Consolidated Financial Statements and Schedule of Expenditures of Federal Awards

American Student Assistance and Subsidiary

December 31, 2020 and 2019

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AMERICAN STUDENT ASSISTANCE AND SUBSIDIARY

Consolidated Financial Statements and Schedule of Expenditures of Federal Awards

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Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

Independent Auditors' Report

Board of Directors
Massachusetts Higher Education Assistance Corporation
d/b/a American Student Assistance

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Agency Operating Fund for Massachusetts Higher Education Assistance Corporation d/b/a American Student Assistance ("ASA"), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of activities and cash flows 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 accounting principles generally accepted in the United States of America; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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 consolidated financial position of ASA as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2021 on our consideration of ASA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ASA's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

July 1, 2021
Boston, Massachusetts

AMERICAN STUDENT ASSISTANCE AND SUBSIDIARY

Consolidated Statements of Financial Position

(Dollars in Thousands)

December 31,

	2020	2019
Assets		
Cash and cash equivalents	$ 99,741	$ 37,402
Receivables	6,358	10,042
Prepaid expenses and deposits	1,592	2,178
Investments	712,870	681,312
Other assets	507	651
Pension asset	260	12,125
Property and equipment, net	7,036	8,153
Total assets	**$ 828,364**	**$ 751,863**
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	$ 11,064	$ 12,059
Deferred rent and landlord allowances	3,235	3,318
Other liabilities	3,855	4,756
Total liabilities	18,154	20,133
Net assets without donor restrictions	810,210	731,730
Total liabilities and net assets	**$ 828,364**	**$ 751,863**

See accompanying notes to the consolidated financial statements.

AMERICAN STUDENT ASSISTANCE AND SUBSIDIARY

Consolidated Statements of Activities

(Dollars in Thousands)

Years Ended December 31,

	2020	*2019*
Operating revenues:		
Account maintenance fees	$ 10,575	$ 11,698
Default aversion fees	3,115	4,044
Defaulted loan recoveries - net of reimbursement to the U.S. Department of Education:		
Regular collections	2,012	6,081
Consolidation collections	10,004	14,135
Rehabilitation collections	42,466	70,621
Grants and contracts	1,862	2,276
Other debt management services	196	204
Gross revenues	**70,230**	**109,059**
Service fees due to third party servicer	29,905	46,858
Total revenue available for operations	**40,325**	**62,201**
Operating expenses:		
Employee compensation and fringe benefit costs	14,316	15,182
Depreciation and amortization expenses	2,095	1,486
Occupancy and building costs	2,184	2,177
Office expenses	485	538
Professional fees and services	9,948	6,300
Information systems equipment and maintenance	3,833	2,898
Travel and industry related activities	106	726
Grant expense	5,559	5,532
Funding for strategic programs	347	2,695
Other expenses	886	934
Total operating expenses	**39,759**	**38,468**
Increase in net assets from operating activities	**566**	**23,733**
Non-operating gain (expense):		
Net investment return	91,008	111,946
(Loss) gain on pension plan	(12,195)	10,882
Non-operating expense	(899)	(236)
Total non-operating gain	**77,914**	**122,592**
Change in net assets	**78,480**	**146,325**
Net assets without donor restrictions, beginning of year	731,730	585,405
Net assets without donor restrictions, end of year	**$ 810,210**	**$ 731,730**

See accompanying notes to the consolidated financial statements.

AMERICAN STUDENT ASSISTANCE AND SUBSIDIARY

Consolidated Statements of Cash Flows

(Dollars in Thousands)

Years Ended December 31,

	2020	*2019*
Cash flows from operating activities:		
Change in net assets	$ 78,480	$ 146,325
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation and amortization expenses	2,095	1,486
Loss on disposal of property and equipment	-	3
Net realized and unrealized gain on investments	(91,008)	(111,946)
Changes in assets and liabilities:		
Prepaid expenses and deposits	586	(746)
Receivables	3,684	2,254
Other assets	144	90
Pension asset	11,865	(12,125)
Accounts payable and accrued expenses	(995)	(7,246)
Deferred rent and landlord allowances	(83)	300
Pension obligation	-	(6,653)
Other liabilities	(901)	1,446
Net cash provided by operating activities	**3,867**	**13,188**
Cash flows from investing activities:		
Purchases of investments	(27,179)	(154,586)
Sales and maturities of investments	86,629	138,789
Additions to property and equipment	(978)	(3,096)
Net cash provided by (used in) investing activities	**58,472**	**(18,893)**
Increase (decrease) in cash and cash equivalents	**62,339**	**(5,705)**
Cash and cash equivalents, beginning of year	37,402	43,107
Cash and cash equivalents, end of year	**$ 99,741**	**$ 37,402**

See accompanying notes to the consolidated financial statements.

Note 1 - Organization

American Student Assistance ("ASA") is a private nonprofit with a mission to help students know themselves, know their options, and make informed decisions to achieve their education and career goals. ASA fulfills their mission by providing tools and resources to students online, in classrooms, and through community-based organizations. ASA is committed to helping students explore education and career options starting in middle school, experiment through hands-on opportunities, and execute a plan to meet their goals. ASA's innovative programs and partnerships, combined with a robust research agenda and advocacy platform, enable ASA to provide meaningful impact to young people on a national scale.

Massachusetts Higher Education Assistance Corporation ("MHEAC") is the legal name of ASA. ASA has a legacy of more than 60 years of working directly with students. Under the Higher Education Act of 1965, as amended (the "Act"), ASA is considered to be a Federal Family Education Loan Program ("FFELP") guaranty agency and is required to maintain and account for activities within two separate funds; an Agency Operating Fund (the "Operating Fund") and a Federal Fund (the "Federal Fund"), which is owned and regulated by the U.S. Department of Education ("ED"). The Operating Fund is used to record the financial activities incurred by ASA in fulfilling its corporate mission while ASA operates the Federal Fund on behalf of ED. The financial activities applicable to the Federal Fund are reported in a separate set of financial statements.

ASA's current mission builds upon its years of experience helping students and young people achieve their goals.

ASA's portfolio under management was approximately $17.0 billion and $18.9 billion for the years ended December 31, 2020 and 2019, respectively. ASA's defaulted loan portfolio under management was approximately $1.5 billion and $1.6 billion for the years ended December 31, 2020 and 2019, respectively. ASA paid claims for defaulted loans guaranteed in prior years of approximately $232.3 million and $361.8 million for the years ended December 31, 2020 and 2019, respectively. Recent experience shows that the collection activity that ASA undertakes tends to peak in the second and third years after the year a claim is paid, and accordingly, ASA's ability to earn fees on collections follows those patterns. ASA maintains an outsourced agreement with another FFELP guaranty agency to carry out a significant portion of the activities that previously were performed directly by ASA. Such outsourcing provides for compensation of this party a significant portion of the revenues which are included in net fees due to third party servicer in the Consolidated Statements of Activities. The agreement began January 1, 2018 and runs for a period of five years and provides for cancelation with due notice among other terms as provided for under the agreement. ASA remains directly responsible for compliance with the attributes of the program and continues to be a guaranty agency notwithstanding these arrangements.

ASA and the Federal Fund operate in a complex regulatory environment that evolves as laws, funding and other factors change over time. While reporting is based on current agreements, changes may occur in the future which could have a significant effect on ASA and the Federal Fund. ASA also continues to develop new services to assist students and parents in successfully completing a program of education financing and repayment.

Note 1 - Organization (Continued)

Consolidated Financial Statement Presentation

ASA's consolidated financial statements are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. ASA holds certain assets in a subsidiary entity that has been consolidated within these financial statements. All significant intercompany transactions have been eliminated in consolidation.

Accounting within the Consolidated Statements of Financial Position and Activities is based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for general use and not subject to donor restrictions. The Board of Directors has designated from net assets without donor restrictions amounts for the Chief Executive Officer's Strategic Initiative Fund. Net assets without donor restrictions also include the investment in property and equipment.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Currently, no net assets or activities of ASA have donor restrictions.

All dollar amounts, unless otherwise noted, are expressed in thousands.

Note 2 - Summary of Significant Accounting Policies

Cash and Cash Equivalents

All highly liquid debt instruments, including repurchase agreements, with maturities of three months or less at the date of purchase are considered to be cash equivalents. Cash and cash equivalents are reported at cost plus accrued interest. Certain accounts have deposit insurance, however balances routinely exceed insured levels. Certain instruments are otherwise collateralized. ASA monitors its exposure associated with cash and cash equivalents and has not experienced any losses in such accounts.

Note 2 - Summary of Significant Accounting Policies (Continued)

Receivables

Receivables are carried at their estimated net realizable value. Receivables are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Provisions for uncollectible accounts on receivables are determined on the basis of loss experience, known and inherent risks and current economic conditions. A significant portion of receivables are due from the U.S. Department of Education and the Federal Fund which management has determined are fully collectible and thus do not require an allowance.

Due from the Federal Fund results from transactions processed on behalf of the Federal Fund for defaulted loan recoveries due to ASA at year end.

Investments

Investments are carried at fair value. Fair value is determined as per the fair value policies described later in this section.

Net investment return (loss) is reported in the Consolidated Statements of Activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

Fair Value Measurements

ASA reports certain assets and liabilities at fair value on a recurring and nonrecurring basis depending on the underlying accounting policy for the particular item. Recurring fair value measures include ASA's certificates of deposit and its investment accounts. ASA does not have any nonrecurring measures. Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability as of the measurement date. The fair value standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets), minimize the use of unobservable inputs (such as appraisals or valuation techniques) or to use the net asset value per share as a practical expedient in reporting and measuring its financial instruments. Fair value standards also require ASA to classify its financial instruments (but for those measured using NAV) into a three-level hierarchy, based on the priority of inputs to the valuation technique.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include listed equity and debt securities publicly traded on an exchange.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Note 2 - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy and are based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these consolidated financial statements.

Property and Equipment

Property and equipment are recorded at cost when the useful life is over one year and when such amounts exceed a management established capitalization threshold. Depreciation and amortization are recorded using the straight-line method over estimated useful lives of three to ten year periods. Leasehold improvements are amortized over the shorter of useful life or life of the lease. Ordinary repairs and maintenance are charged to expense when incurred. Costs incurred to maintain existing software are expensed as incurred.

Deferred Rent and Landlord Allowances

Lease incentives are amortized over the term of the lease on the straight-line basis. Rent expense is also recorded on a straight-line basis to account for the effects of free rent and changes in lease rates over the lease term.

Pension Obligation

ASA previously sponsored a defined benefit pension plan (the “Plan”) covering substantially all of its employees. The plan was frozen on December 31, 2018, and, effective December 31, 2019, the Board of Directors approved a motion to terminate the Plan. In November 2020, ASA transferred substantially all remaining plan liabilities to an insurance company through the purchase of annuity contracts.

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Currently, all revenues and expenses are reported as increases or decreases in net assets without restrictions as no donor restricted funds are presently received or held.

Under accounting standards, revenue measurement is driven via a principles based process that requires entities 1) identify the contract with the customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations; and 5) recognize revenue when (or as) performance obligations are satisfied.

Default Aversion Fee

ASA is entitled to a fee from the Federal Fund equal to 1% of the balance of the principal and interest on loans associated with first-time pre-claims assistance requested by lenders. ASA is allowed to withdraw this fee monthly from the Federal Fund as performance obligations are satisfied. These payments must be returned should the loan associated with the pre-claim assistance ultimately default. As such, when such fees are availed, based on the established described above, management records revenue from this fee net of the estimated amount that is estimated to be returned using historical data.

In 2014, ASA prefunded the expected obligation for the return of default aversion fees that it would expect to need to return over time as loans default. Inherent in the estimation of this amount is the possibility that a greater or lesser portion of loans will go into default. If the number is greater, additional amounts will be payable to the Federal Fund from this cohort; if amounts are less, ASA does not have a reversionary interest in such an overpayment. Management continues to monitor this estimate. Management analyzes the estimated return of funds over time compared to the amounts advance funded to date. The expected future returns amount to $19,400 and $20,000 at December 31, 2020 and 2019, respectively, which is less than the prefunded amount of $31,300, meaning that no obligation exists to the Federal Fund for expected future default aversion fee returns.

From time to time, in the past, ASA has elected to not avail itself to such fees given the existing Board Policy seeking to support the Federal Fund in meeting its minimum reserve requirements. Such past undrawn default aversion fees are considered to have been permanently forfeited.

Account Maintenance Fee

ASA receives portfolio maintenance fees from ED based upon the original principal balance of loans in its loan portfolio. These fees are calculated at six one-hundredths of one percent (0.06%) annually. As revenue for portfolio maintenance is based on an established fee percentage, revenue is considered to be fixed and determinable. This fee is recognized as income when performance obligations are met. These fees are available through September 30, 2021 and may be extended for an additional year if approved through the legislative process.

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Defaulted Loan Recoveries

ASA is entitled to retain a portion of defaulted loan collections for which federal reinsurance or reimbursement has been received. Regular collections earn a 16% fee on cash collected. Consolidated loan collections earn a net fee of 10% of borrower principal and accrued interest. Rehabilitations which are sold receive collection costs of 16% of borrower principal and accrued interest, and 100% of the accrued interest associated with the loan, which is recognized as revenue upon sale which is the point in which ASA's performance obligation is met. As revenue for each of these types of collections is based on an aforementioned established rate, the amounts are considered to be fixed and determinable. Gains and losses on loans are netted against the associated revenue from rehabilitations sold as management views this as an integral part of the net compensation available to it under the program with these amounts being recorded as they occur which results in these being recorded in the same period. ED has established a floor of 94% of face value of loans as a price they will pay should market participants not be willing to make purchases at this level or higher. Since, generally, the collection revenues significantly exceed the possible loss on sale when less than face value is received, no implied loss exists on rehabilitations in progress and thus no loss is recorded on such until the related collection revenue is recorded.

Grants and Contracts

ASA receives grants from federal, state and private sources. This revenue is used to provide information to students and their families about college planning including financial aid for post-high school education and career opportunities. Grants and contracts revenue is recognized when earned which generally is when the related underlying costs associated with the grant are incurred. Funds received in advance are accounted for in other liabilities pending such costs being incurred. Conditional grants and contracts were $3,468 and $5,054 at December 31, 2020 and 2019, respectively.

In fulfilling its mission, ASA offers the following programs:

College Planning Centers located in the Boston and Brockton areas provide free drop-in college planning services and promote the belief that higher education should be accessible to individuals of all backgrounds. While serving everyone who seeks assistance, the centers' focus is on low-income and minority students and adults who will be the first generation in their families to attend college, and who, without encouragement, will be unlikely to continue their education. Along with in-depth one-on-one assistance with planning and paying for college, the centers also offer: access to public computers for those seeking to research careers, educational opportunities, scholarships and other types of financial aid; free telephone assistance with financial aid questions via a toll-free phone line; workshops and information sessions in the communities at branch libraries, schools, organizations serving similar populations, and career and college fairs; and free publications.

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Grants and Contracts (Continued)

School-Based Programs located in selected Boston and Brockton public schools provide college readiness assistance to students in grades 7-12. These programs are targeted to students who have the potential to succeed in higher education but, without guidance and encouragement, are unlikely to enroll in and graduate from college or other career-building education programs. Programming is provided during and after school, and in the summer. Services include academic support through supplemental classes, workshops, tutoring, peer mentoring, college visits, career exploration, and support for transitioning from high school to college.

College Success Initiative (Success Boston) provides a cohort of Boston Public School graduates with intensive coaching and support, individual assistance with the financial aid process, course registration, and help in overcoming other challenges students face as they transition from high school to college.

Accounting for Outsource Arrangement

ASA considers all revenue earned from the administration of FFELP as under its responsibility, and accordingly, such amounts are presented at their gross amounts in the consolidated financial statements. Given the significance of the fees paid under its outsourcing arrangement, management has presented those costs as a deduction from revenues in order to more clearly present the net amounts available after such fees for program and management of its other activities and affairs and are included in net fees due to third party servicer in the Consolidated Statements of Activities.

Support for the Federal Fund

ED established a minimum reserve level requirement for the Federal Fund of at least 25 basis points of the total guaranteed principal outstanding as determined each year as of September 30. ASA accrues such estimated amounts at December 31 pursuant to a policy adopted by ASA's Board. While ASA is not legally obligated to fund any shortfalls in the Federal Fund, ASA has provided significant support in the past to enable the Federal Fund to achieve this level of net assets. ASA expects that the Federal Fund will not have funding needs in the future relative to projections when looking at a longer term horizon than the measurement date established by ED to measure reserve levels. No support was paid or accrued relating to the reserve requirement and the Board's policy to fund such for the years ended December 31, 2020 and 2019.

Strategic Programs

ASA funds strategic programs that align with the core mission to help students achieve their education and career goals. Certain funding agreements associated with these strategic programs are conditional as the counterparty is required to meet certain barriers or milestones in order to receive future funding from ASA. For the years ended December 31, 2020 and 2019, conditional future commitments associated with strategic programs totaled $3,950 and $1,550, respectively.

Note 2 - Summary of Significant Accounting Policies (Continued)

Income Tax Status

ASA is recognized by the Internal Revenue Service as an organization described under Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal and state income taxes on related income. Given the limited taxable activities of ASA and its subsidiaries, management concluded that disclosures relative to tax provisions are not necessary.

Uncertain Tax Positions

ASA accounts for the effect of any uncertain tax positions based on a “more likely than not” threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a “cumulative probability assessment” that aggregates the estimated tax liability for all uncertain tax positions. ASA has identified its tax status as a tax-exempt entity, its determination of which activities are related and unrelated and its presentation of certain net operating loss carryforwards as its only significant tax positions. ASA, however, has determined that its position relative to tax status or determination of which activities are related and unrelated does not result in an uncertainty requiring recognition. The position on loss carryforwards is uncertain and thus such carryforwards have not been recognized as tax assets. ASA is not currently under examination by any taxing jurisdiction. ASA’s federal and state tax returns are generally open for examination for three years following the date filed.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Allocation of Functional Expenses

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the Consolidated Statements of Activities. Functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Depreciation of plant assets and operation and maintenance of plant expenses have been allocated to functional classifications based on square footage of facilities.

Pending Accounting Pronouncements

A number of accounting standards are pending in future years. Management believes the most significant of these is the lease accounting standard which will require the recording of a right of use asset and right of use obligation for operating leases. Management is currently evaluating this standard which will be effective in the fiscal year 2021. Management does not expect other pending accounting pronouncements to have a significant impact.

Note 2 - Summary of Significant Accounting Policies (Continued)

Subsequent Events

ASA has evaluated events and transactions through July 1, 2021, which is the date the consolidated financial statements were issued.

On March 11, 2021, ASA issued $100,000 par value Federally Taxable American Student Assistance Social Bonds, Series 2021 ("Series 2021 Bonds"). ASA incurred costs of issuance of approximately $1,034 with the Series 2021 Bonds, which will be capitalized and amortized over the life of the bonds.

As noted in Note 11, The Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was enacted into law on March 27, 2020, providing for these relief measures on ED-owned federal student loans through September 30, 2020, which were subsequently extended through September 30, 2021.On March 30, 2021, ED announced an expansion on the relief measures on ED-owned federal student loans including federal student loan interest and collections on all defaulted loans under the FFELP. ED determined that the expansion on the relief measures will apply retroactively to March 13, 2020 and will require ASA to reimburse the FFELP for collection fees earned after March 13, 2020. Management has determined such amounts will be accounted for in fiscal 2021 as it had followed all required elements of collection administration in the year ended December 31, 2020 and that accordingly any adjustment for such changes required by ED relate to fiscal 2021. ASA estimates the amount required to be reimbursed to the FFELP is approximately $2,100. ASA is eligible to recoup these lost earnings from the Federal Fund.

Note 3 - Liquidity and Availability

ASA regularly monitors liquidity to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. ASA has various sources of liquidity at its disposal including cash and cash equivalents, and its investments which are all considered marketable.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, ASA considers all of its expenditures related to its ongoing operations.

In addition to the financial assets available to meet general expenditures over the next 12 months, ASA generally budgets for an operating surplus and anticipates collecting sufficient revenue to cover operating expenditures. Given that all cash and cash equivalents, investments and other receivables (but for the portion attributable to the amounts pledged as security for landlord of $500) are all highly liquid, management determined that a further detailed schedule outlining these amounts was not necessary given that substantially all of those amounts are available to support operations and that such amounts are in excess of annual general expenditures.

(Dollars in Thousands)

Note 4 - Investments and Fair Value Measurements

The fair value of investments consists of the following at December 31:

	2020	***2019***
Mutual funds:		
Fixed income	$ 155,432	$ 142,382
U.S. equity	349,191	308,116
International stock	207,769	171,523
U.S. Government agencies securities	478	59,291
Investments	**$ 712,870**	**$ 681,312**

The above investment fair values were determined using Level 1 methods. Investment allocations are made based on a Board approved investment policy which seeks to balance risk, return and other factors associated with the prudent investment of such funds.

At December 31, 2020, $500 of securities were pledged to secure a letter of credit issued by a bank in favor of ASA's landlord. The letter of credit expires on April 14, 2021.

Note 5 - Natural Classification of Operating Expenses

Operating expenses presented by natural classification and function are as follows for the years ended December 31, 2020:

	2020		
	Program Expenses	***Management and General***	***Total Expenses***
Employee compensation and fringe benefit costs	$ 10,736	$ 3,579	$ 14,315
Funding for strategic programs	5,907	-	5,907
Professional fees and services	6,057	3,890	9,947
Information systems equipment and maintenance	2,913	920	3,833
Depreciation and amortization expenses	1,660	524	2,184
Occupancy and building costs	1,592	503	2,095
Other expenses	1,123	355	1,478
Total operating expenses	**$ 29,988**	**$ 9,771**	**$ 39,759**

(Dollars in Thousands)

Note 5 - Natural Classification of Operating Expenses (Continued)

Operating expenses presented by natural classification and function are as follows for the years ended December 31, 2019:

	2019		
	Program Expenses	*Management and General*	*Total Expenses*
Employee compensation and fringe benefit costs	$ 11,538	$ 3,644	$ 15,182
Funding for strategic programs	8,227	-	8,227
Professional fees and services	3,898	2,400	6,298
Information systems equipment and maintenance	2,203	696	2,899
Depreciation and amortization expenses	1,655	522	2,177
Occupancy and building costs	1,129	357	1,486
Other expenses	1,671	528	2,199
Total operating expenses	**$ 30,321**	**$ 8,147**	**$ 38,468**

Note 6 - Property and Equipment

Property and equipment consists of the following at December 31:

	2020	*2019*
Computer software systems	$ 5,366	$ 1,700
Equipment	2,649	2,610
Furniture and fixtures	1,115	1,155
Leasehold improvements	3,569	3,700
Artwork	221	221
Construction in process	-	2,813
Total property and equipment	12,920	12,199
Less accumulated depreciation and amortization	(5,884)	(4,046)
Net property and equipment	**$ 7,036**	**$ 8,153**

During the year ended December 31, 2020, ASA disposed of $257 of fully depreciated computer software systems, equipment and leasehold improvements. During the year ended December 31, 2019, ASA disposed of property and equipment resulting in a loss of $3.

(Dollars in Thousands)

Note 7 - Employee Benefit Plans

Defined Benefit Plan

ASA maintained a defined benefit pension plan (the “Plan”), which was frozen on December 31, 2018 and terminated by ASA effective December 31, 2019. During the year ended December 31, 2020, a total of $21,910 was distributed in cash to participants as the initial step in the termination. In November 2020, ASA transferred $44,200 in remaining plan liabilities to an insurance company.

ASA recognizes in the Consolidated Statements of Financial Position the overfunded or underfunded status of the Plan, measured as the difference between the fair value of Plan assets and the projected benefit obligation at year end. ASA recognizes the change in the funded status of the Plan in the year in which the change occurs through the Consolidated Statements of Activities. The normal pension expense of $330 and $896 for the years ended December 31, 2020 and 2019, respectively, is reflected in employee compensation and fringe benefits in the Consolidated Statements of Activities for the period. The funding policy provides for employer contributions satisfying minimum funding requirements in accordance with the Employee Retirement Income Security Act of 1974 (“ERISA”) guidelines or such higher amounts as approved by the Compensation Committee of the Board. There was no minimum required contribution to the Plan for the years ended December 31, 2020 and 2019.

Selected financial data related to the Plan’s valuation are as follows at December 31:

	2020	*2019*
Fair value of plan assets	$ 1,234	$ 61,616
Projected benefit obligation	974	49,491
Pension assets	$ 260	$ 12,125
Accumulated benefit obligation	$ 974	$ 49,491
Pension expense (charged to operations)	$ 330	$ 896
Employer contributions	$ -	$ 7,000
Benefits paid to participants	$ 21,910	$ 1,885

Amounts recognized in net assets without donor restrictions consist of the following at December 31:

	2020	*2019*
Prior service cost	$ -	$ -
Net gain	89	12,283
Total	**$ 89**	**$ 12,283**

(Dollars in Thousands)

Note 7 - Employee Benefit Plans (Continued)

Defined Benefit Plan (Continued)

Other changes in Plan assets and benefit obligations recognized in net assets without donor restrictions are as follows for the years ended December 31:

	2020	***2019***
Net (loss) gain	$ (11,747)	$ 10,882
Settlement	-	-
Curtailment gain	-	-
Amortization of prior service costs	-	-
Amortization of net loss	(448)	-
Total amount recognized in non-operating net assets without donor restrictions	**$ (12,195)**	**$ 10,882**

The following assumptions were used to determine benefit obligations for the years ended December 31:

	2020	***2019***
Weighted average discount rate	2.89%	4.13%
Long-term return on plan assets	N/A	N/A
Compensation increase rate	N/A	N/A

The rates of long-term return on Plan assets and compensation increase are not applicable as the Plan has been frozen.

Plan assets are all valued using Level 1 fair value methods and consist of the following at December 31:

	2020	***2019***
Cash equivalents	$ 1,234	$ 155
Mutual funds:		
U.S. equity	-	7,507
International equity	-	5,029
Fixed income short-term	-	48,925
Total	**$ 1,234**	**$ 61,616**

Note 7 - Employee Benefit Plans (Continued)

Defined Benefit Plan (Continued)

All remaining Plan assets at December 31, 2020 were in cash equivalents due to the Plan termination. Previously the Plan followed an investment strategy based upon a target portfolio allocation of 20% equity positions and 80% fixed income positions, including cash.

Defined Contribution Plan, Section 403(b)

ASA has a qualified tax-deferred annuity plan covering substantially all of its employees under Section 403(b) of the Internal Revenue Code. Contributions into this plan are not funded or matched by ASA, but are elective deferrals by employees. Starting in January 2019, ASA matches employees' contributions to this plan up to a discretionary percentage set annually by the Board of Directors and in accordance with IRS guidelines and limits. ASA matched employees' contributions to the Defined Contribution Section 403(b) Plan account dollar-for-dollar up to 7% of their compensation, subject to IRS guidelines and limits. Employer contributions totaled $674 and $704 for the years ended December 31, 2020 and 2019, respectively.

Defined Contribution Plan, Section 401(a)

ASA has a discretionary qualified retirement incentive plan under Section 401(a) of the Internal Revenue Code, which covers substantially all of its employees. ASA's anticipated contribution is calculated as a percentage of employees' gross earnings. ASA did not elect to make a discretionary contribution during the years ended December 31, 2020 and 2019.

Deferred Compensation Plan, Section 457(b)

ASA has a non-qualified deferred compensation plan covering senior management personnel under Section 457(b) of the Internal Revenue Code. The plan document describes the terms of vesting and ultimate withdrawal of the assets. The assets and a corresponding liability of $507 and $649 are included in other assets and other liabilities as of December 31, 2020 and 2019, respectively. Contributions into this plan are not funded or matched by ASA, but are elective deferrals by participating employees.

Note 8 - Income Taxes

ASA had a net operating loss carryforward of approximately $18,000 at December 31, 2020 and 2019. The net operating losses begin to expire in 2024. Management has determined that deferred tax assets should not be recognized.

(Dollars in Thousands)

Note 9 - Net Assets

Net assets without donor restrictions are summarized as follows as of December 31:

	2020	2019
Undesignated	$ 803,174	$ 726,390
Net Investment in property and equipment, net of lease incentive	7,036	5,340
	$ 810,210	**$ 731,730**

Note 10 - Commitments and Contingencies

Office Space Leases

ASA leases office space associated with its primary operating facility and other facilities under operating lease arrangements that run through 2033. Certain leases include renewal options at market rates and for rent escalation for certain increases in operating costs as is customary with leases.

Minimum annual lease payments are as follows:

2021	$ 1,740
2022	1,746
2023	1,641
2024	1,565
2025	1,590
Thereafter	13,161
	$ 21,443

Outsourcing Arrangement

ASA engages a third party under an outsourcing arrangement to provide substantial portions of the FFELP activities under a five year contract ending January 1, 2023. Under the arrangement, ASA shares a percentage of the fees chargeable for these services. ASA monitors the ongoing performance of its contactor to ensure ongoing performance given the major areas of authority granted to this party under the arrangement.

Note 10 - Commitments and Contingencies (Continued)

Contingencies

In the ordinary course of business, ASA faces litigation, claims and related matters. Management does not expect that the outcome of any of these matters would have a material adverse impact on its operations or financial position. Additionally, ASA is subject to ED oversight and audit that at times may result in program issues and potential liabilities payable to ED. The issues relate to possible violations of rules and regulations established by ED to administer the federal loans program. Management diligently attempts to interpret ED's rules and regulations and believes that its implementation of policies and procedures properly adheres to those rules and regulations.

Note 11 - Risks and Uncertainties

On March 11, 2020, the World Health Organization ("WHO") classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. As a result of the pandemic, on March 20, 2020, the office of Federal Student Aid began providing temporary relief on ED-owned federal student loans. This included suspension of loan payments, stopped collections on defaulted loans, and a 0% interest rate. The Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was enacted into law on March 27, 2020, providing for these relief measures on ED-owned federal student loans through September 30, 2020, which were subsequently extended through September 30, 2021. As a result of the CARES Act provisions on ED-owned federal student loans, ASA's revenues were impacted for the year ended December 31, 2020. Management is currently unable to accurately forecast the future impact on operations resulting from the Coronavirus (COVID-19) pandemic. However, it is possible that future financial results and operations may be materially impacted by the uncertainties of the pandemic's duration and global economic impact.

Supplemental Information

AMERICAN STUDENT ASSISTANCE

Consolidated Schedule of Expenditures of Federal Awards

Year Ended December 31, 2020

(Dollars in Thousands)

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	*Federal CFDA Number*	*Agency or Pass-Through Number*	*Federal Expenditures*
U.S. Department of Education ("ED") Direct Awards:			
Federal Family Education Loans/Total expended on Guaranty Programs	84.032		$ 174,294
TRIO Cluster Direct Awards:			
TRIO - Talent Search Brockton	84.044A		249
TRIO - Talent Search Boston	84.044A		347
TRIO - Upward Bound	84.047A		268
TRIO - Educational Opportunity Centers	84.066A		165
TRIO - Boston EOC	84.066A		186
Pass-through from Massachusetts Education & Career Opportunities, Inc.:			
TRIO - Educational Opportunity Centers	84.066	P066A110029	145
Total TRIO Cluster			1,360
Pass-through from Massachusetts Department of Higher Education:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334S110038	347
Total U.S. Department of Education			176,001
Total Expenditures of Federal Awards			**$ 176,001**

See Independent Auditors' Report and accompanying Notes to the Consolidated Schedule of Expenditures of Federal Awards.

AMERICAN STUDENT ASSISTANCE AND SUBSIDIARY

Notes to Consolidated Schedule of Expenditures of Federal Awards

Year Ended December 31, 2020

Note 1 - Basis of Presentation

The accompanying Consolidated Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the Agency Operating Fund for Massachusetts Higher Education Assistance Corporation d/b/a American Student Assistance (“ASA”) under programs of the federal government for the year ended December 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of ASA, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of ASA.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. ASA has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - Federal Family Education Loans (Guaranty Agencies)

Further detail regarding the Federal Family Education Loans (Guaranty Agencies) CFDA# 84.032 is as follows at December 31, 2020:

(Dollars in Thousands)

Federal Grantor/Program Title	*Federal CFDA #*	*Federal Award Receivable/ (Payable) January 1, 2020*	*January 1, 2020 through December 31, 2020 Activity Due from (to) ED*	*January 1, 2020 through December 31, 2020 (Receipts)/ Payments*	*Federal Award Receivable/ (Payable) December 31, 2020*	*Total Expenditures of Federal Awards*
U.S. Department of Education ("ED"):						
Federal Family Education Loans						
(Guaranty Agencies)	84.032					
Due from ED:						
Account maintenance fees		$ 2,852	$ 10,575	$ (10,852)	$ 2,575	
Advance for claims		31,657	347,451	(364,205)	14,903	
Total due from ED		34,509	358,026	(375,057)	17,478	
Due to ED:						
Program recoveries		(20,912)	(183,732)	194,864	(9,780)	
Total due to ED		(20,912)	(183,732)	194,864	(9,780)	
Total		$ 13,597	$ 174,294	$ (180,193)	$ 7,698	
Total expenditures of federal awards for Federal Family Education Loans (Guaranty Agencies)						$ 174,294

Note 4 - Subrecipients of Federal Expenditures

ASA provided Federal Awards to subrecipients for the year ended December 31, 2020 as follows:

CFDA Number	*Federal Grantor/Award/Subrecipient*	*Amount Provided to Subrecipients (in thousands)*
84.032	**Department of Education**	
	Federal Family Education Loans	
	Education Credit Management Corporation	$ 29,905

Reporting Under Government Auditing Standards

Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Massachusetts Higher Education Assistance Corporation
d/b/a American Student Assistance

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Agency Operating Fund for Massachusetts Higher Education Assistance Corporation d/b/a American Student Assistance ("ASA"), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 1, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered ASA's internal control over financial reporting (internal control) as a basis for designing audit 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 ASA's internal control. Accordingly, we do not express an opinion on the effectiveness of ASA's internal control.

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 internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ASA's consolidated financial statements 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*.

Purpose of this Report

The purpose of this report 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

July 1, 2021
Boston, Massachusetts

Reporting Under the Uniform Guidance

Mayer Hoffman McCann P.C.
500 Boylston Street ■ Boston, MA 02116
Main: 617.761.0600 ■ Fax: 617.761.0601
www.cbiz.com/newengland

Independent Auditors' Report on Compliance For Each Major Federal Program
and Report on Internal Control Over Compliance
Required by the Uniform Guidance

Board of Directors
Massachusetts Higher Education Assistance Corporation
d/b/a American Student Assistance

Report on Compliance for Each Major Federal Program

We have audited the Agency Operating Fund of Massachusetts Higher Education Assistance Corporation d/b/a American Student Assistance's ("ASA") compliance with the types of compliance requirements described in the *Compliance Supplement* that could have a direct and material effect on ASA's major federal program for the year ended December 31, 2020. ASA's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for ASA's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ASA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of ASA's compliance.

Opinion on Each Major Federal Program

In our opinion, ASA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2020.

Report on Internal Control Over Compliance

Management of ASA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered ASA's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ASA's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

July 1, 2021
Boston, Massachusetts

AMERICAN STUDENT ASSISTANCE AND SUBSIDIARY

Schedule of Findings and Questioned Costs

Year Ended December 31, 2020

Section 1	*Summary of Auditors' Results*
Financial Statements	
1. Type of report the auditor issued on whether the consolidated financial statements audited were prepared in accordance with GAAP:	Unmodified
2. Internal control over financial reporting:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified?	None Reported
3. Noncompliance material to the consolidated financial statements noted?	No
Federal Awards	
1. Internal control over major federal programs:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified?	None Reported
2. Type of auditors' report issued on compliance for major federal programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
4. Identification of major federal programs:	
CFDA Number	Name of Federal Program
84.032	Federal Family Education Loans (Guaranty Agencies)
5. Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
6. Auditee qualified as a low-risk auditee?	Yes

Section 2

Financial Statement Findings

None noted.

Section 3

Federal Award Findings and Questioned Costs

None noted.