FINANCIAL SECTION

Message From the Chief Financial Officer

I am pleased to present our fiscal year (FY) 2021 *Agency Financial Report* (AFR) for the Department of Education (Department). Throughout FY 2021, the Department has remained committed to our stated mission to "promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access."

Congress established the Department as a Cabinet-level agency in 1980. Today, the Department supports programs that touch every area and level of education. The Department's early learning, elementary, and secondary education programs annually serve more than 17,000 school districts and more than 56 million students attending more than 98,000 public and 32,000 private schools. Department programs also provide grant, loan, and work-study assistance to more than 10 million postsecondary students at more than 5,600 institutions of higher education.

The Department is responsible for administering education programs authorized and funded by Congress and signed into law by the President. This responsibility involves developing regulations and policy guidance regarding program operations, determining how program funds are awarded to recipients consistent with statutory requirements, and ensuring programs are operated fairly and conform to statutes and laws prohibiting discrimination in federally funded activities. The Department also collects data and conducts research on education to help focus attention on education issues of national importance.

While remaining in a maximum telework posture for the past year, the Department's innovative and dedicated workforce achieved several accomplishments during FY 2021:

- In FY 2020 and FY 2021, Congress passed multiple COVID-19 relief bills that provided the Department with over $280 billion of supplemental funding for educational purposes. With this influx of funds, the Department successfully managed payment integrity risk by implementing strong internal controls that reduce the risk of improper payments while also implementing management flexibilities to temporarily reduce regulatory burdens on grantees adversely impacted by the pandemic.
- The Department established the Office of Enterprise Data Analytics and Risk Management, which merges enterprise risk management and operational internal controls activities and aims to provide leadership with actionable insights powered by data analytics.
- In March 2021, the Federal Student Aid (FSA) launched the FSA Partner Connect website, fsapartners.ed.gov to help streamline the Next Generation Federal Student Aid (Next Gen FSA) experience for partners.
- For the 20th consecutive year, we received an unmodified (clean) audit opinion on our financial statements from our independent auditor. A clean opinion confirms that our financial statements are presented fairly, in all material respects, and conform with generally accepted accounting principles. The internal control report identified one repeat material weakness, "Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement." The Department developed and implemented a corrective action plan to begin addressing deficiencies identified as part of this particular weakness in FY 2021 and remains

committed to continually evaluating current internal controls for improvement opportunities in FY 2022 and beyond.

- We received external validation of our sustained efforts to produce user-friendly, transparent financial reporting by earning the Department's 17th award of the Association of Government Accountants' Certificate of Excellence in Accountability Reporting, as well as a special award for the Innovative Presentation of A Matter of Wide Public Interest. Federal financial reports must pass a rigorous independent review against a comprehensive set of standards to earn this prestigious recognition, which is the highest award bestowed for federal financial reporting.

I am proud of the work the Department has accomplished over the past fiscal year, though challenges still lie ahead. Student loan payment relief during the COVID-19 pandemic was extended through January 31, 2022. This measure included suspending loan payments and halting collections on defaulted loans. These actions have largely insulated federal student loan performance from economic disruption caused by the COVID-19 pandemic, while at the same time reducing the amount of loan repayments being remitted to the Department. This final extension will give students and borrowers the time they need to plan for restart and ensure a smooth pathway back to repayment. The Department is working with students and borrowers and providing guidance and information about how to plan for payment restart as the end of the pause approaches.

The Department's achievements illustrate the remarkable effort and dedication of our employees and partners. We will continue to serve as accountable and committed stewards supporting the Department's mission on behalf of the public while enhancing our financial management capabilities.

Denise L. Carter

Denise Carter

Delegated the authority to perform the functions and duties of the position of Chief Financial Officer

November 19, 2021

About the Financial Section

In FY 2021, the Department prepared its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to it. Preparation of these statements is an important part of the Department's financial management goal of providing accurate and reliable information for decision-making.

FINANCIAL STATEMENTS AND NOTES

The **Consolidated Balance Sheets** summarize the assets, liabilities, and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities from transactions with the public.

The **Consolidated Statements of Net Cost** show, by program, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the Department less exchange revenues earned by those programs.

The **Consolidated Statements of Changes in Net Position** present the Department's beginning and ending net position by two components—Unexpended Appropriations and Cumulative Results of Operations. It summarizes the change in net position by major transaction category. The ending balances of both components of the net position are also reported on the Consolidated Balance Sheets.

The **Combined Statements of Budgetary Resources** present the budgetary resources available to the Department, the status of these resources, and the outlays of budgetary resources.

The **Notes to the Financial Statements** provide information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed.

Note 1. Summary of Significant Accounting Policies

Note 2. Non-Entity Assets

Note 3. Fund Balance with Treasury

Note 4. Other Assets

Note 5. Loan Receivables, Net, and Loan Guarantee Liabilities

Note 6. Liabilities Not Covered by Budgetary Resources

Note 7. Debt Associated with Loans

Note 8. Subsidy Due to Treasury

Note 9. Other Liabilities

Note 10. Net Cost of Operations

Note 11. COVID-19 Activity

Note 12. Statements of Budgetary Resources

Note 13. Reconciliation of Net Cost to Net Outlays

Note 14. Commitments and Contingencies

Note 15. Subsequent Event

Note 16. Reclassification of Statement of Net Cost and Statement of Operations and Changes in Net Position for FR Compilation Process

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

This section contains the Combining Statements of Budgetary Resources for the years ended September 30, 2021, and September 30, 2020.

REPORT OF THE INDEPENDENT AUDITORS

The results of the audit of the Department's financial statements for FY 2021 and FY 2020 to comply with the *Chief Financial Officers Act of 1990*, as amended, are presented to be read in conjunction with the Financial Section in its entirety. The Department's Office of Inspector General contracted with the independent certified public accounting firm of KPMG LLP to audit the financial statements of the Department as of September 30, 2021, and 2020, and for the years then ended.

U.S. Department of Education
Consolidated Balance Sheets
As of September 30, 2021 and September 30, 2020
(Dollars in Millions)

	FY2021	FY2020
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 351,868	$ 136,015
Other Intragovernmental Assets (Note 4)	114	124
Total Intragovernmental	351,982	136,139
Public:		
Loans Receivable, Net (Note 5)		
Direct Loan Program	1,104,851	1,100,544
Federal Family Education Loan (FFEL) Program	58,246	67,380
Other Credit Programs for Higher Education	1,967	3,107
Cash and Other Monetary Assets	1,913	1,943
Other Assets (Note 4)	324	273
Total Public	1,167,301	1,173,247
Total Assets	**$ 1,519,283**	**$ 1,309,386**
LIABILITIES (Note 6)		
Intragovernmental:		
Debt Associated with Loans (Note 7)		
Direct Loan Program	$ 1,142,195	$ 1,160,099
FFEL Program	78,254	88,986
Other Credit Programs for Higher Education	1,096	2,302
Accounts Payable	1	-
Other Liabilities:		
Subsidy Due to Treasury (Note 8)	1,513	3,298
Guaranty Agency Funds Due to Treasury	1,913	1,943
Other Intragovernmental Liabilities (Note 9)	739	669
Total Intragovernmental	1,225,711	1,257,297
Public:		
Accounts Payable	5,010	3,773
Loan Guarantee Liabilities (Note 5)	7,496	1,123
Other Liabilities:		
Accrued Grant Liability	7,589	1,939
Other (Note 9)	382	323
Total Public	20,477	7,158
Total Liabilities	**$ 1,246,188**	**$ 1,264,455**
Commitments and Contingencies (Note 14)		
NET POSITION		
Unexpended Appropriations	$ 301,798	$ 99,314
Cumulative Results of Operations	(28,703)	(54,383)
Total Net Position	**$ 273,095**	**$ 44,931**
Total Liabilities and Net Position	**$ 1,519,283**	**$ 1,309,386**

The accompanying notes are an integral part of these statements.

U.S. Department of Education
Consolidated Statements of Net Cost
For the Years Ended September 30, 2021 and September 30, 2020
(Dollars in Millions)

		FY2021		FY2020
IMPROVE LEARNING OUTCOMES FOR ALL P-12 STUDENTS				
Gross Costs	$	61,013	$	40,145
Earned Revenue		(118)		(129)
Net Program Costs	**$**	**60,895**	**$**	**40,016**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY				
Direct Loan Program				
Gross Costs	$	131,088	$	137,303
Earned Revenue		(35,673)		(34,970)
Net Cost of Direct Loan Program	**$**	**95,415**	**$**	**102,333**
FFEL Program				
Gross Costs	$	16,898	$	5,419
Earned Revenue		(3,095)		(3,108)
Net Cost of FFEL Program	**$**	**13,803**	**$**	**2,311**
Other Credit Programs for Higher Education				
Gross Costs	$	1,673	$	144
Earned Revenue		(1,060)		(1,368)
Net Cost of Other Credit Programs for Higher Education	**$**	**613**	**$**	**(1,224)**
Non-Credit Programs				
Gross Costs	$	68,994	$	45,987
Earned Revenue		(15)		(5)
Net Cost of Non-Credit Programs	**$**	**68,979**	**$**	**45,982**
Net Program Costs	**$**	**178,810**	**$**	**149,402**
Total Program Gross Costs	**$**	**279,666**	**$**	**228,998**
Total Program Earned Revenue	**$**	**(39,961)**	**$**	**(39,580)**
Net Cost of Operations (Notes 10 & 13)	**$**	**239,705**	**$**	**189,418**

The accompanying notes are an integral part of these statements.

U.S. Department of Education
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2021 and September 30, 2020
(Dollars in Millions)

	FY2021		FY2020	
	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations
Beginning Balances	**$ 99,314**	**$ (54,383)**	**$ 72,757**	**$ (76,267)**
Appropriations Received	477,507	-	245,237	-
Appropriations Transferred - In/Out	(409)	-	(154)	-
Other Adjustments (Rescissions, etc.)	(1,107)	1	(871)	-
Appropriations Used	(273,507)	273,507	(217,655)	217,655
Nonexchange Revenue	-	8	-	11
Donations and Forfeitures of Cash and Cash Equivalents	-	1	-	-
Imputed Financing from Costs Absorbed by Others	-	36	-	30
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	-	(8,168)	-	(6,394)
Net Cost of Operations	-	(239,705)	-	(189,418)
Net Change	**$ 202,484**	**$ 25,680**	**$ 26,557**	**$ 21,884**
Net Position	**$ 301,798**	**$ (28,703)**	**$ 99,314**	**$ (54,383)**

The accompanying notes are an integral part of these statements.

U.S. Department of Education
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2021 and September 30, 2020
(Dollars in Millions)

	FY2021		FY2020	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority (Net) (Note 12)	$ 20,772	$ 20,650	$ 17,756	$ 9,119
Appropriations (Discretionary and Mandatory)	476,520	239	244,680	350
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	129,407	-	135,589
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	(206)	42,224	191	65,762
Total Budgetary Resources	**$ 497,086**	**$ 192,520**	**$ 262,627**	**$ 210,820**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Total)	$ 457,228	$ 170,268	$ 242,724	$ 188,098
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	35,815	-	16,446	-
Unapportioned, Unexpired Accounts	1,931	22,252	1,822	22,722
Unexpired Unobligated Balance, End of Year	**$ 37,746**	**$ 22,252**	**$ 18,268**	**$ 22,722**
Expired Unobligated Balance, End of Year	2,112	-	1,635	-
Unobligated Balance, End of Year (Total)	**$ 39,858**	**$ 22,252**	**$ 19,903**	**$ 22,722**
Total Budgetary Resources	**$ 497,086**	**$ 192,520**	**$ 262,627**	**$ 210,820**
OUTLAYS, NET, AND DISBURSEMENTS, NET				
Outlays, Net (Discretionary and Mandatory)	$ 267,076		$ 218,025	
Distributed Offsetting Receipts (-) (Note 12)	(6,625)		(13,610)	
Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13)	**$ 260,451**		**$ 204,415**	
Disbursements, Net (Total) (Mandatory)		**$ (39,881)**		**$ (42,946)**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements for the Years Ended September 30, 2021 and September 30, 2020

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 governmentwide 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.

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 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 (TEACH) Grant 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 (IHE) 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, 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 passed multiple COVID-19 relief bills in fiscal year (FY) 2020 and FY 2021 including the following that provided funding for educational purposes: the *Coronavirus Aid, Relief, and Economic Security Act*, of 2020 (CARES Act), the *Coronavirus Response and Relief Supplemental Appropriations Act* of 2021 (CRRSAA), and the *American Rescue Plan Act of 2021* (ARP). The largest component of the education funding provided by the COVID-19 relief appropriations established the Education Stabilization Fund, which includes the (1) Elementary and Secondary School Emergency Relief Fund, (2) Higher Education Emergency Relief Fund, (3) Governor's Emergency Education Relief Fund, and (4) funds for outlying areas. The Education Stabilization Fund is being distributed to recipients through various grant programs. The Department transferred $563 million of the funds to the Department of the Interior to be administered by the Bureau of Indian Education. (See Notes 3, 10, and 11)

The COVID-19 relief legislation and administrative actions also provided support for student loan borrowers primarily by suspending nearly all federal loan payments until January 31, 2022, interest free. The Department also stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default. Funding for the student loan repayment deferrals was provided through indefinite appropriations. (See Notes 5, 10, and 11)

Other regulatory flexibilities and incentives provided in the COVID-19 legislation include:

- Federal Supplemental Educational Opportunity Grants 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 the spring 2020 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 to help 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 (SEA) and local educational agencies (LEA) 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 United States 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 that 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 U.S. 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) that 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.

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 nonbudgetary 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 8.9 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 canceled if a person dies, meets disability requirements, or occasionally through the bankruptcy courts. Loans are also canceled 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 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 if cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 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 canceled 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 President's Budget 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)

CASH AND OTHER MONETARY ASSETS

Cash and other monetary assets are the federal government's interest in the program assets held by state and nonprofit FFEL Program guaranty agencies (guaranty agencies' federal funds). Section 422A of the HEA required FFEL guaranty agencies to establish federal student loan reserve funds. Guaranty agencies' 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 of guaranty agencies' federal funds represents consolidated reserve balances of the 20 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 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 on the Department's balance sheets. The funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The guaranty agencies' federal funds are the property of the United States and are reflected in the President's

Budget. 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 Note 2)

LOAN RECEIVABLES, NET AND LOAN GUARANTEE LIABILITIES

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 loan guarantee liabilities 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 ASSOCIATED WITH LOANS

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 30. 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

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 before 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 U.S. 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 30, 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

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. 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). The change in book value of direct loans resulting from a modification and the cost of modification will normally differ due to the use of different discount rates or the use of different measurement methods. Any difference between the change in book value and the cost of modification is recognized as a modification adjustment transfer gain or a modification adjustment transfer loss. (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 30. 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 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, best available data, economic assumptions, 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 format of the balance sheet was changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change will allow readers to see how the amounts shown on the balance sheet are reflected on the Governmentwide Balance Sheet and thereby support the preparation and audit of the *Financial Report of the United States Government*. The presentation of the FY 2020 balance sheet was modified to be consistent with the 2021 presentation. Balance sheet notes affected by the new balance sheet format were also reclassified. (See Notes 2, 4, 5, and 9)
- Note 13, Reconciliation of Net Cost to Net Outlays, was reclassified to conform to FY 2021 Treasury guidance for the presentation of this reconciliation.

NOTE 2. Non-Entity Assets

(Dollars in Millions)

	2021		2020	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Non-Entity Assets				
Fund Balance with Treasury	$ 285	$ -	$ 233	$ -
Loans Receivable, Net	-	693	-	633
Cash and Other Monetary Assets	-	1,913	-	1,943
Other Assets				
Accounts Receivable, Net	-	66	-	42
Total Non-Entity Assets	**285**	**2,672**	**233**	**2,618**
Entity Assets	351,697	1,164,629	135,906	1,170,629
Total Assets	**$ 351,982**	**$ 1,167,301**	**$ 136,139**	**$ 1,173,247**

The Department's FY 2021 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 (71.6 percent), reported as cash and other monetary assets, and Federal Perkins Loan program loan receivables (25.9 percent), reported as loan 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 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)

	2021			2020		
	COVID-19 Funds	All Other Funds	Total	COVID-19 Funds	All Other Funds	Total
Unobligated Balance						
Available	$ 18,515	$ 17,300	$ 35,815	$ 672	$ 15,774	$ 16,446
Unavailable	-	24,382	24,382	-	24,236	24,236
Obligated Balance, Not Disbursed	203,460	130,330	333,790	18,944	124,403	143,347
Authority Temporarily Precluded from Obligation	-	(396)	(396)	-	-	-
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 12)	-	(41,978)	(41,978)	-	(48,230)	(48,230)
Other	-	255	255	-	216	216
Total Fund Balance with Treasury	**$ 221,975**	**$ 129,893**	**$ 351,868**	**$ 19,616**	**$ 116,399**	**$ 136,015**

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 ($24.4 billion) differs from unapportioned and expired amounts on the SBR ($26.3 billion) due to the Guaranty Agencies' Federal Funds ($1.9 billion).

In FY 2021 and FY 2020, $354 million and $305 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)

	2021				2020			
	Intragovernmental		With the Public		Intragovernmental		With the Public	
Accounts Receivable, Net	$	9	$	284	$	3	$	234
Advances to Others and Prepayments		104		34		120		32
Property and Equipment, Net		-		6		-		6
Other		1		-		1		1
Total Other Assets	**$**	**114**	**$**	**324**	**$**	**124**	**$**	**273**

Included in the accounts receivable with the public are amounts owed because 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, 2021, related to criminal restitutions totaled $120 million and $109 million, respectively.

Changes in property and equipment balances were as follows:

Property and Equipment

(Dollars in Millions)

	Acquisition Value		Accumulated Depreciation		Net	
2021						
Balance Beginning of the Year	$	167	$	(161)	$	6
Capitalized Acquisitions		1		-		1
Depreciation Expense		-		(1)		(1)
Balance At End of Year	**$**	**168**	**$**	**(162)**	**$**	**6**
2020						
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. Loan Receivables, Net and Loan Guarantee Liabilities

Loans Receivables

(Dollars in Millions)

	Principal		Accrued Interest		Allowance for Subsidy		Net	
2021								
Direct Loan Program	$	1,292,214	$	86,501	$	(273,864)	$	1,104,851
FFEL Program		82,009		23,902		(47,665)		58,246
Other Credit Programs for Higher Education		2,060		294		(387)		1,967
Total Loans Receivable	**$**	**1,376,283**	**$**	**110,697**	**$**	**(321,916)**	**$**	**1,165,064**
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 Loans Receivable	**$**	**1,312,945**	**$**	**116,615**	**$**	**(258,529)**	**$**	**1,171,031**

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 COVID-19 pandemic were recorded as loan modifications and are described in each of the programs below. Per OMB guidance, loan modifications were calculated using the President's Budget formulation discount rates. The net loans receivable is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

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 $1,378.7 billion in gross loan receivables, as of September 30, 2021, $91.5 billion (6.6 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $100.3 billion (7.6 percent) as of September 30, 2020.

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

	2021	2020
Stafford	$ 18,325	$ 19,126
Unsubsidized Stafford	44,146	46,077
PLUS	20,824	21,735
Consolidation	21,508	30,427
Total Disbursements	**$ 104,803**	**$ 117,365**

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 $21.5 billion during FY 2021 and $30.4 billion during FY 2020. 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)

	2021	2020
Interest Expense on Treasury Borrowing	$ 32,957	$ 34,705
Total Interest Expense	**$ 32,957**	**$ 34,705**
Interest Revenue From the Public	(459)	28,161
Interest Revenue on Uninvested Funds	4,230	4,786
Administrative Fees	32	163
Amortization of Subsidy	29,154	1,595
Total Revenues	**$ 32,957**	**$ 34,705**

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2021	2020
Subsidy Expense for Direct Loans Disbursed in the Current Year		
Interest Rate Differential	$ 19,844	$ 19,022
Defaults, Net of Recoveries	606	1,925
Fees	(1,603)	(1,676)
Other	(17,259)	(14,131)
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	**1,588**	**5,140**
Modifications and Re-Estimates		
Loan Modifications		
Modification Adjustment Transfer Gain	(2,716)	(265)
Modification Adjustment Transfer Loss	182	347
Loan Modifications	70,812	39,576
Total Loan Modifications	**68,278**	**39,658**
Net Upward Subsidy Re-Estimates		
Interest Rate Re-estimates	(6,221)	(967)
Technical and Default Re-estimates	30,246	57,077
Total Net Upward Subsidy Re-estimates	**24,025**	**56,110**
Total Modifications and Re-estimates	92,303	95,768
Direct Loan Subsidy Expense	**$ 93,891**	**$ 100,908**

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 2021 included the following:

- Loan Deferral Extension. In FY 2021 the outgoing administration extended the student loan repayment deferrals through January 31, 2021. Subsequently, the current administration extended the student loan repayment deferrals through January 31, 2022. The extended relief for borrowers resulted in an upward modification cost of $52.0 billion. There was a net positive $2.5 billion modification adjustment transfer associated with these modifications, bringing the total FY 2021 modification cost for the student loan repayment deferrals to $49.5 billion.

- Total and Permanent Disability. The Department recorded an upward modification for costs associated with the regulatory action to clarify that borrowers determined to be eligible for a total and permanent disability discharge based on data that the Secretary obtains from the Department of Veterans Affairs (VA) or the Social Security Administration (SSA) are not required to submit an application to have their federal student loans discharged. These discharges resulted in an upward modification cost of $18.7 billion.
- Faith-Based Final Rule. The Department recorded an upward modification to reflect the cost of updated program regulations that permit borrowers who work for employers that engage in religious instruction, worship services, or proselytizing to qualify for PSLF so long as they meet the applicable standards. These updated regulations resulted in an upward modification cost of $0.1 billion.

Net Upward Subsidy Re-Estimates for All Prior-Year Loan Cohorts. The Direct Loan Program subsidy re-estimate increased subsidy expense in FY 2021 by $24.0 billion. Re-estimated costs only include cohorts that are 90 percent disbursed (i.e., cohort years 1994–2020). 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 loan volume, disbursement, and enter repayment rates.

- Death, Disability, and Bankruptcy (DDB). The Department updated the data and made a technical change to extend the window for a DDB event to occur from 15 to 30 years. Those claims were included in the estimates of DDB rates previously, but the extended timeframe allows for a more realistic sense of their timing. The combined effect of these updates led to a new upward re-estimate of $3.2 billion.
- Income-Driven Repayment (IDR) Model Changes. The Department completed a standard IDR data update to reflect the immediate prior cycle for interest rates, defaults, prepayments, contract collection costs, and DDB. The DDB update includes adjustments for the Total Permanent Disability (TPD) regulation that resulted in increased disability rates related to the expanded opt-out process with SSA to match borrowers within the IDR model. In addition, actual data on borrower incomes was analyzed using the NSLDS data. The number of actual incomes for 2019 was very low due to impacts from the COVID-19 pandemic, which led to stable income calibration results compared to last year's level of 35 percent. Payments in FY 2020 were adjusted to account for voluntary payments made by students during the payment pause as seen in the FSA data. The combined effect of these updates led to a net upward re-estimate of $22.4 billion.
- Deferment and Forbearance. The Department updated actual deferment and forbearance rates for FY 2020 and calibrated FY 2021 and FY 2022 rates using data from FSA on borrower payments made during the period of repayment deferral. The combined effect of these changes led to a net downward re-estimate of $4.8 billion.
- Collections. The Department updated the data and calibrated FY 2021 collection rates to reflect the extension of the repayment deferral. The combined effect of these changes led to a net upward re-estimate of $1.5 billion.
- Default. In addition to the adjustments for the extension of the student loan repayment deferrals, the Department updated the data and incorporated actual unemployment rates from the Bureau of Labor Statistics and projected unemployment rates from OMB. The combined effect of these changes led to a net downward re-estimate of $6.4 billion.
- Repayment Plan Selection. The Department incorporated new repayment plan data that showed a continuing increase in IDR plan usage. This update led to an upward re-estimate of $0.7 billion.
- 2020 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 $15.5 billion for these current-year assumption changes attributable to the FY 2020 cohort.
- Discount Rates. FCRA requires that for discounting cash flows, financing accounting borrowing and financing account interest earnings be identical and based on the Treasury rates in effect during the period

of loan disbursement. Adjustments to the FY 2019 and FY 2020 cohort discount rates were calculated. The combined effect of these adjustments led to a new downward re-estimate of $11.1 billion.

- 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 $5.0 billion.
- Interactive Effects. The re-estimate includes a net downward re-estimate of $1.6 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 2021

	Interest Differential	Defaults	Fees	Other	Total
Stafford	24.70%	0.92%	-1.06%	-17.16%	7.40%
Unsubsidized Stafford	23.78%	0.48%	-1.06%	-25.03%	-1.83%
PLUS	12.20%	0.37%	-4.23%	-24.27%	-15.93%
Consolidation	14.67%	-1.19%	0.00%	4.45%	17.93%
Weighted Average Total	**19.48%**	**0.08%**	**-1.33%**	**-15.90%**	**2.33%**

*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-year 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)

	2021	2020
Beginning Balance of Allowance for Subsidy	**$ 216,404**	**$ 124,438**
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	1,588	5,140
Adjustments		
Loan Modifications	68,278	39,658
Fees Received	1,562	1,609
Loans Written Off	(8,354)	(7,833)
Subsidy Allowance Amortization	(29,154)	(1,595)
Other Activities	(485)	(1,123)
Ending Balance of Allowance for Subsidy Before Re-Estimates	**249,839**	**160,294**
Net Upward Subsidy Re-Estimates	24,025	56,110
Ending Balance of Allowance for Subsidy	**$ 273,864**	**$ 216,404**

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 that 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 related 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 IDR 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. The Department utilizes the best data available with modeling techniques that have been examined over time by several outside entities. Management has confidence over the estimates by using several different tools to analyze cost estimates. Re-estimates on the loan portfolio are performed twice a year ensuring that the most up to date data and models are used.

Loans written off result from borrowers having died, becoming disabled, or having a loan approved for discharge in 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 *SAFRA 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 canceled.

FFEL Guaranteed Loans Outstanding
(Dollars in Billions)

	2021
Outstanding Principal of Guaranteed Loans, Face Value	$ 116.9
Amount of Outstanding Principal Guaranteed	$ 116.9

As of September 30, 2021, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately $116.9 billion. Additionally, the FFEL Program guarantees outstanding interest balances. As of September 30, 2021, the interest balances outstanding for guaranteed loans held by lenders was approximately $4.4 billion. The Department's total FFEL Program guarantees (principal and interest) are approximately $121.3 billion as of September 30, 2021. 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
2021				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,638	$ 5,739	$ (8,418)	$ 959
FFEL GSL Program (Post-1991)	32,612	9,302	(26,735)	15,179
Total Defaulted FFEL Guaranteed Loans	**36,250**	**15,041**	**(35,153)**	**16,138**
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	15,238	2,716	(4,822)	13,132
Loan Participation Purchase	29,178	5,776	(7,316)	27,638
ABCP Conduit	1,343	369	(374)	1,338
Total Acquired FFEL Loans	**45,759**	**8,861**	**(12,512)**	**42,108**
FFEL Program Loan Receivables	**$ 82,009**	**$ 23,902**	**$ (47,665)**	**$ 58,246**
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**

FFEL Program Subsidy Expense
(Dollars in Millions)

	2021	2020
Loan Modification Costs		
FFEL Guaranteed Loan Program		
Net Modification Adjustment Transfer (Gain)/Loss	$ (302)	$ (9)
Loan Modifications	3,164	835
Total FFEL Guaranteed Loan Program Loan Modifications	**2,862**	**826**
Loan Purchase Commitment		
Net Modification Adjustment Transfer (Gain)/Loss	-	(7)
Loan Modifications	1,069	958
Total Loan Purchase Commitment Loan Modifications	**1,069**	**951**
Loan Participation Purchase		
Net Modification Adjustment Transfer (Gain)/Loss	-	(10)
Loan Modifications	1,879	1,658
Total Loan Participation Purchase Loan Modifications	**1,879**	**1,648**
Total Loan Modification Costs	**5,810**	**3,425**
Upward/(Downward) Subsidy Re-Estimates		
FFEL Loan Guarantee Program	7,226	(3,451)
Loan Purchase Commitment	208	802
Loan Participation Purchase	397	1,376
Total FFEL Program Subsidy Re-Estimates	**7,831**	**(1,273)**
FFEL Program Subsidy Expense	**$ 13,641**	**$ 2,152**

Loan Modifications. Loan modifications for the FFEL Loan Program for FY 2021 included the following:

- Loan Deferral Extension. In FY 2021 the outgoing administration extended the student loan repayment deferrals through January 31, 2021. Subsequently, the current administration extended the student loan repayment deferrals through January 31, 2022. The extended relief for borrowers resulted in an upward modification cost of $3.9 billion. There was a net positive $0.3 billion modification adjustment transfer associated with these modifications, bringing the total FY 2021 modification cost for the student loan repayment deferrals to $3.6 billion.

- Total and Permanent Disability. The Department recorded an upward modification for costs associated with the regulatory action to clarify that borrowers determined to be eligible for a total and permanent disability discharge based on data that the Secretary obtains from the VA or the SSA are not required to submit an application to have their federal student loans discharged. These discharges resulted in an upward modification cost of $2.2 billion.

Net Downward Subsidy Re-Estimates. The FFEL subsidy re-estimate increased subsidy expense in FY 2021 by $7.8 billion. The net upward re-estimates in these programs were due primarily to updated collection and default rates.

Reconciliation of Liabilities for Loan Guarantees
(Dollars in Millions)

	2021	2020
Beginning Balance of Post-1991 FFEL Loan Guarantee Liability	**$ 884**	**$ 5,205**
Adjustments		
Loan Modifications	2,862	826
Interest Supplements Paid	(348)	(757)
Loan Modifications	(2,613)	(4,285)
Fees Received	1,014	1,215
Interest on Accumulation on the Liability Balance	(863)	(1,064)
Other Activities	(910)	3,195
Net Downward Subsidy Re-Estimates	7,226	(3,451)
Ending Balance of Post-1991 FFEL Loan Guarantee Liability	**7,252**	**884**
Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees	-	1
FFEL Liabilities for Loan Guarantees	**7,252**	**885**
HEAL Liabilities for Loan Guarantees	244	238
Total Liabilities for Loan Guarantees	**$ 7,496**	**$ 1,123**

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
2021				
Beginning Balance of Allowance for Subsidy	**$ 4,102**	**$ 6,424**	**$ 434**	**$ 10,960**
Adjustments				
Loan Modifications	1,069	1,879	-	2,948
Subsidy Allowance Amortization	(424)	(952)	(42)	(1,418)
Loans Written Off	(136)	(424)	(16)	(576)
Other Activities	3	(8)	(2)	(7)
Ending Balance of Allowance for Subsidy Before Re-estimates	**4,614**	**6,919**	**374**	**11,907**
Net Upward Subsidy Re-Estimates	208	397	-	605
Ending Balance of Allowance for Subsidy	**$ 4,822**	**$ 7,316**	**$ 374**	**$12,512**
2020				
Beginning Balance of Allowance for Subsidy	**$ 2,531**	**$ 3,843**	**$ 455**	**$ 6,829**
Adjustments				
Loan Modifications	951	1,648	-	2,599
Subsidy Allowance Amortization	3	(89)	-	(86)
Loans 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**

OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION

Loans Receivables, Other Credit Programs for Higher Education
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2021				
Federal Perkins Loans	$ 708	$ 197	$ (212)	$ 693
TEACH Program Loans	783	70	(256)	597
HEAL Program Loans	388	26	(1)	413
Facilities Loan Programs	181	1	82	264
Total	**$ 2,060**	**$ 294**	**$ (387)**	**$ 1,967**
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**

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 canceled.

The Perkins Loan program was a revolving loan program where the loan repayments collected from former students were used 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 that 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 $79 million and $38 million for FY 2021 and FY 2020, 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. Before the authority for new Perkins loans ended, collections made by the schools would go back into each school's Perkins fund to be used 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 $850 million and $1,279 million to the Department in FY 2021 and FY 2020, 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 2021–22 reporting year shows a $3.3 billion outstanding principal balance on Perkins loans held by schools, and the Department's equity interest on this portfolio is $2.8 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. In FY 2021 the outgoing administration extended the student loan repayment deferrals through January 31, 2021. Subsequently, the current administration extended the student loan repayment deferrals through January 31, 2022. The extended relief for borrowers resulted in an upward modification cost of $21 million. The Department also recorded an upward modification to reflect the cost of updated program regulations to improve the certification process and reduce grant to loan conversions. These updated regulations resulted in an upward modification of $25 million. There was a positive $1 million modification adjustment transfer associated with this modification, bringing the total cost of this modification to $24 million.

TEACH Subsidy Rates—Cohort 2021

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	76.33%	-0.04%	0.00%	-44.57%	31.72%

*The Other component reflects costs associated with loan cancelations 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 before 1992. All loan activity for 1992 and beyond is recorded in corresponding financing accounts. In FY 2021 the outgoing administration extended the student loan repayment deferrals through January 31, 2021. Subsequently, the current administration extended the student loan repayment deferrals through January 31, 2022. The extended relief for borrowers resulted in an upward modification cost of $1 million.

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 *FAFSA Simplification Act* provided debt relief for most outstanding HBCU Capital Financing program loans as of December 27, 2020. This resulted in an upward loan modification cost of $1.6 billion.

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 $372 million in outstanding borrowing from the FFB to support loans made to HBCU institutions and $547 million obligated to support near term lending as of September 30, 2021.

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)

	2021		2020	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Liabilities Not Covered By Budgetary Resources				
Unfunded Leave	$ -	$ 52	$ -	$ 47
FECA Liabilities	2	14	2	13
Total Liabilities Not Covered By Budgetary Resources	**2**	**66**	**2**	**60**
Liabilities Not Requiring Budgetary Resources				
Subsidy Due to Treasury General Fund	1,209	-	1,451	-
Federal Perkins Loan Program	682	-	619	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	38	289	36	239
Custodial Liabilities	4	-	2	-
Total Liabilities Not Requiring Budgetary Resources	**1,933**	**289**	**2,108**	**239**
Total Liabilities Covered By Budgetary Resources	1,223,776	20,122	1,255,187	6,859
Total Liabilities	**$ 1,225,711**	**$ 20,477**	**$ 1,257,297**	**$ 7,158**

NOTE 7. Debt Associated with Loans

(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Accrued Interest	Ending Balance
2021					
Debt to the Bureau of Public Debt					
Direct Loan Program	$ 1,160,099	$ 119,950	$ (137,854)	$ -	$ 1,142,195
FFEL Program	88,986	1,630	(12,362)	-	78,254
Other Credit Programs for Higher Education	784	308	(156)	-	936
Total Debt to the Bureau of Public Debt	**1,249,869**	**121,888**	**(150,372)**	**-**	**1,221,385**
Debt to the Federal Financing Bank					
Other Credit Programs for Higher Education	1,518	192	(1,551)	1	160
Total Debt Associated with Loans	**$ 1,251,387**	**$ 122,080**	**$ (151,923)**	**$ 1**	**$ 1,221,545**
2020					
Debt to the Bureau of Public Debt					
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 the Bureau of Public Debt	**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 Debt Associated with Loans	**$ 1,288,993**	**$ 128,199**	**$ (165,818)**	**$ 13**	**$ 1,251,387**

The Department borrows from Treasury's Bureau of the Public Debt and the FFB to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2021, debt decreased 2.4 percent from $1,251.4 billion in the prior year to $1,221.5 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 93.5 percent of the Department's debt, as of September 30, 2021, is attributable to the Direct Loan Program. Most the net borrowing activity (borrowing less repayments) for the year was designated for funding new direct loan disbursements.

During FY 2021, TEACH net borrowing of $73 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2021, debt in HBCU decreased by $1,134 million, or 73 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

NOTE 8. Subsidy Due to Treasury

(Dollars in Millions)

	2021	2020
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ 303	$ 1,773
FFEL Program	1	74
Total Credit Program Downward Subsidy Re-estimates	**304**	**1,847**
Future Liquidating Account Collections		
FFEL Program	1,209	1,436
Other Credit Programs for Higher Education	-	15
Total Future Liquidating Account Collections	**1,209**	**1,451**
Total Subsidy Due to Treasury General Fund	**$ 1,513**	**$ 3,298**

NOTE 9. Other Liabilities

(Dollars in Millions)

	2021		2020	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Federal Perkins Loan Program	$ 682	$ -	$ 619	$ -
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	38	289	36	239
Liability for Advances and Prepayments	3	-	2	-
Accrued Funded Payroll and Leave	-	26	-	23
Accrued Unfunded Annual Leave	-	52	-	47
Employer Contributions and Payroll Taxes Payable	10	1	8	1
FECA Liabilities	2	14	2	13
Custodial Liabilities	4	-	2	-
Total Other Liabilities	**$ 739**	**$ 382**	**$ 669**	**$ 323**

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:** Strengthen 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)

	2021					
	FSA	**OESE**	**OSERS**	**COVID-19**	**Other**	**Total**
IMPROVE LEARNING OUTCOMES FOR ALL P-12 STUDENTS						
Gross Cost						
Grants	$ -	$ 24,328	$ 12,685	$ 20,965	$ 2,173	$ 60,151
Other	-	68	-	30	764	862
Earned Revenue	-	-	-	-	(118)	(118)
Net Program Costs	**-**	**24,396**	**12,685**	**20,995**	**2,819**	**60,895**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY						
Direct Loan Program						
Gross Cost						
Credit Program Interest Expense	32,957	-	-	-	-	32,957
Subsidy Expense	44,426	-	-	52,181	-	96,607
Administrative Expenses	1,516	-	-	8	-	1,524
Earned Revenue						
Subsidy Expense	(9)	-	-	(2,707)	-	(2,716)
Interest & Administrative Fees	(3,803)	-	-	-	-	(3,803)
Subsidy Amortization	(29,154)	-	-	-	-	(29,154)
Net Cost of Direct Loan Program	**45,933**	**-**	**-**	**49,482**	**-**	**95,415**
FFEL Program						
Gross Cost						
Credit Program Interest Expense	3,538	-	-	-	-	3,538
Subsidy Expense	9,994	-	-	4,006	-	14,000
Subsidy Amortization (Guaranteed Loans)	(863)	-	-	-	-	(863)
Guaranty Agencies	79	-	-	-	-	79
Administrative Expenses	144	-	-	-	-	144
Earned Revenue						
Subsidy Expense	-	-	-	(359)	-	(359)
Interest & Administrative Fees	(1,257)	-	-	-	-	(1,257)
Subsidy Amortization (Acquired FFEL Loans)	(1,418)	-	-	-	-	(1,418)
Guaranty Agencies	(61)	-	-	-	-	(61)
Net Cost of FFEL Program	**10,156**	**-**	**-**	**3,647**	**-**	**13,803**
Other Credit Programs for Higher Education						
Gross Cost						
Credit Program Interest Expense	22	-	-	-	105	127
Subsidy Expense	104	-	-	22	1,393	1,519
Administrative Expenses	1	-	-	-	26	27
Earned Revenue						
Subsidy Expense	(1)	-	-	-	-	(1)
Interest & Administrative Fees	(4)	-	-	-	(49)	(53)
Subsidy Amortization	(18)	-	-	-	(56)	(74)
Other	(932)	-	-	-	-	(932)
Net Cost of Other Credit Programs for Higher Education	**(828)**	**-**	**-**	**22**	**1,419**	**613**
Non-Credit Programs						
Gross Cost						
Grants	29,117	24	3,721	32,015	3,707	68,584
Other	130	-	3	3	274	410
Earned Revenue	(1)	-	-	-	(14)	(15)
Net Cost of Non-Credit Programs	**29,246**	**24**	**3,724**	**32,018**	**3,967**	**68,979**
Net Program Costs	**84,507**	**24**	**3,724**	**85,169**	**5,386**	**178,810**
Total Program Gross Costs	**121,165**	**24,420**	**16,409**	**109,230**	**8,442**	**279,666**
Total Program Earned Revenue	**(36,658)**	**-**	**-**	**(3,066)**	**(237)**	**(39,961)**
Net Cost	**$ 84,507**	**$ 24,420**	**$ 16,409**	**$ 106,164**	**$ 8,205**	**$ 239,705**

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 Revenue	**(39,094)**	**-**	**-**	**(292)**	**(194)**	**(39,580)**
Net Cost	**$ 89,973**	**$ 22,636**	**$ 16,298**	**$ 53,178**	**$ 7,333**	**$ 189,418**

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	
2021							
Direct Loan Program	$ 32,957	$ -	$ 32,957	$ 4,230	$ (427)	$ 29,154	$ 32,957
FFEL Program	3,538	(863)	2,675	1,326	(69)	1,418	2,675
Other Credit Programs for Higher Education	127	-	127	28	25	74	127
Total	**$ 36,622**	**$ (863)**	**$ 35,759**	**$ 5,584**	**$ (471)**	**$ 30,646**	**$ 35,759**
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**

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.

Due to the COVID-19 relief actions to suspend nearly all required federal student loans payments and set borrower interest rates to zero percent until January 31, 2022, no new interest revenues were recognized in FY 2021. However, interest adjustment and reapplication activity is included in the current year's interest with the public in the schedule above. Adjustments and reapplications cause loan activity during the period between the original effective date and the new processing date to be reversed and reposted. As a result, interest accrued in a prior year is reversed and typically reposted. The amount of interest reposted can be different than the original amount depending on the purpose of the adjustment and whether the adjustment or reapplication caused an increase or decrease to the principal balance as of the original effective date. These adjustments and reapplications resulted in net negative FY 2021 interest revenues for the Direct Loan Program and the FFEL Program.

Grant Expenses by Appropriation
(Dollars in Millions)

		2021		2020
IMPROVE LEARNING OUTCOMES FOR ALL P-12 STUDENTS				
COVID-19	$	20,965	$	1,839
Education for the Disadvantaged		16,171		15,750
Special Education - IDEA Grants		12,685		12,801
School Improvement Programs		6,069		4,755
Impact Aid		1,484		1,466
Innovation and Improvement		928		907
English Language Acquisition		667		676
Career, Technical, and Adult Education		425		383
Hurricane Education Recovery		271		253
Institute of Education Sciences		152		179
Other		334		320
Subtotal	**$**	**60,151**	**$**	**39,329**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY				
COVID-19	$	32,015	$	9,420
Student Financial Assistance				
Pell Grants		26,852		25,882
Federal Work-Study Program		1,145		1,203
Federal Supplemental Educational Opportunity Grants		1,120		1,028
Rehabilitation Services		3,347		3,133
Higher Education		1,977		2,738
Career, Technical, and Adult Education		1,440		1,284
Special Education - IDEA Grants		122		118
Hurricane Education Recovery		24		25
Institute of Education Sciences		35		42
Other		507		483
Subtotal		**68,584**		**45,356**
Total Grant Costs	**$**	**128,735**	**$**	**84,685**

The Department has more than 100 grant programs. Descriptions of COVID-19 grant programs are provided in Note 11. Descriptions of non-COVID-19 major grant program areas are as follows:

Student Financial Assistance

- **Pell Grant**—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 Grant**—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 2 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 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 to educate children of federal workers that live on government property, which is exempt from local property taxes that finance education.

Innovation and Improvement—Includes support for 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 noncognitive skills of middle school students 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

Congress passed multiple COVID-19 relief bills in FY 2020 and FY 2021 including the following that provided the Department with a total of $282.5 billion of direct appropriation funding for educational purposes:

- *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act) $31.0 billion.
- *Coronavirus Response and Relief Supplemental Appropriations Act of 2021* (CRRSAA) $82.0 billion.
- *American Rescue Plan Act of 2021* (ARP) $169.5 billion.

These appropriations funded a variety of programs administered primarily through grant programs as described starting on page 84. The largest component of the education funding provided by the COVID-19 relief appropriations established the Education Stabilization Fund which included the (1) Elementary and Secondary School Emergency Relief Fund, (2) Higher Education Emergency Relief Fund, (3) Governor's Emergency Education Relief Fund, and (4) funds for outlying areas. The Education Stabilization Fund is being distributed to recipients through various grant programs.

The COVID-19 relief legislation and administrative actions also provided support for student loan borrowers primarily by suspending nearly all federal loan payments until January 31, 2022, interest free. A *Dear Colleague Letter* released on May 12, 2021, expanded the pause on federal student loan interest and collections on all defaulted loans in the FFEL Program that are managed by guaranty agencies, retroactive to March 2020. The Department authorized guaranty agencies to reimburse themselves from the Federal Fund for lost revenue that they will realize because of these actions. However, that reimbursement will only cover the share of what a guaranty agency might have reasonably collected during the pandemic but for the suspension.

Funding for student loan repayment deferrals was provided through FY 2020 and FY 2021 indefinite appropriations totaling $42.2 billion and $56.2 billion, respectively. Cost impacts of the student loan repayment deferrals were recorded as loan modifications in FY 2020 ($41.9 billion) and FY 2021 ($53.1 billion). These COVID-19 loan modifications are a component of a subsidy expense that reduced the overall credit program loan receivable balances. (see Notes 5 and 10)

In addition to suspending student loan repayments, other COVID-19 relief provided to student loan borrowers included the following:

- The Department stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default.
- The Department provided relief for certain borrowers who received student loan discharges due to total and permanent disability. Unless it is through a process with the VA, borrowers receiving this discharge are, by regulation, subject to a three-year monitoring period during which they must provide the Department with information about their earnings from employment. Per regulation, borrowers whose earnings exceed certain thresholds and borrowers who do not meet certain other criteria will have their loans reinstated. The Department provided relief to ensure no borrowers are at risk of having their loans reinstated, meaning they would have to repay their debt—for failure to provide earnings information during the COVID-19 emergency. This change was made retroactive to March 13, 2020, the start of the COVID-19 national emergency.
- The Department requested a waiver from the Small Business Administration to immediately help nearly 30,000 small business owners in the Paycheck Protection program who faced difficulties because they were delinquent or in default on a federal student loan.

Unobligated CARES Act balances as of the end of FY 2020 totaling $672 million were carried forward to FY 2021 and are reported in the FY 2021 COVID-19 following schedule as Unobligated Balances from Prior Year Budget Authority (Net) together with $26 million of net downward adjustments to FY 2020 CARES Act unpaid obligations recorded in FY 2021. Obligated and unobligated COVID-19 funds remaining to be disbursed as of the end of FY 2020 totaled $19.6 billion. Obligated and unobligated COVID-19 funds remaining to be disbursed as of the end September 30, 2021, totaled $222.0 billion. (see Note 3)

The tables on pages 82 and 83 provide more detail on the Department's funded COVID-19 activity for FY 2021 and FY 2020, respectively.

COVID-19 Activity
(Dollars in Millions)

	2021							
	Unobligated Balance from Prior Year Budget Authority (Net)	Appropriations	Appropriations Transferred	Obligated	Unobligated	Outlays	Transfers to General Fund	Net Costs (See Note 10)
COVID-19 Direct Appropriations								
Education Stabilization Fund								
Elementary and Secondary School Emergency Relief Fund								
Allocations to States	$ -	$ 176,286	$ -	$ 161,349	$ 14,937	$ 19,021	$ -	$ 20,035
Assistance for Homeless Children and Youth	-	800	-	799	1	1	-	1
Higher Education Emergency Relief Fund								
Higher Education Funds to Students	113	24,066	-	23,982	197	10,838	-	14,097
Higher Education Funds to Institutions	155	32,157	100	32,084	328	15,225	-	15,226
Proprietary Institutions Grant Funds for Students	-	1,077	-	843	234	473	-	475
HBCUs, and Minority Serving Institutions (MSIs)								
MSIs	5	1,207	-	1,169	43	391	-	397
HBCUs	-	2,576	-	2,575	1	791	-	793
Tribally Controlled Colleges and Universities (TCCUs)	-	225	-	223	2	36	-	36
Strengthening Institutions Program	9	663	-	606	66	231	-	231
Fund for the Improvement of Postsecondary Education	203	-	-	91	112	140	-	140
Supplemental Assistance and Support	-	311	-	226	85	5	-	12
Governor's Emergency Education Relief Fund								
Emergency Education Relief Grants	48	1,303	-	1,351	-	1,055	-	1,061
Emergency Assistance to Non-Public Schools Program	-	5,500	-	3,327	2,173	277	-	280
Outlying Areas	-	1,259	-	1,259	-	114	-	114
Bureau of Indian Education	-	409	(409)	-	-	-	-	-
Discretionary Grants	-	-	-	-	-	16	-	16
Total Education Stabilization Fund	**533**	**247,839**	**(309)**	**229,884**	**18,179**	**48,614**	**-**	**52,914**
Individuals with Disabilities Education Act Grants	-	3,030	-	2,991	39	-	-	-
School Improvement Programs	-	170	-	113	57	-	-	-
American Indian Resilience in Education	-	20	-	-	20	-	-	-
Safe Schools & Citizenship Education	100	-	(100)	-	-	-	-	-
Gallaudet University	-	30	-	30	-	16	-	16
Howard University	-	55	-	55	-	44	-	44
National Technical Institute for the Deaf	-	30	-	30	-	6	-	6
HBCU Loan Deferment	30	-	-	-	30	-	-	-
Student Aid Administration	24	121	-	91	54	8	-	8
Program Administration	4	30	-	12	22	11	-	11
Inspector General	7	10	-	4	13	2	-	2
Institute of Education Sciences	-	128	-	27	101	20	-	20
Total COVID-19 Direct Appropriations	**698**	**251,463**	**(409)**	**233,237**	**18,515**	**48,721**	**-**	**53,021**
COVID-19 Indirect Appropriations (See Note 5)								
Student Loan Deferrals								
DL Program	-	52,181	-	52,181	-	52,181	2,707	49,474
FFEL Program	-	4,006	-	4,006	-	4,006	359	3,647
HEAL Program	-	1	-	1	-	1	-	1
TEACH Program	-	21	-	21	-	21	-	21
Total Student Loan Deferrals	-	56,209	-	56,209	-	56,209	3,066	53,143
Total COVID-19 Indirect Appropriations	**-**	**56,209**	**-**	**56,209**	**-**	**56,209**	**3,066**	**53,143**
Total COVID-19 Activity	**$ 698**	**$ 307,672**	**$ (409)**	**$ 289,446**	**$ 18,515**	**$ 104,930**	**$ 3,066**	**$ 106,164**

COVID-19 Activity
(Dollars in Millions)

	2020						
	Appropriations	Appropriations Transferred	Obligated	Unobligated	Outlays	Transfers to General Fund	Net Costs (See Note 10)
COVID-19 Direct Appropriations							
Education Stabilization Fund							
Elementary and Secondary School Emergency Relief Fund							
Allocations to States	$ 13,229	$ -	$ 13,229	$ -	$ 1,552	$ -	$1,552
Assistance for Homeless Children and Youth	-	-	-	-	-	-	-
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
Proprietary Institutions Grant Funds for Students	-	-	-	-	-	-	-
HBCUs, and Minority Serving Institutions (MSIs)							
MSIs	270	-	265	5	66	-	66
HBCUs	577	-	577	-	161	-	161
Tribally Controlled Colleges and Universities (TCCUs)	50	-	50	-	17	-	17
Strengthening Institutions Program	149	-	141	8	43	-	43
Fund for the Improvement of Postsecondary Education	349	-	145	204	64	-	65
Supplemental Assistance and Support	-	-	-	-	-	-	-
Governor's Emergency Education Relief Fund							
Emergency Education Relief Grants	2,953	-	2,905	48	535	-	536
Emergency Assistance to Non-Public Schools Program	-	-	-	-	-	-	-
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**
Individuals with Disabilities Education Act Grants	-	-	-	-	-	-	-
Safe Schools & Citizenship Education	-	-	-	-	-	-	-
School Improvement Programs	-	-	-	-	-	-	-
American Indian Resilience in Education	100	-	-	100	-	-	-
Gallaudet University	7	-	7	-	2	-	2
Howard University	13	-	13	-	13	-	13
National Technical Institute for the Deaf	-	-	-	-	-	-	-
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	-	-	-
Institute of Education Sciences	-	-	-	-	-	-	-
Total COVID-19 Direct Appropriations	**30,987**	**(154)**	**30,161**	**672**	**11,217**	**-**	**11,300**
COVID-19 Indirect Appropriations (See Note 5)							
Student Loan Deferrals							
DL Program	38,825	-	38,825	-	38,825	263	38,562
FFEL Program	3,325	-	3,325	-	3,325	28	3,297
HEAL Program	3	-	3	-	3	-	3
TEACH Program	16	-	16	-	16	-	16
Total Student Loan Deferrals	42,169	-	42,169	-	42,169	291	41,878
Total COVID-19 Indirect Appropriations	42,169	-	42,169	-	42,169	291	41,878
Total COVID-19 Activity	**$ 73,156**	**$ (154)**	**$ 72,330**	**$ 672**	**$ 53,386**	**$ 291**	**$ 53,178**

Elementary and Secondary School Emergency Relief (ESSER) Fund—Supports continued learning for K–12 students whose education has been disrupted by COVID-19.

- **Allocations to States**—Provides grants to states based on the same proportion that each state receives under the *Elementary and Secondary Education Act* (ESEA) Title-IA. States must distribute at least 90 percent of funds to local education agencies based on their proportional share of ESEA Title I-A funds. States have the option to reserve 10 percent of the allocation for emergency needs as determined by the state to address issues responding to the COVID-19 pandemic.

- **Assistance for Homeless Children and Youth**—Provides grants to supports the specific needs of homeless children and youth with wraparound services to address the challenges of COVID-19, and to enable homeless children and youth to attend school and fully participate in school activities.

Higher Education Emergency Relief Fund (HEERF)—Provides grants 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 childcare. The fund is distributed through the following grant programs.

- **Higher Education Funds to Students**—Provides grants to IHEs to give 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**—Provides grants to IHEs which 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.

- **Proprietary Institutions Grant Funds for Students**—Provides grants to proprietary IHEs to give emergency financial aid grants to students, which may be used for any component of the student's cost of attendance or for emergency costs that arise due to COVID-19, such as tuition, food, housing, health care (including mental health care) or childcare.

- **Minority Serving Institutions (MSIs)**—Provides grants 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. MSIs 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 and Universities (HBCUs)**—Provides grants 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)**—Provides grants 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**—Provides grants 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)**—Provides grants that support 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.

- **Supplemental Assistance and Support**—Provides discretionary grants to institutions of higher education with unmet needs related to recovery from disruptions in the finances, day-to-day operations, instruction, and student support due to COVID-19.

Governor's Emergency Education Relief (GEER) Fund—Provides grants 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.

- **Emergency Education Relief Grants**—Provide grants to state governors for the purpose of providing local educational agencies (LEA), IHEs, and other education-related entities with emergency assistance as a result COVID-19.

- **Emergency Assistance to Non-Public Schools Program**—Provides grants to state governors to provide services or assistance to eligible non-public schools to address COVID-19 impacts.

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

- **Outlying Areas**—Provides grants 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 was 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**—Provides funding 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**—Provides grants to states to use to create adaptable, innovative learning opportunities for K–12 and postsecondary learners in response to the COVID-19 national emergency.

In addition to the Education Stabilization Fund, COVID-19 appropriations also included funding for the following.

Individuals with Disabilities Education Act Grants—Provides grants to states to help them recover from the impact of the COVID-19 and to safely reopen schools and sustain safe operations. These grants assist states 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 2 and their families.

School Improvement Programs—Provides additional 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 to substantially raise the achievement of students in their lowest-performing schools.

American Indian Resilience in Education—Provides grants to tribal education agencies for activities authorized under Section 6121(c) of the *Elementary and Secondary Education Act of 1965*. Those activities include a broad range of direct services to Indian children and youth, their teachers, and families.

Safe Schools and Citizenship Education—The CARES Act provided 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. The CRRSAA subsequently authorized these additional funds to be reallocated to the HEERF.

Gallaudet University—Provides funding to help address challenges associated with COVID-19.

Howard University—Provides funding to help address challenges associated with COVID-19.

HBCU Loan Deferment—Provides funding for 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 was 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—Provides funding for the additional costs of administering the COVID-19 provisions affecting student financial aid programs.

Program Administration—Provides funding to the Department to fund costs of administrating the COVID-19 appropriations.

Inspector General—Provides funding for salaries and expenses necessary for Office of Inspector General oversight and audit of COVID-19 programs, grants, and projects.

Institute of Education Sciences—Provides funding for research to address learning loss caused by the coronavirus and to disseminate findings to SEAs, LEAs, and other others, and for carrying out the *National Assessment of Educational Progress Authorization Act*.

NOTE 12. Statements of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2021, budgetary resources were $689.6 billion, and net agency outlays were $260.5 billion. As of September 30, 2020, budgetary resources were $473.2 billion, and net agency outlays were $161.5 billion.

Net Adjustments to Unobligated Balances Brought Forward, October 1
(Dollars in Millions)

	2021		2020	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Prior Year Unobligated Balance, End of Year (Total)	**$ 19,904**	**$ 22,726**	**$ 16,774**	**$ 18,324**
Recoveries of Prior Year Unpaid Obligations	1,317	16,676	1,426	18,220
Borrowing Authority Withdrawn	-	(13,566)	-	(15,004)
Actual Repayments of Debt, Prior-Year Balances	-	(5,444)	-	(12,720)
Actual Capital Transfers to the Treasury General Fund	(97)	-	(265)	-
Canceled Authority	(354)	-	(305)	-
Downward Adjustments of Prior-Year Paid Delivered Orders	3	257	128	301
Other Differences	(1)	1	(2)	(2)
Unobligated Balance from Prior Year Budget Authority (Net)	**$ 20,772**	**$ 20,650**	**$ 17,756**	**$ 9,119**

During the periods ended September 30, 2021, and September 30, 2020, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2020, and October 1, 2019. 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)

	2021	2020
Beginning Balance - Unused Borrowing Authority	**$ 48,230**	**$ 55,845**
Current Year Borrowing Authority	129,407	135,589
Funds Drawn from Treasury	(122,093)	(128,200)
Borrowing Authority Withdrawn	(13,566)	(15,004)
Ending Balance - Unused Borrowing Authority	**$ 41,978**	**$ 48,230**

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 at the End of the Period
(Dollars in Millions)

	2021		2020	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Unpaid	$ 252	$ 321,379	$ 180	$ 138,621
Paid	104	1,287	121	503
Undelivered Orders	**$ 356**	**$ 322,666**	**$ 301**	**$ 139,124**

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

Unpaid undelivered orders increased significantly in FY 2021 primarily due to a $184.5 billion increase in unpaid undelivered COVID-19 fund balances (see Note 3).

Distributed Offsetting Receipts
(Dollars in Millions)

		2021		2020
Negative Subsidies and Downward Re-estimates of Subsidies:				
Direct Loan Program	$	4,809	$	5,382
FFEL Program		589		6,865
HEAL Program		25		-
TEACH Program		3		36
Facilities Loan Programs		207		48
Total Negative Subsidies and Downward Re-estimates of Subsidies		**5,633**		**12,331**
Repayment of Perkins Loans and Capital Contributions		866		1,317
Other		126		(38)
Distributed Offsetting Receipts	**$**	**6,625**	**$**	**13,610**

Distributed offsetting receipts are amounts that the Department collects from the public or from other federal agencies that are used to offset or reduce the Department's budget outlays. The Department's outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts.

Most 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

Explanation of Differences between the SBR and the Budget of the U.S. Government
(Dollars in Millions)

		Budgetary Resources		New Obligations and Upward Adjustments (Total)		Distributed Offsetting Receipts		Net Outlays
Combined Statements of Budgetary Resources	**$**	**473,447**	**$**	**430,822**	**$**	**13,610**	**$**	**204,415**
Expired Funds		(2,368)		(733)		-		-
FFEL Guaranty Agency Amounts Included in the President's Budget		6,125		6,125		-		-
Distributed Offsetting Receipts		-		-		-		13,610
Other		5		-		53		54
Budget of the United States Government[1]	**$**	**477,209**	**$**	**436,214**	**$**	**13,663**	**$**	**218,079**

[1] Amounts obtained from the Appendix, Budget of the United States Government, FY 2022

The FY 2023 President's Budget, which presents the actual amounts for the year ending September 30, 2021, has not been published as of the issue date of these financial statements. The FY 2023 President's Budget is scheduled for release in February 2022 and will be made available on OMB's website. The table above reconciles the FY 2020 SBR to the FY 2022 President's Budget (FY 2020 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)

	2021			2020		
	Intragovernmental	**With the Public**	**Total**	**Intragovernmental**	**With the Public**	**Total**
Net Cost	**$ 31,606**	**$ 208,099**	**$ 239,705**	**$ 33,158**	**$ 156,260**	**$ 189,418**
Components of Net Cost Not Part of Budgetary Outlays:						
Year-End Credit Reform Subsidy Accrual Re-Estimates	-	(28,399)	(28,399)	-	(52,571)	(52,571)
Loan Modification Adjustment Transfers	-	2,837	2,837	-	(54)	(54)
Property and Equipment Depreciation Expense	-	(1)	(1)	-	(1)	(1)
Property and Equipment Disposals and Revaluations	-	-	-	-	(1)	(1)
Increase/(Decrease) in Assets:						
Loans Receivables, Net (Non-FCRA)	-	(62)	(62)	-	398	398
Other Assets	(13)	22	9	58	(46)	12
(Increase)/Decrease in Liabilities:						
Accounts Payable	(1)	(597)	(598)	-	(137)	(137)
Loan Guarantee Liabilities (Non-FRCA)	-	(2)	(2)	-	(5)	(5)
Other Liabilities	171	(5,728)	(5,557)	(150)	709	559
Financing Sources:						
Imputed Costs	(36)	-	(36)	(30)	-	(30)
Total Components of Net Cost Not Part of Budgetary Outlays	**121**	**(31,930)**	**(31,809)**	**(122)**	**(51,708)**	**(51,830)**
Components of Budget Outlays Not Part of Net Cost:						
Effect of Prior-Year Credit Reform Subsidy Re-estimates	-	52,571	52,571	-	67,225	67,225
Acquisition of Capital Assets	-	1	1	-	-	-
Financing Sources:						
Donated Revenue	-	(1)	(1)	-	-	-
Total Components of Budget Outlays Not Part of Net Cost	**-**	**52,571**	**52,571**	**-**	**67,225**	**67,225**
Miscellaneous Items:						
Other Loan Activities (Non-FCRA)	(89)	-	(89)	(351)	-	(351)
Non-Entity Activity	82	-	82	(37)	-	(37)
Non-Exchange Revenues	(9)	-	(9)	(10)	-	(10)
Other Temporary Timing Differences						
Total Miscellaneous Items	**(16)**	**-**	**(16)**	**(398)**	**-**	**(398)**
Budgetary Agency Outlays, Net			**$ 260,451**			**$ 204,415**

This reconciliation explains the relationship between the Department's net cost and its net outlays. Reconciling items result from transactions that 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 nonbudgetary 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 Year-End Credit Reform Subsidy Accrual Re-Estimates (current-year subsidy accrual costs) and Effect of Prior-Year Credit Reform Subsidy Re-Estimates (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)

2021			2020		
2022	$	69	2021	$	72
2023		71	2022		75
2024		71	2023		77
2025		72	2024		74
2026		73	2025		75
After 2026		75	After 2025		77
Total	**$**	**431**	**Total**	**$**	**450**

The Department leases from the GSA all or a portion of 14 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 FY 2021 or FY 2020 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, 2021. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2021, 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. Subsequent Event

The Department announced in October 2021 significant changes to some of the eligibility criteria and potential forgiveness of loans as part of the PSLF program. The PSLF program provides debt relief to teachers, nurses, firefighters, service members and others serving their communities. By canceling loans after 10 years of public service, PSLF removes the burden of student debt on public servants. Policy changes to be implemented in FY 2022 will result in 22,000 borrowers who have consolidated loans—including previously ineligible loans—being immediately eligible for $1.74 billion in forgiveness without the need for further action on their part. Another 27,000 borrowers could potentially qualify for an additional $2.82 billion in forgiveness if they certify additional periods of employment. All told, the Department estimates that over 550,000 borrowers who have previously consolidated their loans will see an increase in qualifying payments with the average borrower receiving another two years of progress toward forgiveness. Many more will also see progress as borrowers consolidate into the Direct Loan Program and apply for PSLF, and as the Department rolls out other changes during FY 2022. The Department's financial statements do not include an estimate for impacts of the announced changes to the PSLF program eligibility criteria and potential forgiveness of loans.

NOTE 16. Reclassification of Statement of Net Cost and Statement of Operations and Changes in Net Position for Financial Report Compilation Process

To prepare the Financial Report (FR) of the U.S. government, 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 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 two schedules in this note show the Department's financial statements and the Department's reclassified statements before elimination of intragovernmental balances and before 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, nonprofit entities, and state, local, and foreign governments.

A copy of the September 30, 2020, FR can be found on Treasury's website and a copy of the September 30, 2021, FR will be posted to this site as soon as it is released.

Reclassification of Statement of Net Cost to Line Items Used for the Governmentwide Statement of Net Cost for the Period Ending September 30, 2021

(Dollars in Millions)

FY 2021 Department Statement of Net Cost		Line Items Used to Prepare FY 2021 Governmentwide Statement of Net Cost	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
Total Gross Cost	$ 279,666	$ 242,470	Non-Federal Gross Cost
		141	Benefit Program Costs
		36	Imputed Costs
		381	Buy/Sell Cost
		36,547	Borrowing and Other Interest Expense
		75	Borrowing Losses
		16	Other Expenses (Without Reciprocals)
Total Gross Cost	**$ 279,666**	**$ 279,666**	**Department Total Gross Cost**
Total Earned Revenue	$ (39,961)	$ (34,371)	Non-Federal Earned Revenue
		(6)	Buy/Sell Revenue (Exchange)
		(5,572)	Borrowing and Other Interest Revenue (Exchange)
		(12)	Borrowing Gains
Total Earned Revenue	**(39,961)**	**(39,961)**	**Department Total Earned Revenue**
Net Cost	**$239,705**	**$ 239,705**	**Net Cost**

Reclassification of Statement of Changes in Net Position to Line Items Used for the Governmentwide Statement of Operations and Changes in Net Position for the Period Ending September 30, 2021

(Dollars in Millions)

FY 2021 Department Statement of Changes in Net Position		Line Items Used to Prepare FY 2021 Governmentwide Statement of Operations and Changes in Net Position	
Financial Statement Line	**Amounts**	**Amounts**	**Reclassified Financial Statement Line**
Unexpended Appropriations			
Beginning Balance	$ 99,314	$ 99,314	Net Position, Beginning of Period
Appropriations Received	477,507	476,400	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments (Rescissions, etc.)	(1,107)		
Appropriations Transferred	(409)	(409)	Non-Expenditure Transfers-out of Unexpended Appropriations and Financing Sources
Appropriations Used	(273,507)	(273,507)	Appropriations Used
Unexpended Appropriations, Ending Balance	**301,798**	**301,798**	
Cumulative Results of Operations			
Beginning Balance	(54,383)	(54,383)	Net Position, Beginning of Period
Appropriations Used	273,507	273,507	Appropriations Expended
Nonexchange Revenue	8	8	Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange
Donations and Forfeitures of Cash and Cash Equivalents	1	1	Other Taxes and Receipts
Imputed Financing from Costs Absorbed by Others	36	36	Imputed Financing Sources
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	(8,168)	(9,751)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		1,732	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		5	Other Taxes and Receipts
		(154)	Other Budgetary Financing Sources
Net Cost	(239,705)	(239,705)	Net Cost
Cumulative Results of Operations, Ending Balance	**$ (28,704)**	**$ (28,704)**	
Net Position	**$ 273,094**	**$ 273,094**	**Net Position, End of Period**

Required Supplementary Information (Unaudited)

U.S. Department of Education Combining Statement of Budgetary Resources
For the Year Ended September 30, 2021
(Dollars in Millions)
(Unaudited)

	Federal Student Aid		Office of Elementary and Secondary Education
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority (Net) (Note 12)	$ 16,988	$ 20,473	$ 1,999
Appropriations (Discretionary and Mandatory)	172,332	239	24,760
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	128,739	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	142	42,050	-
Total Budgetary Resources	**$ 189,462**	**$ 191,501**	**$ 26,759**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Total) (Note 12)	$ 171,476	$ 169,693	$ 24,910
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	14,397	-	1,778
Unapportioned, Unexpired Accounts	1,930	21,808	-
Unexpired Unobligated Balance, End of Year	**$ 16,327**	**$ 21,808**	**$ 1,778**
Expired Unobligated Balance, End of Year	1,659	-	71
Unobligated Balance, End of Year (Total)	**$ 17,986**	**$ 21,808**	**$ 1,849**
Total Status of Budgetary Resources	**$ 189,462**	**$ 191,501**	**$ 26,759**
OUTLAYS, NET			
Outlays, Net (Discretionary and Mandatory)	$ 170,470		$ 23,027
Distributed Offsetting Receipts (-) (Note 12)	(6,296)		(1)
Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13)	**$ 164,174**		**$ 23,026**
Disbursements, Net (Total) (Mandatory)		**$ (38,680)**	

Office of Special Education and Rehabilitative Services	Education Stabilization Fund	Other		Combined		Total
Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
$ 346	$ 633	$ 806	$ 177	$ 20,772	$ 20,650	$ 41,422
21,022	247,839	10,567	-	476,520	239	476,759
-	-	-	668	-	129,407	129,407
-	(409)	61	174	(206)	42,224	42,018
$ 21,368	**$ 248,063**	**$ 11,434**	**$ 1,019**	**$ 497,086**	**$ 192,520**	**$ 689,606**
$20,941	$229,884	$10,017	$575	$457,228	$170,268	$627,496
220	18,179	1,241	-	35,815	-	35,815
-	-	1	444	1,931	22,252	24,183
$ 220	**$ 18,179**	**$ 1,242**	**$ 444**	**$ 37,746**	**$ 22,252**	**$ 59,998**
207	-	175	-	2,112	-	2,112
$ 427	**$ 18,179**	**$ 1,417**	**$ 444**	**$ 39,858**	**$ 22,252**	**$ 62,110**
$ 21,368	**$ 248,063**	**$ 11,434**	**$ 1,019**	**$ 497,086**	**$ 192,520**	**$ 689,606**
$ 15,939	$ 48,614	$ 9,026		$ 267,076		$ 267,076
-	-	(328)		(6,625)		(6,625)
$ 15,939	**$ 48,614**	**$ 8,698**		**$ 260,451**		**$ 260,451**
			$ (1,201)		**$ (39,881)**	**$ (39,881)**

U.S. Department of Education
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2020
(Dollars in Millions)
(Unaudited)

	Federal Student Aid		Office of Elementary and Secondary Education
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority (Net) (Note 12)	$ 14,938	$ 8,939	$ 2,103
Appropriations (Discretionary and Mandatory)	163,672	349	24,379
Borrowing Authority (Discretionary and Mandatory) (Note 12)	-	135,300	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	272	65,625	-
Total Budgetary Resources	**$ 178,842**	**$ 210,213**	**$ 26,482**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (Total) (Note 12)	$ 162,465	$ 187,667	$ 24,680
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	13,386	-	1,736
Unapportioned, Unexpired Accounts	1,819	22,546	-
Unexpired Unobligated Balance, End of Year	**$ 15,205**	**$ 22,546**	**$ 1,736**
Expired Unobligated Balance, End of Year	1,172	-	66
Unobligated Balance, End of Year (Total)	**$ 16,377**	**$ 22,546**	**$ 1,802**
Total Status of Budgetary Resources	**$ 178,842**	**$ 210,213**	**$ 26,482**
OUTLAYS, NET			
Outlays, Net (Discretionary and Mandatory)	$ 160,912		$22,656
Distributed Offsetting Receipts (-) (Note 12)	(13,606)		-
Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13)	**$ 147,306**		**$ 22,656**
Disbursements, Net (Total) (Mandatory)		**$ (42,956)**	

	Office of Special Education and Rehabilitative Services	Education Stabilization Fund	Other		Combined		Total
	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	
	$ 274	$ -	$ 441	$180	$ 17,756	$ 9,119	$ 26,875
	17,676	30,750	8,203	1	244,680	350	245,030
	-	-	-	289	-	135,589	135,589
	-	(154)	113	137	191	65,762	65,953
	$ 17,950	**$30,596**	**$ 8,757**	**$ 607**	**$ 262,627**	**$ 210,820**	**$ 473,447**
	$ 17,571	$ 30,088	$ 7,290	$ 4,310	$ 242,724	$ 188,098	$ 430
	138	508	678	176	16,446	-	16,446
	-	-	3	176	1,822	22,722	24,544
	$ 138	**$ 508**	**$ 681**	**$ 176**	**$ 18,268**	**$ 22,722**	**$ 40,990**
	241	-	156	-	1,635		1,635
	$ 379	**$ 508**	**$837**	**$ 176**	**$ 19,903**	**$ 22,722**	**$ 42,625**
	$ 17,950	**$ 30,596**	**$ 8,757**	**$ 607**	**$ 262,627**	**$ 210,820**	**$ 473,447**
	$ 16,268	$ 11,160	$ 7,029		$ 218,025		$ 218,025
	-	-	(4)		(13,610)		13,610
	$ 16,268	**$ 11,160**	**$ 7,025**		**$ 204,415**		**$ 204,415**
				$ 10		**$ (42,946)**	**$ 42,946**

Report of the Independent Auditors

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 19, 2021

The Honorable Miguel Cardona
Secretary of Education
Washington, D.C. 20202

Dear Secretary Cardona:

The enclosed Independent Auditors' Report (report) presents the results of the audit of the U.S. Department of Education's (Department) financial statements for fiscal years 2021 and 2020 to comply with the Chief Financial Officers Act of 1990, as amended. The report should be read in conjunction with the Department's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the financial statements of the Department as of September 30, 2021, and 2020, and for the years then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements.*

Results of the Independent Audit

KPMG found:

- The fiscal years 2021 and 2020 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- One material weakness in internal control over financial reporting:
    - Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement.
- Three significant deficiencies in internal control over financial reporting:
    - Information Technology Controls Need Improvement,
    - Monitoring Controls over Service Organizations Need Improvement, and
    - Entity Level Controls Need Improvement.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

Page 2 – The Honorable Miguel Cardona

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on the Department's financial statements or internal control over financial reporting, or conclusions on whether the Department's financial management systems complied substantially with the three FFMIA requirements, or on compliance with laws and other matters. KPMG is responsible for the auditor's report dated November 19, 2021, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We appreciate the cooperation given KPMG and my office during the audit. If you have any questions or would like to discuss the report, please contact me at (202) 245-6900.

Sincerely,

Sandra D. Bruce
Deputy Inspector General Delegated the Duties
of Inspector General

Enclosure

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Deputy Inspector General Delegated the Duties of Inspector General
United States Department of Education

Secretary
United States Department of Education:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Department of Education (Department), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Education as of September 30, 2021 and 2020, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the FY2021 Agency Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information on pages i through iii, Message from the Secretary, the information on page vii, Message from the Chief Financial Officer, About the Financial Section, Other Information section, Appendices, and Acknowledgments is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2021, we considered the Department's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying exhibits, we did identify certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in

KPMG

internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Exhibit A, *Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement*, to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit B, *Information Technology Controls Need Improvement*, *Monitoring Controls over Service Organizations Need Improvement*, and *Entity Level Controls Need Improvement*, to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 21-04.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Department's Responses to Findings

The Department's responses to the findings identified in our audit are described in Exhibit C. The Department's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 19, 2021

3

Exhibit A

Material Weakness

Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement

Under the *Federal Credit Reform Act of 1990* (FCRA), the United States Department of Education (Department) is required to perform periodic interest rate and technical re-estimates of the subsidy costs of its direct loan and guaranty programs. These re-estimates are calculated using an internally developed cash flow model. The cash flow model utilizes assumptions based on internally sourced data elements from Information Technology (IT) systems. The future cash flow outputs generated from the Department's cash flow model, the Student Loan Model (SLM), are then input into the format required by the Office of Management and Budget (OMB) Credit Subsidy Calculator (CSC), a required present value discount tool for agencies with credit reform programs. These procedures are necessary to generate subsidy re-estimates in accordance with the FCRA, as required by U.S. generally accepted accounting principles.

Condition:

The Department and Federal Student Aid (FSA) did not design and implement effective controls to ensure that the data used to develop the re-estimate is reliable, considering the elevated risk associated with such data caused by the IT control deficiencies discussed in Exhibit B of this report. Specifically, the Department and FSA management did not perform sufficient procedures to ensure that the data elements transmitted to and extracted from the various systems and used in the cash flow model are complete and accurate.

Cause/Effect:

The Department's and FSA's risk assessment process did not identify completeness and accuracy of the underlying data resulting from the IT system control deficiencies as a risk that required additional compensating controls. Inadequate controls over the completeness and accuracy of the underlying data used to develop the re-estimate increases the risk that the financial statements could be materially misstated.

Criteria:

The following criteria were considered in the evaluation of the material weakness presented in this exhibit:

- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Principle No. 10, *Design Control Activities*; Principle No. 11, *Design Activities for the Information* System; Principle No. 13, *Use Quality Information*.
- FASAB Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act*, Paragraphs 20 and 40.

Recommendations:

We recommend that the Department and FSA:

1. Strengthen the risk assessment process by considering the impact of IT control deficiencies on internal controls over the reliability of information in the Department's IT systems. Such considerations should be documented.
2. Design and implement additional review controls that operate at a sufficient level of precision over the completeness and accuracy of the underlying data used to develop the re-estimate.
3. Ensure proper documentation of controls identified to evidence the review, the conclusion and actions to be taken to address outstanding differences and/or matters to be researched.

A-1

Exhibit B

Significant Deficiencies

A. Information Technology Controls Need Improvement

The following control deficiencies in the areas of IT logical access, security management, segregation of IT duties, and application change management are related to both the Department and FSA systems.

Conditions:

In FY 2020, we reported a significant deficiency related to FSA's IT controls due to persistent unmitigated IT control deficiencies. During FY 2021, the FSA management demonstrated progress implementing corrective actions to remediate some prior-year deficiencies such as background investigations. However, management has not fully remediated prior-year deficiencies related to logical access administration, separated/transferred user access removal, user access reviews and recertification, and configuration management. We noted new and existing IT control deficiencies related to security management, access controls, segregation of IT duties, and application change management for three of FSA's financial and mixed systems and two access control support systems. In addition, we noted deficiencies related to Department-level logical access for its core financial management system. Specifically, we noted the following:

Department:

1. Weakness in IT logical access controls: New and separated contractors were not consistently and accurately tracked resulting in the inconsistent reporting of start and termination dates and system access that was not always removed upon separation from the Department.

FSA:

1. Weakness in IT security management controls: Plan of Action and Milestone (POA&M) closure documentation for FSA systems did not always address the root cause of the deficiencies, thereby not preventing future reoccurrences.
2. Weakness in IT logical access controls: The account management and access control processes were not consistently followed for three FSA systems and two access control support systems. We noted evidence supporting new, modified, or separated users could not be provided or was provided and missing required information and/or approvals. Additionally, we noted evidence supporting complete and accurate access reviews and recertifications was not provided or retained. Finally, we noted the Department's requirement for two-factor authentication was not met for all internal system users.
3. Weaknesses in IT controls related to the segregation of IT duties: For one FSA system, users with developer access had access to the system's production environment or update access to the production and development environments.
4. Weakness in IT application change management controls: The application change management process was not consistently followed for one FSA system. FSA was unable to provide a complete and accurate population of application changes. We also noted the documentation for a selection of changes contained inaccuracies in recorded testing and migration dates.

Cause/Effect:

There was a lack of effective monitoring controls by the Department and FSA to ensure:

1. Systems and support processes consistently adhered to documented agency-wide policies and procedures for the financially and mixed systems hosted and managed by FSA and the Department.

Additionally, there was a lack of effective IT controls implemented by FSA to ensure:

1. Corrective actions to remediate prior-year conditions and associated causes are fully implemented, as well as verifying and validating that these corrective actions were effectively addressing the weakness with adequate documented supporting evidence.
2. The established logical access control process is followed and requests for new, modified, or separated users were retained, documented completely and accurately, and approved.
3. Segregation of duties and least privilege principles are followed and enforced.
4. The established change process is followed and application change tickets accurately document the testing and migration dates.

Ineffective IT controls increases the risk of unauthorized use, disclosure, disruption, modification, or destruction of information and information systems that could impact the integrity and reliability of information processed in the associated applications which may lead to misstatements of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the significant deficiency presented in this exhibit:

– The Departmental Directive OCIO 3-112, Cybersecurity Policy.

– Department Baseline Cybersecurity Standard, OCIO-STND-01, dated April 1, 2020, Section 3.13. Personnel Access.

– The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Section OV3.08 *Effect of Deficiencies on the Internal Control System*, Principle 3 *Establish Structure, Responsibility, and Authority, Documentation of the Internal Control System*, Principle No. 3.08 *Assignment of Responsibility and Delegation of Authority*, Principle No. 8.07 *Response to Fraud Risks*, Principle No. 10.3 *Design of Appropriate Types of Control Activities*, Principle No.10.12 *Segregation of Duties*, Principle No. 11, *Design Activities for the Information System*, and Principle No. 13, *Use Quality Information*, Principle No.17, *Evaluate Issues and Remediate Deficiencies*.

– National Institute of Standards and Technology Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4, dated April 2013, specifically security control requirements PM-4 Plan of Action and Milestone, AC-2 Account Management, AC-5 Separation of Duties, AC-6 Least Privilege, CM-3 Configuration Change Control, and CM-5 Access Restrictions for Change.

Recommendations:

We recommend that the Department:

1. Evaluate, develop, and implement a formal process to track and report all new and separated contractors.

2. Ensure separated contractors are off-boarded and system personnel are notified in a timely manner to disable or remove access to IT resources.

3. Provide training and oversight to Education personnel with on/off-boarding responsibilities to help ensure new/separated contractors are properly tracked.

We recommend that FSA:

4. Implement a process to evaluate the significance of a deficiency by considering the magnitude of impact, likelihood of occurrence, and nature of the deficiency and tailor the corrective actions to remediate the risk and address the root cause. Further, update guidance to ensure that quality reviews over the POA&M closure documentation are conducted to confirm the noted deficiencies are fully addressed to help prevent future reoccurrences.

5. Formally develop and implement a quality control review process to ensure that logical access control processes are followed completely and accurately to validate logical access requests, reviews, and recertifications.

6. Ensure segregation of duties and least privilege principles are adhered to when granting user access to prevent users with the ability to develop and/or change application code from having update access to the environment where the final tested and approved changes are staged prior to migration to the financial and mixed systems' production environment; and prevent users with access to develop code from having update access to the production environment.

7. Ensure a complete and accurate population of application changes can be provided. Formally develop and implement a quality control review process to ensure that the application change control process is followed and consistently and accurately documented.

B. <u>Monitoring Controls over Service Organizations Need Improvement</u>

The Department and FSA rely on a certain IT system to store data for student loan programs. The Cost Estimation and Analysis Division (CEAD) within the Department also uses the data in the system for the development and update of the assumptions used in the re-estimation of subsidy allowance, a critical component of management's financial reporting process. The IT system is owned and controlled by FSA, who is responsible for the application-level internal controls, and is hosted by a service organization, who is responsible for internal controls at the data center.

Condition:

The Department and FSA did not have effective monitoring controls in place to ensure that the scope of the System and Organization Controls (SOC) 1, Type 2 report for the service organization and/or management's internal control processes sufficiently cover the relevant key controls to support the reliability and integrity of the data stored in the IT system. For example, we noted that there were no sufficient relevant controls identified and tested for data transmission/batch job processing at the host level for one FSA system to ensure the completeness and accuracy of the data used in the re-estimate.

Cause/Effect:

FSA did not perform a comprehensive assessment of key relevant controls to appropriately assess the risks in the financial reporting process.

Ineffective monitoring controls over the service organization increase the risk of disruption, modification, or destruction of information that could impact the integrity and reliability of information processed in the associated application which may lead to misstatements of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the significant deficiency presented in this exhibit:

– The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Section OV4.01 *Additional Consideration, Service Organizations*, Principle 16.08 - *Perform Monitoring Activities.*

– National Institute of Standards and Technology Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4, dated April 2013, specifically security control requirements SA-9 External Information System Services.

Recommendations:

We recommend that FSA:

1. Enhance their risk assessment to identify risks impacting financial reporting processes.

2. Identify the controls at the service organization for the systems that are responsive to risks and that are relevant to FSA's financial statements.

3. Regularly monitor and meet with the service organization to communicate and ensure that controls that are relevant to FSA for financial reporting are adequately tested for design, implementation, and operating effectiveness.

4. Assess the need to implement compensating controls for financial reporting in the event relevant controls at the service organization are not within the scope of the SOC 1 report.

B-4

C. <u>Entity Level Controls Need Improvement</u>

The Department and FSA are continually seeking ways to improve accountability in achieving the entity's mission. A key factor in improving accountability in achieving an entity's mission is to implement an effective internal control system. The control environment sets the tone of an organization by influencing the control consciousness of its personnel. It is also the foundation for all components of internal control, providing discipline and structure. The Department and FSA need to address weaknesses in its entity-wide control environment as we have observed two entity-wide control environment conditions through our procedures that have a pervasive influence on the effectiveness of controls. These common themes, which contributed to the deficiencies noted above, are related to the entity's risk assessment and monitoring activities.

Conditions:

1. Risk Assessment- The Department and FSA's entity level controls were not designed and implemented appropriately in order to define objectives related to the financial reporting process to enable the identification of risks, define risk tolerances and identified processes and controls responsive to those risks.

2. Monitoring Activities- The Department and FSA's entity level controls were not designed and implemented appropriately in order to remediate identified internal control deficiencies in a timely manner.

Cause/Effect

1. Risk Assessment considerations address the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Specifically, inadequate risk assessment throughout the Department and FSA, prevented the proper identification and analysis of risks related to the financial reporting process at the Department and FSA, and from designing appropriate risk responses. For example, the Department did not identify the risk objectives that should have been either addressed by the SOC1, Type 2 report or through compensating controls at the Department and FSA, to support the reliability and integrity of the data used in the financial reporting process.

2. Monitoring Activities considerations address management's processes to establish and implement operations that assess the quality of performance over time and promptly resolve the findings of audits and other reviews. Specifically, insufficient monitoring has prevented the Department and FSA from ensuring that corrective action plans are implemented, and control deficiencies are remediated timely.

Criteria

The following criteria were considered in the evaluation of the significant deficiency presented in this Exhibit:

– GAO Standards for Internal Control in the Federal Government (Green Book) Principle 6, *Management should define objectives clearly to enable the identification of risks and define risk tolerances.*

– GAO Standards for Internal Control in the Federal Government (Green Book) Principle 17, *Management should remediate identified internal control deficiencies on a timely basis*

Recommendations

We recommend that management implement the following to improve the effectiveness of entity-level controls:

1. Improve the risk assessment process at the financial statement assertion level and at the process level to ensure the department is appropriately defining objectives to enable the identification of risks and define risk tolerances.

2. Implement key monitoring controls to ensure that corrective action plans are implemented to timely remediate control deficiencies identified. In addition, increase oversight, review, and accountability over the process among various offices and directorates within the Department and FSA.

Exhibit C

Management's Response

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF FINANCE AND OPERATIONS

November 16, 2021

MEMORANDUM

TO:
Bryon S. Gordon
Assistant Inspector General for Audit

FROM: Denise L. Carter Denise Carter Digitally signed by Denise Carter Date: 2021.11.16 15:38:29 -05'00'
Delegated the authority to perform the functions and duties of the position of Chief Financial Officer

Jason Gray JASON GRAY Digitally signed by JASON GRAY Date: 2021.11.16 15:40:36 -05'00'
Chief Information Officer

SUBJECT: DRAFT INDEPENDENT AUDITORS' REPORT
Fiscal Years 2021 and 2020 Financial Statements
U.S. Department of Education
ED-OIG/A21FS0021

Please convey the Department's sincere thanks to everyone on your staff who worked diligently on this financial statement audit. The Department reviewed the draft Fiscal Year 2021 Financial Statement Audit Report. We concur and agree with the Independent Auditors' Report, including the Opinion on the Financial Statements, Internal Control over Financial Reporting, and Compliance and Other Matters.

We will share the final audit results with responsible senior officials, other interested program managers, and staff. At that time, we will also request the preparation of corrective action plans to be used in the resolution process.

Again, please convey our appreciation to everyone on your staff whose efforts permitted the Department to complete the audit.

Please contact Gary Wood, Deputy Assistant Secretary, Office of Financial Management, Office of Finance and Operations, and Acting Deputy Chief Financial Officer, at 202-453-7631 with any questions or comments.

400 MARYLAND AVE., S.W., WASHINGTON, DC 20202
www.ed.gov

The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

This page intentionally left blank.