to participate in the following programs: Predominantly Black Institutions, Alaska Native and Native Hawaiian-Serving Institutions, Asian American and Native American Pacific Islander-Serving Institutions, Native American-Serving Nontribal Institutions, Developing Hispanic-Serving Institutions Program, and Promoting Postbaccalaureate Opportunities for Hispanic Americans. MCIs are encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.

- **Historically Black Colleges & Universities (HBCUs)**—$577 million provided to HBCUs to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. HBCUs are also encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.

- **Tribally Controlled Colleges and Universities (TCCUs)**—$50 million provided to TCCUs to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. TCCUs are also encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.

- **Strengthening Institutions Program**—$149 million provided to institutions that are not participating in the MSI programs but have at least 50 percent of their degree students receiving need-based assistance under Title IV of the *Higher Education Act* or have a substantial number of enrolled students receiving Pell Grants, and have low educational and general expenditures. These funds can be used to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. These institutions are encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.

- **Fund for the Improvement of Postsecondary Education (FIPSE)**—$349 million provided for this grant program which supports projects to encourage innovative reform and expand education opportunities to underrepresented groups. Institutions can use these additional FIPSE funds to defray institutional expenses, which may include lost revenue, reimbursement for expenses already incurred, technology costs associated with the transition to distance education, faculty and staff training, and payroll. Institutions are also encouraged to use as much of these funds as possible to provide students eligible for financial aid with grants for any component of the student's cost of attendance, including tuition, course materials, and technology.

Governor's Emergency Education Relief (GEER) Fund—$2,953 million provided to state governors to ensure education continues for students of all ages impacted by the COVID-19 national emergency. The GEER Fund is a flexible emergency block grant designed to enable governors to decide how best to meet the needs of students, schools (including charter schools and non-public schools), postsecondary institutions, and other education-related organizations.

Outlying Areas, Bureau of Indian Education, and Discretionary Grants—$615 million provided for outlying areas and states with the highest COVID-19 burdens. These funds are distributed through the following grant programs.

- **Outlying Areas**—$154 million provided for the outlying areas of the United States, specifically: the U.S. Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa. Money made available from these grants will be used in response to COVID-19 and will be calculated via formula. Each Outlying Area received two block grants from the Education Stabilization Fund—one to the Governor's offices and one to the SEA.

- **Bureau of Indian Education**—$154 million for programs operated by the Bureau of Indian Education (BIE), in consultation with the Secretary of Interior. The Department transferred these funds to BIE.

- **Discretionary Grants**—$307.5 million provided to states to use to create adaptable, innovative learning opportunities for K-12 and postsecondary learners in response to the COVID-19 national emergency.

  - **Rethink K-12 Education Models Grants**—$180 million aimed at opening new, innovative ways for students to access K-12 education with an emphasis on meeting students' needs during the COVID-19 national emergency.

  - **Reimagining Workforce Preparation Grants**—$127 million to expand short-term postsecondary programs and work-based learning programs in order to get Americans back to work and help small businesses return to being our country's engines for economic growth.

In addition to the Education Stabilization Fund, the *CARES Act* also included funding for the following.

Safe Schools & Citizenship Education—$100 million additional funding for this program to prevent, prepare for, and respond to COVID-19, including disinfecting affected schools, and assisting in counseling and distance learning.

Gallaudet University—$7 million to help address challenges associated with COVID-19.

Howard University—$13 million to help address challenges associated with COVID-19.

HBCU Loan Deferment—$62 million provided to fund the deferment of loan repayments for HBCUs that were provided low-cost capital financing for campus maintenance and construction projects. During the period of the deferment, the Department is required to pay the required principal and interest due. At the end of the deferment, the HBCU is required to repay the Department for payments made on its behalf.

Student Aid Administration—$40 million provided to fund the additional costs of administering the *CARES Act* provisions affecting student financial aid programs.

Program Administration—$8 million provided to the Department to fund costs of administrating the *CARES Act*.

Inspector General—The *CARES Act* appropriated $7 million for salaries and expenses necessary for Office of Inspector General oversight and audit of *CARES Act* programs, grants, and projects.

NOTE 12. Statements of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2020, budgetary resources were $473.2 billion and net agency outlays were $161.5 billion. As of September 30, 2019, budgetary resources were $358.2 billion and net agency outlays were $144.5 billion.

Net Adjustments to Unobligated Balances Brought Forward
(Dollars in Millions)

	2020		2019	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Prior Year Unobligated Balance, End of Year (Total)	**$ 16,774**	**$ 18,324**	**$ 17,850**	**$ 23,728**
Recoveries of Prior Year Unpaid Obligations	1,426	18,220	1,158	24,841
Borrowing Authority Withdrawn	-	(15,004)	-	(17,520)
Actual Repayments of Debt, Prior-Year Balances	-	(12,720)	-	(16,261)
Actual Capital Transfers to the Treasury General Fund	(265)	-	(328)	-
Canceled Authority	(305)	-	(405)	-
Downward Adjustments of Prior-Year Paid Delivered Orders	128	301	6	342
Other Differences	(2)	(2)	(50)	(103)
Unobligated Balance from Prior Year Budget Authority (Net)	**$ 17,756**	**$ 9,119**	**$ 18,231**	**$ 15,027**

During the years ended September 30, 2020 and September 30, 2019, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2019 and October 1, 2018. These adjustments included, among other things, recoveries of prior year unpaid obligations that result from downward adjustments of undelivered orders that were obligated in a prior fiscal year.

Unused Borrowing Authority
(Dollars in Millions)

	2020	2019
Beginning Balance, Unused Borrowing Authority	**$ 55,845**	**$ 62,752**
Current Year Borrowing Authority	135,589	148,493
Funds Drawn from Treasury	(128,200)	(137,880)
Borrowing Authority Withdrawn	(15,004)	(17,520)
Ending Balance, Unused Borrowing Authority	**$ 48,230**	**$ 55,845**

The Department is given authority to draw funds from Treasury to finance the Direct Loan, FFEL, and other loan programs. Unused borrowing authority is a budgetary resource and is available to support obligations for these programs. The Department periodically reviews its borrowing authority balances in relation to its obligations, resulting in the withdrawal of unused amounts.

Undelivered Orders
(Dollars in Millions)

	2020		2019	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Unpaid	$ 180	$ 138,621	$ 215	$ 121,561
Paid	121	503	64	563
Undelivered Orders	**$ 301**	**$ 139,124**	**$ 279**	**$ 122,124**

Undelivered orders represent the amount of goods and/or services ordered which have not been actually or constructively received. Paid amounts include any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred.

Distributed Offsetting Receipts
(Dollars in Millions)

	2020	2019
Negative Subsidies and Downward Re-estimates of Subsidies:		
Direct Loan Program	$ 5,382	$ 9,906
FFEL Program	6,865	2,099
HEAL Program	-	34
TEACH Program	36	1
Facilities Loan Programs	48	5
Total Negative Subsidies and Downward Re-estimates	12,331	12,045
Repayment of Perkins Loans and Capital Contributions	1,317	90
Other	(38)	138
Distributed Offsetting Receipts	**$ 13,610**	**$ 12,273**

The majority of the distributed offsetting receipts line item on the SBR represents amounts paid from the Direct Loan program and FFEL program financing accounts to Treasury General Fund receipt accounts for downward current fiscal year executed subsidy re-estimates and negative subsidies.

Reconciliation of SBR to *Budget of the United States Government*
(Dollars in Millions)

	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statements of Budgetary Resources	**$ 358,215**	**$ 323,117**	**$ 12,273**	**$ 104,363**
Expired Funds	(1,859)	(551)	-	-
FFEL Guaranty Agency Amounts Included in the President's Budget	7,342	7,341	-	-
Distributed Offsetting Receipts	-	-	-	12,273
Other	(2)	-	1	4
Budget of the United States Government[1]	**$ 363,696**	**$ 329,907**	**$ 12,274**	**$ 116,640**

[1] Amounts obtained from the Appendix, *Budget of the United States Government, FY 2021*.

The FY 2022 *Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2020, has not been published as of the issue date of these financial statements. The FY 2022 President's Budget is scheduled for release in February 2021 and will be made available on OMB's website. The table above reconciles the FY 2019 SBR to the FY 2021 President's Budget (FY 2019 actual amounts) for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays.

Reconciling differences exist because the President's Budget excludes expired funds. Additionally, the President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL program for the estimated activity of the consolidated federal fund of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the federal fund is independent from the Department's direct control, budgetary resources and new obligations and upward adjustments are estimated and disclosed in the President's Budget to approximate the gross activities of the combined federal fund. Amounts reported on the SBR for the federal fund are compiled by combining all guaranty agencies' annual reports to determine a net valuation amount for the federal fund.

NOTE 13. Reconciliation of Net Cost to Net Outlays

(Dollars in Millions)

	2020			2019		
	Intragovern-mental	With the Public	Total	Intragovern-mental	With the Public	Total
Net Cost of Operations	**$ 33,158**	**$ 156,260**	**$ 189,418**	**$ 33,374**	**$ 121,355**	**$ 154,729**
Components of Net Operating Cost Not Part of the Net Budgetary Outlays						
Excess of Accrual-Basis Expenses Over Budget Outlays						
Current-Year Subsidy Expense	-	(52,571)	(52,571)	-	(67,225)	(67,225)
Loan Modification Adjustment Transfer Gains/(Losses), Net	-	(54)	(54)	-	1	1
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(30)	-	(30)	(37)	-	(37)
Other Liabilities	64	600	664	(142)	(632)	(774)
Excess of Accrual-Basis Revenue Over Budget Receipts						
Accounts Receivable	1	(43)	(42)	1	16	17
Offset to Non-Entity Accrued Collections	-	(42)	(42)	-	17	17
Total Components of Net Operating Cost Not Part of the Net Budgetary Outlays	**35**	**(52,110)**	**(52,075)**	**(178)**	**(67,823)**	**(68,001)**
Components of the Net Budgetary Outlays Not Part of Net Operating Costs						
Current-Year Budget Subsidy Costs	-	67,225	67,225	-	17,954	17,954
Other Loan Activities, Net	-	(150)	(150)	-	31	31
Other Assets	57	(16)	41	(87)	(222)	(309)
Financing Sources Transferred In from Custodial Statement Collections	(12)	-	(12)	(15)	-	(15)
Total Components of the Net Budgetary Outlays Not Part of Net Operating Costs	**45**	**67,059**	**67,104**	**(102)**	**17,763**	**17,661**
Other Reconciling Differences						
Increase/(Decrease) in Deposit Funds	-	(32)	(32)	-	(26)	(26)
Total Other Reconciling Differences	**-**	**(32)**	**(32)**	**-**	**(26)**	**(26)**
Net Outlays (Calculated Total)	**$ 33,238**	**$ 171,177**	**$ 204,415**	**$ 33,094**	**$ 71,269**	**$ 104,363**
Related Amounts on the Statement of Budgetary Resources						
Outlays, Net (Discretionary and Mandatory)			218,025			116,636
Distributed Offsetting Receipts			(13,610)			(12,273)
Agency Outlays, Net (Discretionary and Mandatory)			**$ 204,415**			**$ 104,363**

This reconciliation explains the relationship between the Department's net cost of operations and its net outlays. Reconciling items result from transactions which did not result in a current period outlay but did result in a current period cost, and current period outlays that did not result in a current period cost.

Disbursements for new FCRA loans and collections of principal and interest on existing FCRA loans are recorded in non-budgetary credit reform financing accounts. These disbursements and collections are reported on the Statement of Budgetary Resources as disbursements, net, and not as agency outlays, net. Since these disbursements and collections affect neither net cost of operations nor agency outlays, net, they are excluded from this reconciliation as are any increases or decreases in the FCRA loan receivable balances.

The two major reconciling differences, both associated with the Department's FCRA loan programs, are for current-year subsidy accrual costs and current-year budget subsidy costs.

- Current-year subsidy accrual costs are the portion of the current-year loan subsidy re-estimates not impacting the current year outlays.

- Current-year budget subsidy costs are current year indirect appropriations provided to fund subsidy costs accrued in the prior year. This includes the portion of the current year's executed President's budget re-estimates not included in this year's net cost subsidy expense.

NOTE 14. Commitments and Contingencies

The Department discloses contingencies where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred in accordance with FASAB Standard No. 5, *Accounting for Liabilities of the Federal Government*. The following commitments are amounts for contractual arrangements that may require future financial obligations.

Future Minimum Lease Payments
(Dollars in Millions)

2020			2019		
2021	$	72	2020	$	73
2022		75	2021		78
2023		77	2022		81
2024		74	2023		83
2025		75	2024		86
After 2025		77	After 2024		87
Total	**$**	**450**	**Total**	**$**	**488**

The Department leases from the General Services Administration all or a portion of 13 privately owned and 12 publicly owned buildings in 20 cities. The table above presents the estimated future minimum lease payments for these privately and publicly owned buildings.

GUARANTY AGENCIES

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in fiscal years 2020 or 2019 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

LITIGATION AND OTHER CLAIMS

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material impact on the Department's financial position. As appropriate, the Department would seek recovery from Treasury's Judgment Fund for any loss in litigation that may occur. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government, if appropriated funds cannot be used.

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2020. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2020, is not expected to have a material impact on these financial statements.

OTHER MATTERS

Some portion of the current-year financial assistance expenses (grants) may include funded recipient expenditures that are subsequently disallowed through program review or audit processes. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Department's financial position.

NOTE 15. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Operations and Changes in Net Position for FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), Treasury requires agencies to submit an adjusted trial balance, which is a listing of accounts that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Operations and Changes in Net Position for each agency, all of which show how agency amounts are related to particular FR statement line items. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The three schedules in this note show the Department's financial statements and the Department's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. The term "Non-Federal" is used in this note to refer to Federal government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and state, local, and foreign governments.

A copy of the September 30, 2019 FR can be found on Treasury's website and a copy of the September 30, 2020 FR will be posted to this site as soon as it is released.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2020

(Dollars in Millions)

FY 2020 Department Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
ASSETS			**ASSETS**
Intragovernmental:			Intragovernmental:
Fund Balance with Treasury	$ 136,015	$ 136,015	Fund Balance with Treasury
Other Intragovernmental Assets	124	3	Accounts Receivable
		121	Other Advances and Repayments
Total Intragovernmental	**136,139**	**136,139**	**Total Intragovernmental Assets**
Public:			Non-Federal:
Credit Program Receivables, Net			
Direct Loan Program	1,100,544	1,100,544	Direct Loan and Loan Guarantees, Net
FFEL Program	67,380	67,380	Direct Loan and Loan Guarantees, Net
Other Credit Programs for Higher Education	3,107	3,107	Direct Loan and Loan Guarantees, Net
Other Assets	2,216	1,943	Cash and Other Monetary Assets
		6	General Property, Plant, and Equipment, Net
		234	Accounts Receivable, Net
		33	Other Assets
Total Public	**1,173,247**	**1,173,247**	**Total Non-Federal Assets**
Total Assets	**$ 1,309,386**	**$ 1,309,386**	**Total Assets**
LIABILITIES			**LIABILITIES**
Intragovernmental:			Intragovernmental:
Debt			
Direct Loan Program	$ 1,160,099	$ 1,160,099	Debt Associated with Loans
FFEL Program	88,986	88,986	Debt Associated with Loans
Other Credit Programs for Higher Education	2,302	2,302	Debt Associated with Loans
Subsidy Due to Treasury General Fund	3,298	3,298	Other Liabilities
Other Intragovernmental Liabilities	2,612	9	Accounts Payable
		2,603	Other Liabilities
Total Intragovernmental	**1,257,297**	**1,257,297**	**Total Intragovernmental Liabilities**
Public:			
Other Liabilities	7,158	1,123	Loan Guarantee Liabilities
		3,773	Accounts Payable
		61	Federal Employee and Veteran Benefits
		2,201	Other Liabilities
Total Public	**7,158**	**7,158**	**Total Non-Federal Liabilities**
Total Liabilities	**$ 1,264,455**	**$ 1,264,455**	**Total Liabilities**
NET POSITION			**NET POSITION**
Unexpended Appropriations	$ 99,314	$ 99,314	Unexpended Appropriations - Funds Other Than Those from Dedicated Collections
Cumulative Results of Operations	(54,383)	(54,383)	Cumulative Results of Operations - Funds Other Than Those from Dedicated Collections
Total Net Position	**$ 44,931**	**$ 44,931**	**Total Net Position**
Total Liabilities & Net Position	**$ 1,309,386**	**$ 1,309,386**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2020

(Dollars in Millions)

FY 2020 Department Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Total Gross Cost	$ 228,998	$ 189,605	Non-Federal Gross Cost
		124	Benefit Program Costs
		30	Imputed Costs
		410	Buy/Sell Cost
		38,808	Borrowing and Other Interest Expense
		7	Borrowing losses
		14	Other Expenses (Without Reciprocals)
Total Program Gross Cost	**$ 228,998**	**$ 228,998**	Department Total Gross Cost
Total Earned Revenue	$ (39,580)	$ (33,345)	Non-Federal Earned Revenue
		(6,235)	Borrowing and Other Interest Revenue (Exchange)
Total Earned Revenue	**(39,580)**	**(39,580)**	**Department Total Earned Revenue**
Net Cost of Operations	**$ 189,418**	**$ 189,418**	**Net Cost of Operations**

Reclassification of Statement of Changes in Net Position to Line Items Used for the Government-wide Statement of Operations and Changes in Net Position for the Year Ending September 30, 2020

(Dollars in Millions)

FY 2020 Department Statement of Changes in Net Position		Line Items Used to Prepare FY 2020 Government-wide Statement of Operations and Changes in Net Position	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Unexpended Appropriations			
Beginning Balance	$ 72,757	$ 72,757	Net Position, Beginning of Period
Appropriations Received	245,237	244,366	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments (Rescissions, etc.)	(871)		
Appropriations Transferred	(154)	(154)	Non-Expenditure Transfers-out of Unexpended Appropriations and Financing Sources
Appropriations Used	(217,655)	(217,655)	Appropriations Used
Unexpended Appropriations, Ending Balance	**$ 99,314**	**$ 99,314**	
Cumulative Results of Operations			
Beginning Balance	$ (76,267)	$ (76,267)	Net Position, Beginning of Period
Appropriations Used	217,655	217,655	Appropriations Expended
Nonexchange Revenue	11	11	Collections Transferred Into a TAS Other Than the General Fund of the U.S. Government
Imputed Financing from Costs Absorbed by Others	30	30	Imputed Financing Sources
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	(6,394)	(14,364)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		7,252	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		6	Other Taxes and Receipts
		711	Other Budgetary Financing Sources
		1	Other Non-Budgetary Financing Sources
Net Cost of Operations	(189,418)	(189,418)	Net Cost of Operations
Cumulative Results of Operations, Ending Balance	**$ (54,383)**	**$ (54,383)**	
Net Position	**$ 44,931**	**$ 44,931**	**Net Position, End of Period**