Financial Highlights

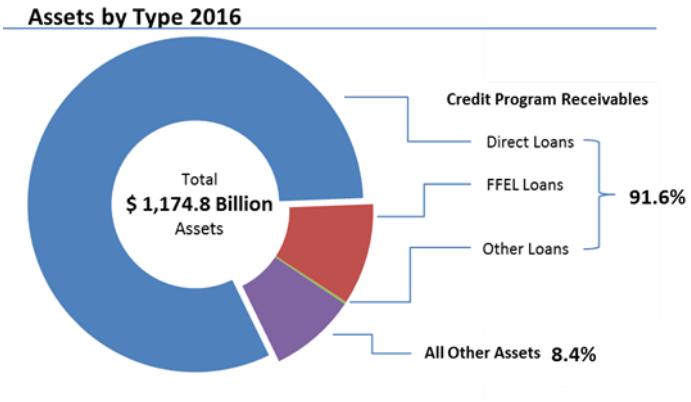
Introduction

This section provides summarized information and analyses about the Department's assets, liabilities, net position, sources and uses of funds, program costs, and related trend data. It also provides a high-level perspective of the detailed information contained in the financial statements and related notes.

The Department consistently produces complete, accurate, and timely financial information. The Department's financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board and the format and content specified by OMB Circular No. A-136, *Financial Reporting Requirements*. The financial statements, notes, and underlying business processes, systems, and controls are audited by an independent accounting firm with audit oversight provided by the Office of Inspector General (OIG). For 15 consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2016 are on pages 46–83 and the Independent Auditors' Report begins on page 92.

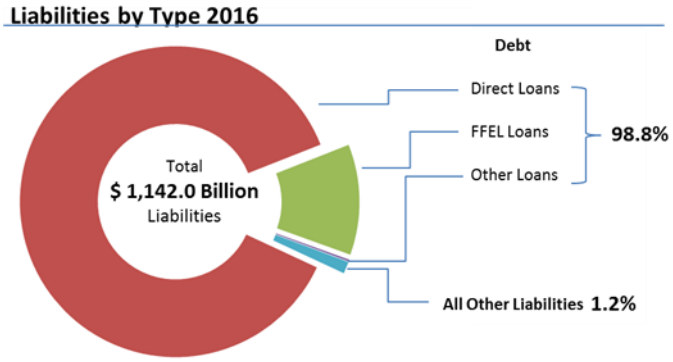
Balance Sheet

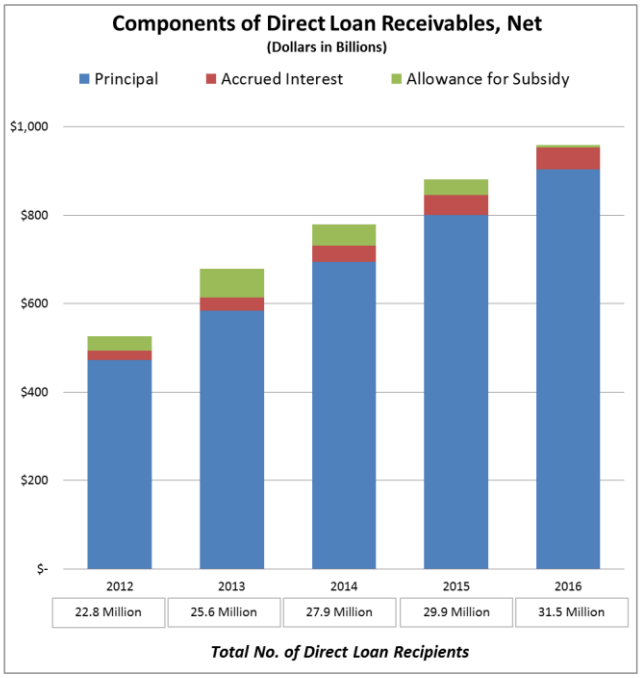
The consolidated balance sheet presents, as of a specific point in time (the end of the fiscal year), the Department's total assets, total liabilities, and net position.



The Department's assets totaled $1,174.8 billion as of September 30, 2016. The vast majority of the assets relate to credit program receivables, which comprised 91.6 percent of all assets. Direct loans comprise the largest share of these receivables, totaling $958.9 billion. All other assets totaled $98.2 billion, most of which was Fund Balance with Treasury.

The Department's liabilities totaled $1,142.0 billion as of September 30, 2016. As with assets, the vast majority of the Department's liabilities are associated with credit programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. This debt totaled $1,127.8 billion as of September 30, 2016.





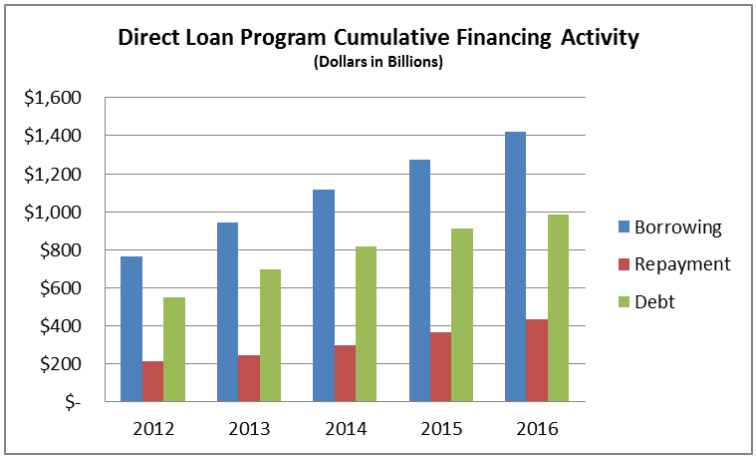
The chart to the left shows the changes in the Direct Loan receivables components over the past five years. The principal continues to grow as the Direct Loan program has originated all new federal loans since July 2010. However, the rate of increase in principal has slowed, as the Direct Loan program has originated fewer new loans each year since FY 2012 as a result of stagnant and in some cases declining enrollment, coinciding with the recovery from the 2007–09 recession. Even so, new loan disbursements continue to exceed overall loan principal repayments—student loan borrowers now have more options to stretch out their repayment terms and reduce their monthly payments.

The positive allowance for subsidy represents an estimate of funds expected to be recovered in excess of principal loaned less anticipated defaults, loan cancellations, and other adjustments. This positive allowance for subsidy results primarily from the difference between the interest rates charged by the Department to borrowers and the interest rates charged to the Department on amounts borrowed from Treasury to make the loans. The reduction in the allowance since FY 2013 is due primarily to higher subsidy costs, the main cause being high participation in income-driven repayment plans. Participation in income-driven repayment plans has increased as (a) new plans have become available that are more advantageous to borrowers, (b) new plans have become available that expand the potential pool of borrowers, and (c) the Department has conducted targeted outreach to borrowers to make them aware of their potential eligibility for these plans.

The table on the right shows the payment status of the Direct Loan principal and interest balances outstanding. The Current Repayment category consists of loans that are being paid back on time, including the current portion of loans refinanced pursuant to income-driven repayment plans. The Payments Temporarily Postponed category includes payments that have been temporarily suspended due to circumstances such as current enrollment in school, grace periods, and financial hardships.

Payment Status of Direct Loan Principal and Interest Balances
(Dollars in Billions)

Loan Status	FISCAL YEAR			
	2013	2014	2015	2016
Current Repayment	$188.5	$247.2	$332.0	$406.8
Payments Temporarily Postponed	$336.0	$379.6	$387.3	$396.1
Delinquent	$47.8	$54.6	$65.1	$71.8
Default/Bankruptcy/Other	$41.5	$49.8	$60.7	$78.9
Total Dollar Amount of Direct Loans Outstanding	**$613.8**	**$731.2**	**$845.1**	**$953.6**
Total No. of Direct Loan Recipients (in Millions)	25.6	27.9	29.9	31.5

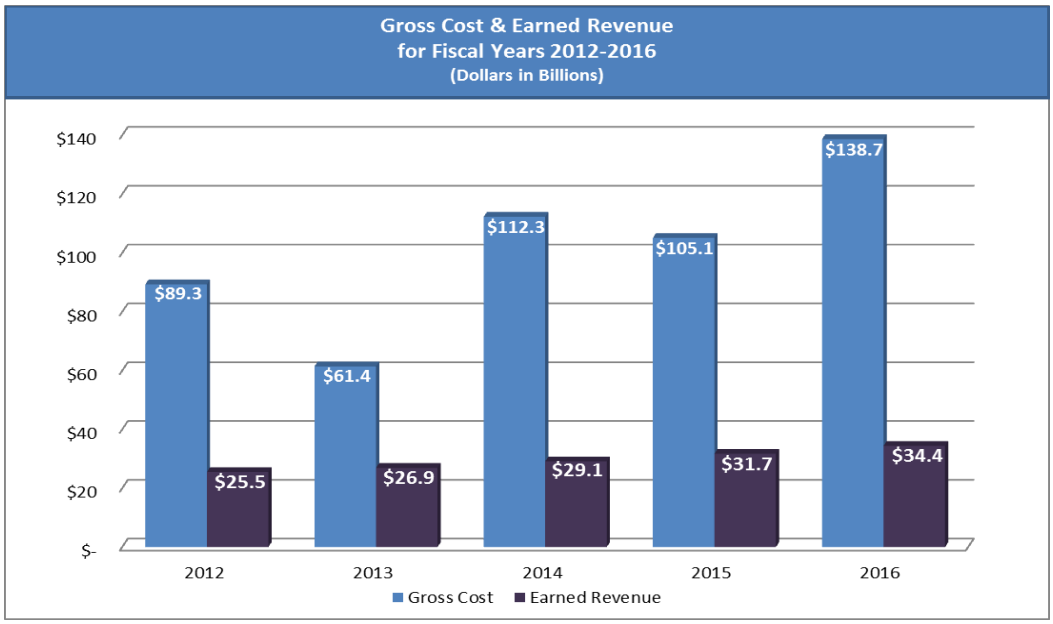


Loans in the Delinquent category are considered in "repayment" status, but payments are anywhere from 31 to 360 days late. Default/Bankruptcy/Other includes loans that are over 360 days delinquent (default status); loans in a nondefaulted bankruptcy status; and loans in disability status. The percentage of loans in default continues to grow, even as delinquencies and new defaults have declined, because defaulted loans can be difficult to collect on or rehabilitate. The percentage of the portfolio in current repayment, which rose from 31 percent in FY 2013 to 43 percent in FY 2016, has eclipsed payments temporarily postponed and has grown far faster than loans in default. This trend coincides with an improving economy and matches what has been seen in other areas of commercial lending.

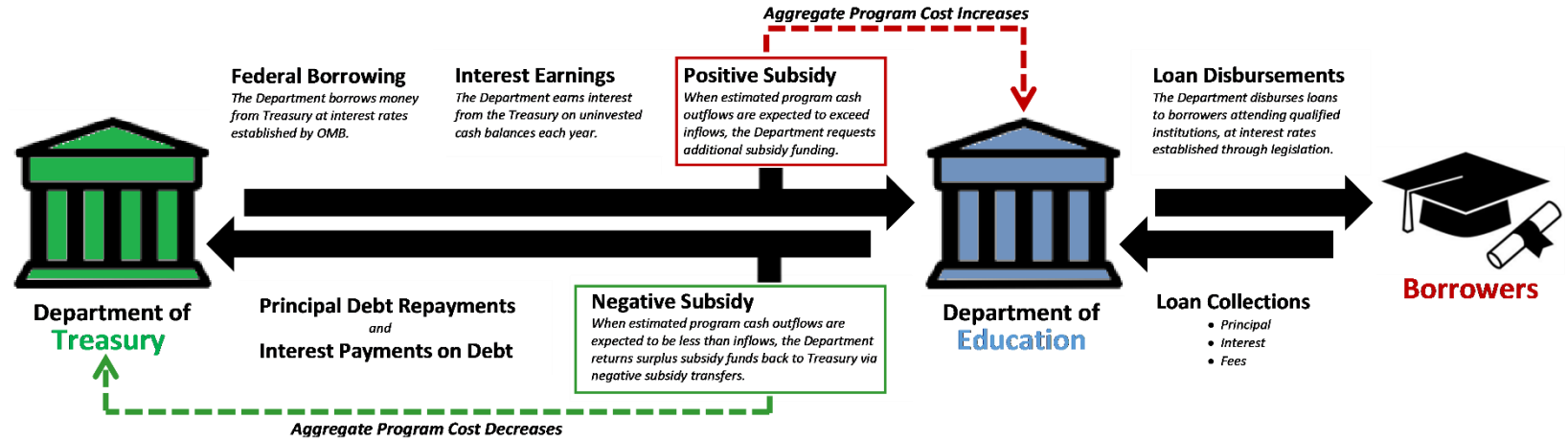
The Department borrows funds to disburse new loans and pay credit program outlays and related costs. The Department repays Treasury after consideration of cash position and the liability for future cash outflows as mandated by the *Federal Credit Reform Act of 1990* (FCRA). The chart to the above right shows the Direct Loan program cumulative borrowing and repayment activity that resulted in the debt amount on the balance sheet. A diagram depicting the Direct Loan program financing process is displayed with related trend data on page 23 of this report.

Statement of Net Cost

The consolidated statement of net cost reports the Department's components of the net costs of operations for a given fiscal year. Net cost of operations consists of the gross cost incurred less any exchange (i.e., earned) revenue from activities. Gross cost is composed of the cost of credit and grant programs, and operating costs. Exchange revenues are primarily interest earned on credit program loans.



William D. Ford Federal Direct Loan Program: *Following the Funding*



Treasury Financing and Subsidy Cost of Direct Loans

Fiscal Year	2012	2013	2014	2015	2016
Borrowing from Treasury	175,881	177,682	171,227	159,667	146,992
Debt Repayments to Treasury	(18,923)	(28,653)	(50,581)	(68,747)	(62,634)
Net Borrowing	**156,958**	**149,029**	**120,646**	**90,920**	**84,358**
Interest Expense to Treasury	(20,643)	(22,661)	(25,152)	(27,593)	(30,503)
Interest Earned from Treasury	4,265	3,409	3,670	4,206	3,943
Current Subsidy Expense (Revenue)	(10,720)	(39,557)	8,126	(892)	16,119
Cumulative Taxpayer Cost / (Savings)	**(32,076)**	**(65,247)**	**(47,358)**	**(35,496)**	**(5,292)**

******All figures are rounded in millions of dollars. Further details of these figures can be found in the Financial Section of this report.******

Direct Loan Program Cash Transactions with Borrowers

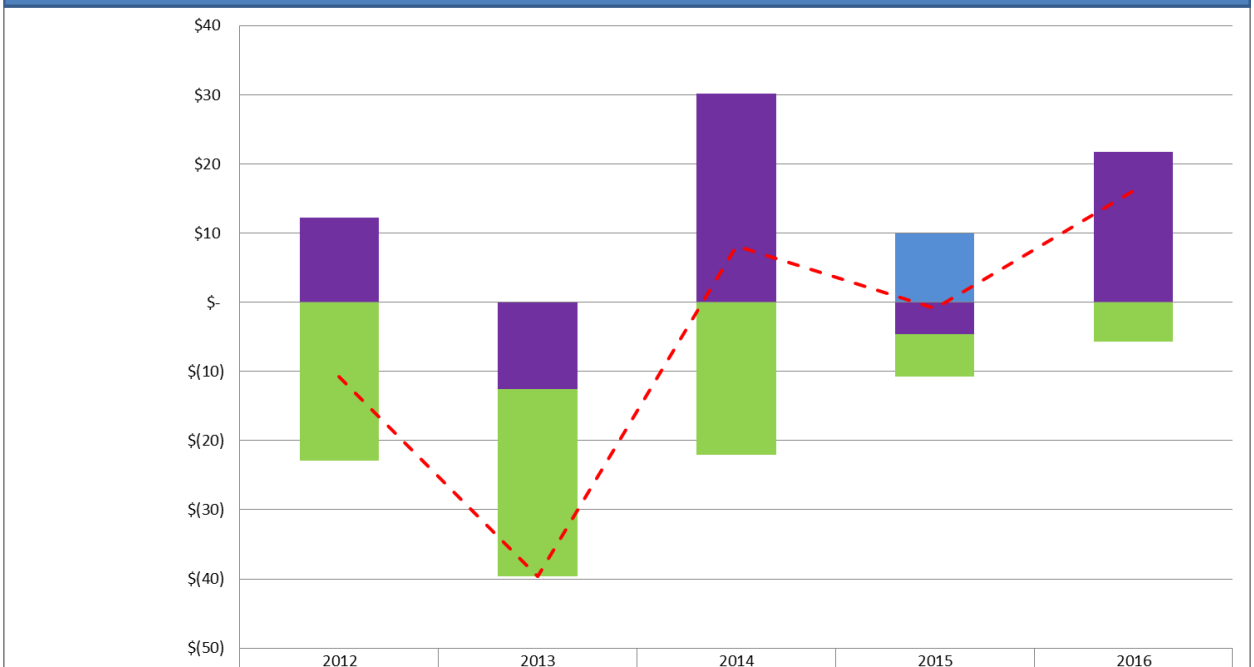
Fiscal Year	2012	2013	2014	2015	2016
Loan Disbursements	**142,286**	**129,512**	**134,052**	**142,248**	**140,525**
Stafford Subsidized	27,095	26,530	25,877	23,953	23,752
Stafford Unsubsidized	58,440	56,122	54,740	52,698	52,254
Parent PLUS	20,720	19,388	18,910	19,163	19,001
Consolidation	36,031	27,472	34,525	46,434	45,518
Loan Collections	**25,257**	**36,222**	**48,774**	**65,068**	**73,173**
Principal	18,079	26,419	36,257	49,967	55,892
Interest	5,480	8,147	10,763	13,351	15,457
Fees	1,698	1,656	1,754	1,750	1,824

Analysis of Direct Loan Program Subsidy Expense

One of the components significantly impacting the Department's gross costs pertains to the estimated subsidy expense of the Direct Loan program. The Department's gross costs can fluctuate significantly each year as a result of changes in the estimated subsidy expense. Subsidy expense is an estimate of the cost of providing direct loans, but excludes the administrative costs of issuing and servicing the loans. The Department estimates subsidy expense using economic models that project cash flows on a net present value basis.

The Department estimates subsidy costs 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 (subsidy modifications). The following chart shows these three components of the Direct Loan program subsidy expense for the past five years.

Direct Loan Program Subsidy Expense
(Dollars in Billions)



	2012	2013	2014	2015	2016
Subsidy Expense for New Loans Disbursed in the Current Year	$(22.9)	$(27.0)	$(22.1)	$(6.2)	(5.7)
Subsidy Re-estimates	12.2	(12.6)	30.2	(4.6)	21.8
Subsidy Modification	-	-	-	9.9	-
Total Subsidy Expense	$(10.7)	$(39.6)	$8.1	$(0.9)	16.1

Factors such as interest rates charged to the borrower, interest rates on Treasury debt, default rates, fees, and other costs impact the estimated cost calculation and determine whether the overall subsidy expense is positive or negative. Subsidy expense for new loans disbursed in the current year have been negative in recent years primarily because lending interest rates charged were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy occurs when the interest and/or fees charged to the borrower are more than sufficient to cover the interest on Treasury borrowings and the costs of borrower default.

The costs of the Direct Loan program are highly sensitive to changes in actual and forecasted interest rates. For example, in FY 2016, a 1 percent increase in projected borrower interest rates would reduce projected Direct Loan subsidy cost by $4.8 billion.

Policy changes to student loan terms and changes in default rates also significantly affect the Direct Loan program subsidy expense. For example, the Department modified the repayment plans available to Direct Loan borrowers in FY 2015. The PAYE loan repayment option available to eligible borrowers caps monthly payments for many recent graduates at an amount that is affordable based on their income. PAYE, first announced in October 2011, caps payments for direct loans at 10 percent of discretionary income for eligible borrowers. Borrowers formerly ineligible for the more generous PAYE repayment plan are now eligible for a modified version of PAYE that changed income-based repayment amounts on qualified loans from 15 percent of discretionary income to 10 percent. This modification increased subsidy expense that resulted from lower expected loan repayments.

Direct Loan program re-estimated subsidy cost was adjusted upward by $21.8 billion in FY 2016. The re-estimates reflect several updated assumptions: however, in this case, the size of the net upward re-estimate was due largely to collection rates on defaulted loans and repayment plan selection. Actual collections on defaults since FY 2011 were lower than anticipated, which reduced estimated lifetime rates and increased the cost to the Department by $10.1 billion. For repayment plan selection, a greater percentage of borrowers chose costlier plans than had been estimated and increased the cost to the Department by $8.1 billion. The percentage of borrowers choosing an income-driven repayment plan was the primary cost driver for that assumption.

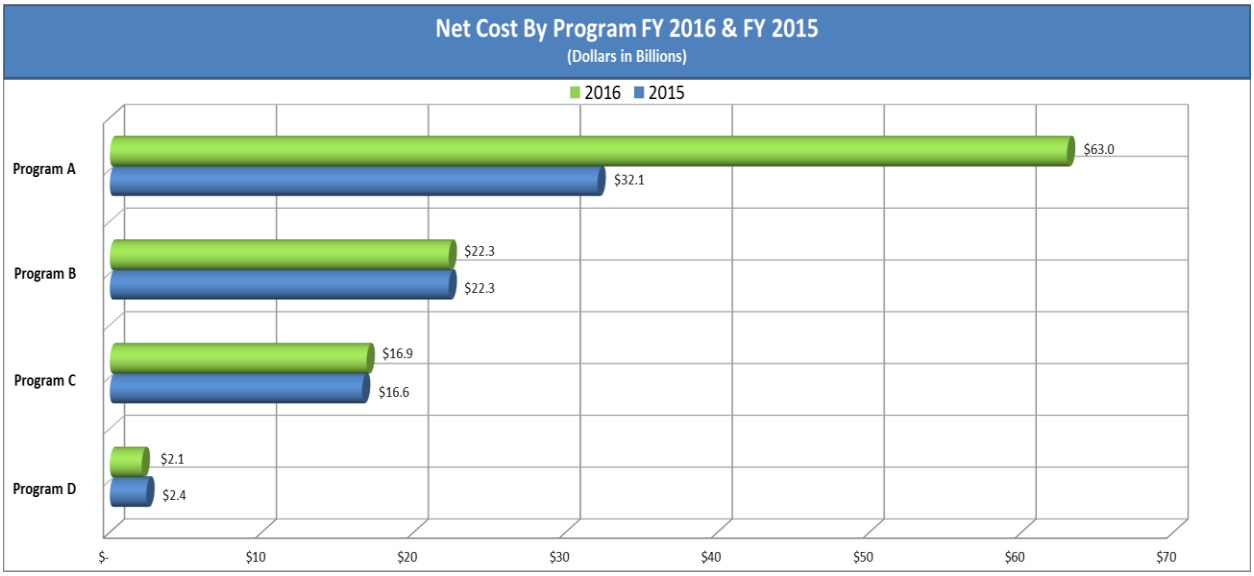
Analysis of Net Cost by Program

As required by the *GPRA Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the strategic goals presented in the Department's *FY 2014–18 Strategic Plan*. As further described in the performance section of the Management's Discussion & Analysis, *Strategic Plan* Goals 1–5 are sharply defined directives that guide the Department's program offices to carry out the vision and programmatic mission; the net cost programs can be specifically associated with these five strategic goals. The Department also has a cross-cutting *Strategic Plan* Goal 6, U.S. Department of Education Capacity, which focuses on improving the organizational capacities of the Department to implement the *Strategic Plan*. As a result, the Department does not assign specific programs to *Strategic Plan* Goal 6 for presentation in the statement of net cost.

Net Cost Program	Program Office	Strategic Goal
Program A: Increase College Access, Quality, and Completion	Federal Student Aid Office of Postsecondary Education Office of Career, Technical, and Adult Education	**Goal 1: Postsecondary Education, Career and Technical Education, and Adult Education**. Increase college access, affordability, quality, and completion by improving postsecondary education and lifelong learning opportunities for youths and adults.

Net Cost Program	Program Office	Strategic Goal
Program B: Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	Office of Elementary and Secondary Education	**Goal 2: Elementary and Secondary Education.** Improve the elementary and secondary education system's ability to consistently deliver excellent instruction aligned with rigorous academic standards while providing effective support services to close achievement and opportunity gaps, and ensure all students graduate high school college- and career-ready. **Goal 3: Early Learning.** Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.
Program C: Ensure Effective Educational Opportunities for All Students	Office of English Language Acquisition Office for Civil Rights Office of Special Education and Rehabilitative Services	**Goal 4: Equity.** Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.
Program D: Enhance the Education System's Ability to Continuously Improve	Institute of Education Sciences Office of Innovation and Improvement	**Goal 5: Continuous Improvement of the U.S. Education System.** Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, evidence, transparency, innovation, and technology.

The Department has more than 100 grant and loan programs (www.ed.gov/programs/inventory.html). In the statement of net cost, they have been mapped to the applicable strategic goals. The Department's FY 2016 expenditures for grant programs totaled over $75 billion. The three largest grant programs are Title I, Pell, and the *Individuals with Disabilities Education Act* grants. In addition to student loans and grants, 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. The following table presents a breakdown of net cost by program for FY 2016 and FY 2015.



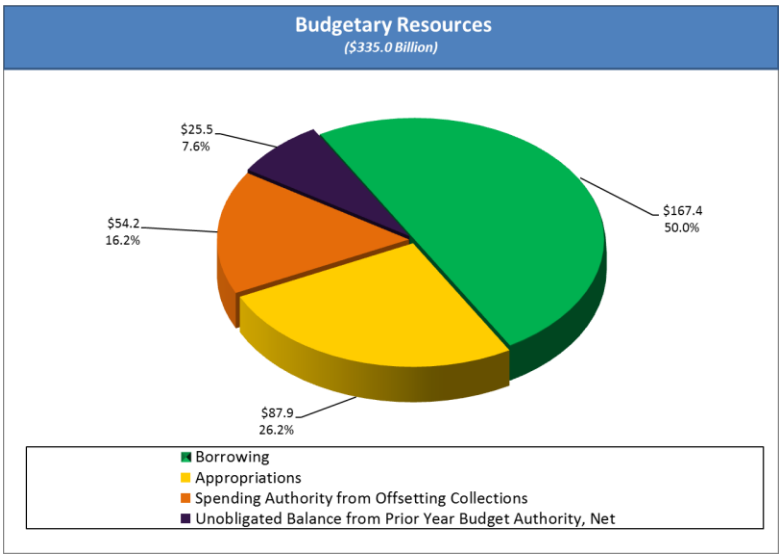
The FY 2016 increase in net cost for Program A is primarily attributed to subsidy loan expenses. FY 2016 Direct Loan program and FFEL program subsidy expense increased by $17 billion and $14 billion, respectively, from FY 2015 subsidy expense amounts.

Statement of Changes in Net Position

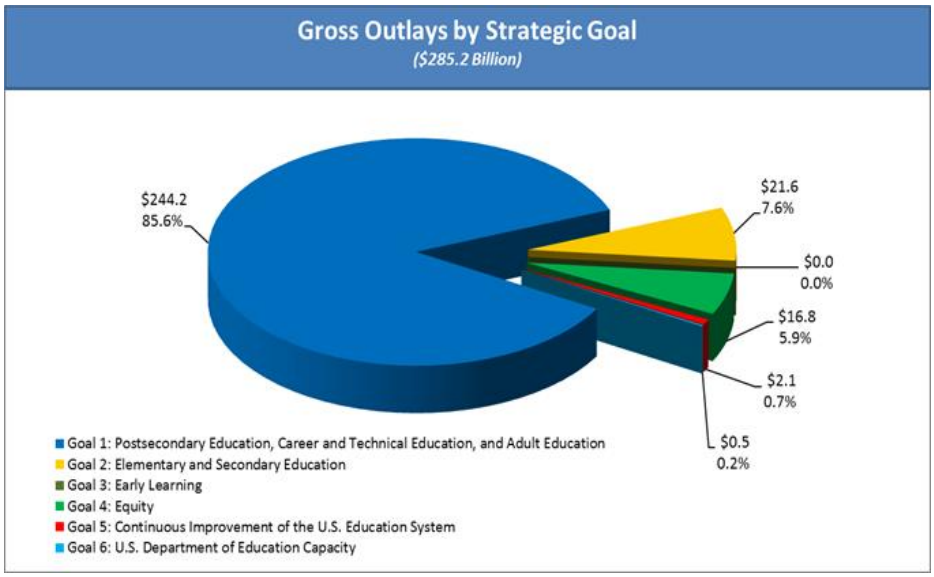
The consolidated statement of changes in net position reports the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances for grant and administrative operations. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. Net position of the Department totaled $32.8 billion for the period ended September 30, 2016. This reflects a 40 percent decrease over the net position of $54.8 billion from the prior fiscal year.

Statement of Budgetary Resources

The combined statement of budgetary resources presents information on how budgetary resources were made available and their status at the end of the fiscal year. Information in this statement is reported on the budgetary basis of accounting as prescribed by OMB and Treasury.



The Department's budgetary resources totaled $335.0 billion for the period ended September 30, 2016, decreasing from $349.7 billion, or approximately 4.2 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $103.2 billion and non-budgetary credit reform resources of $231.8 billion. The non-budgetary credit reform resources are predominantly borrowing authority for the loan programs.



Gross outlays of the Department totaled $285.2 billion for the period ended September 30, 2016, and consisted of appropriated budgetary resources of $88.4 billion and non-budgetary credit program funding of $196.8 billion. Gross outlays are primarily comprised of credit program loan disbursements and claim payments, credit program subsidy interest payments to Treasury, and grant payments. Additional information on the Department's sources and uses of funds is shown in the schedule of spending on page 133. This schedule includes sections titled, "What Money Is Available to Spend," "How Was the Money Spent," and "Who Did the Money Go To."

Limitations of the Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for FY 2016 and FY 2015, pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

While these statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are a component of the U.S. government, a sovereign entity. The implications of this are that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and that ongoing operations are subject to the enactment of future appropriations.