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 (FASAB) 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 16 consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2017 are on pages 32–69 and the Independent Auditors' Report begins on page 78.

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 $1,259.2 billion as of September 30, 2017. The vast majority of the assets relate to credit program receivables, which comprised 91.1 percent of all assets. Direct loans comprise the largest share of these receivables, totaling $1,041.6 billion. All other assets totaled $112.5 billion, most of which was Fund Balance with Treasury.

The Department's liabilities totaled $1,202.1 billion as of September 30, 2017. 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 $1,180.1 billion as of September 30, 2017.

Figure 1. Assets by Type

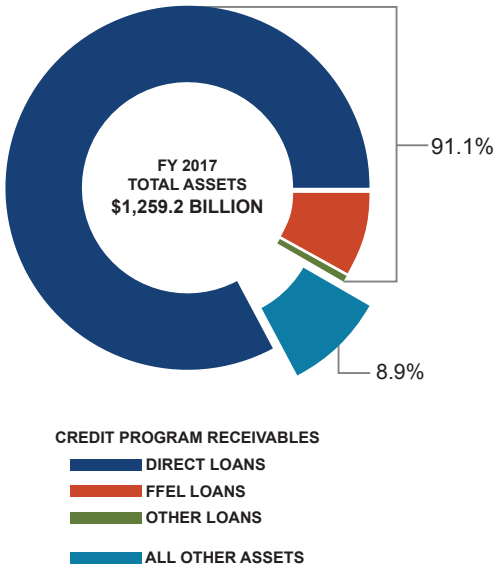


Figure 2. Liabilities by Type

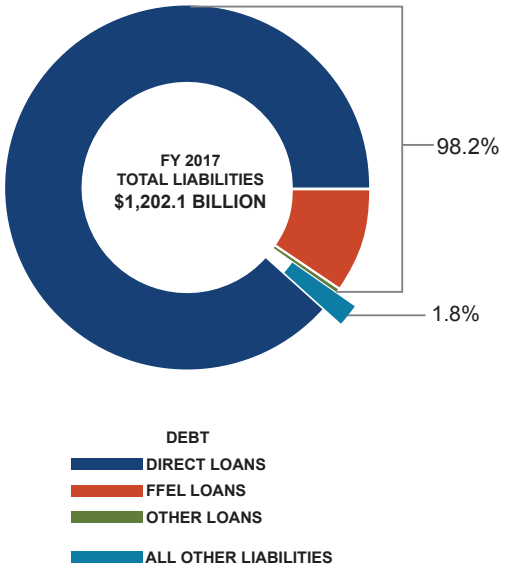


Figure 3. Components of Direct Loan Receivables, Net
(Dollars in Billions)

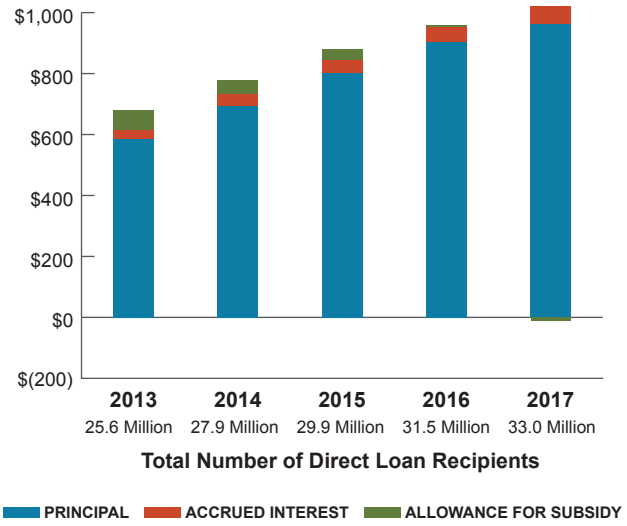


Figure 3 shows the changes in the Direct Loan receivables components over the past five years. The principal continues to grow as the Direct Loan program has originated all new federal loans since July 2010. However, the rate of increase in principal has slowed, as the Direct Loan program has originated fewer new loans each year since FY 2013 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.

In accordance with the *Federal Credit Reform Act of 1990* (FCRA), the Department's financial statements report the value of direct loans and loan guarantees (credit program receivables) at the net present value of their future cash flows, discounted at a fixed rate established based on Treasury securities. The difference between the recorded principal and interest balance and the net present value of the loans is referred to as the "allowance for subsidy," which can be positive or negative.

Prior years' positive allowance for subsidy balances represented estimates of funds expected to be recovered in excess of principal loaned less anticipated defaults, loan cancellations, and other adjustments. These positive allowance for subsidy balances resulted 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 positive allowance since FY 2013 is due primarily to higher subsidy costs to the government, the main cause being increasing participation in income-driven repayment plans discussed elsewhere in this AFR 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. During FY 2017, the allowance for subsidy changed from a positive to a negative balance. In practical terms, this means that the present value of funds expected to be recovered is now less than the principal loaned, which represents an increased cost to the taxpayer.

Table 1 shows the payment status of the Direct Loan principal and interest balances outstanding over the past 5 years. 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.

Table 1. Payment Status of Direct Loan Principal and Interest Balances
(Dollars in Billions)

Loan Status	Fiscal Year				
	2013	2014	2015	2016	2017
Total Dollar Amount of Direct Loans Outstanding	**613.8**	**731.2**	**845.1**	**953.6**	**1,058.4**
Current Repayment	188.5	247.2	332.0	406.8	467.9
In School, Grace Period, and Education Deferments	265.5	281.8	284.3	289.6	291.7
Forbearance and Noneducation Deferments	70.5	97.8	103.0	106.5	122.5
Delinquent	47.8	54.6	65.1	71.8	79.5
Default/ Bankruptcy/Other	41.5	49.8	60.7	78.9	96.8
Total No. of Direct Loan Recipients (in Millions)	**25.6**	**27.9**	**29.9**	**31.5**	**33.0**

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 44 percent in FY 2017, has eclipsed payments temporarily postponed and has grown far faster than loans in default.

The Department borrows funds from the Treasury 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. Figure 4 shows the Direct Loan program cumulative borrowing and repayment activity since the inception of the program that resulted in the debt amount on the balance sheet. Figure 6 (see page 16) illustrates the Direct Loan program financing process and provides financing and disbursing trend data.

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. Figure 5 shows the Department's gross costs and earned revenues over the past five years.

Figure 4. Direct Loan Program Cumulative Financing Activity
(Dollars in Billions)

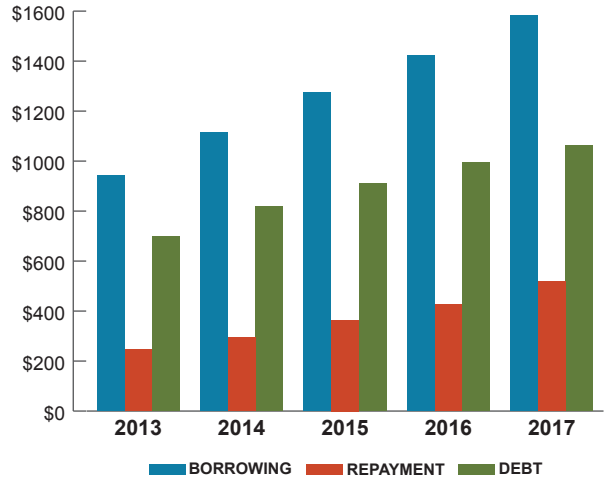


Figure 5. Gross Cost & Earned Revenue
(Dollars in Billions)

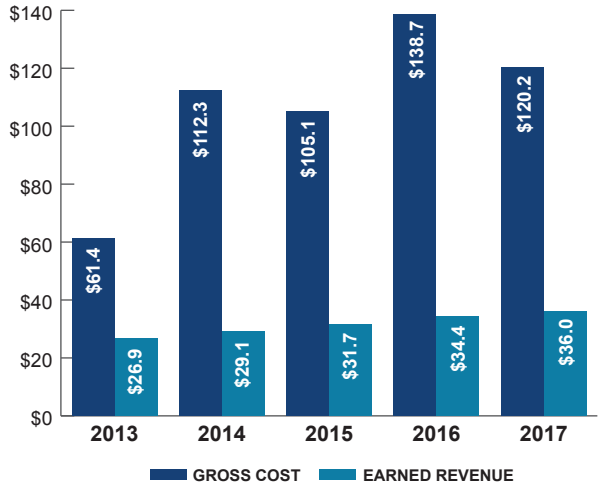
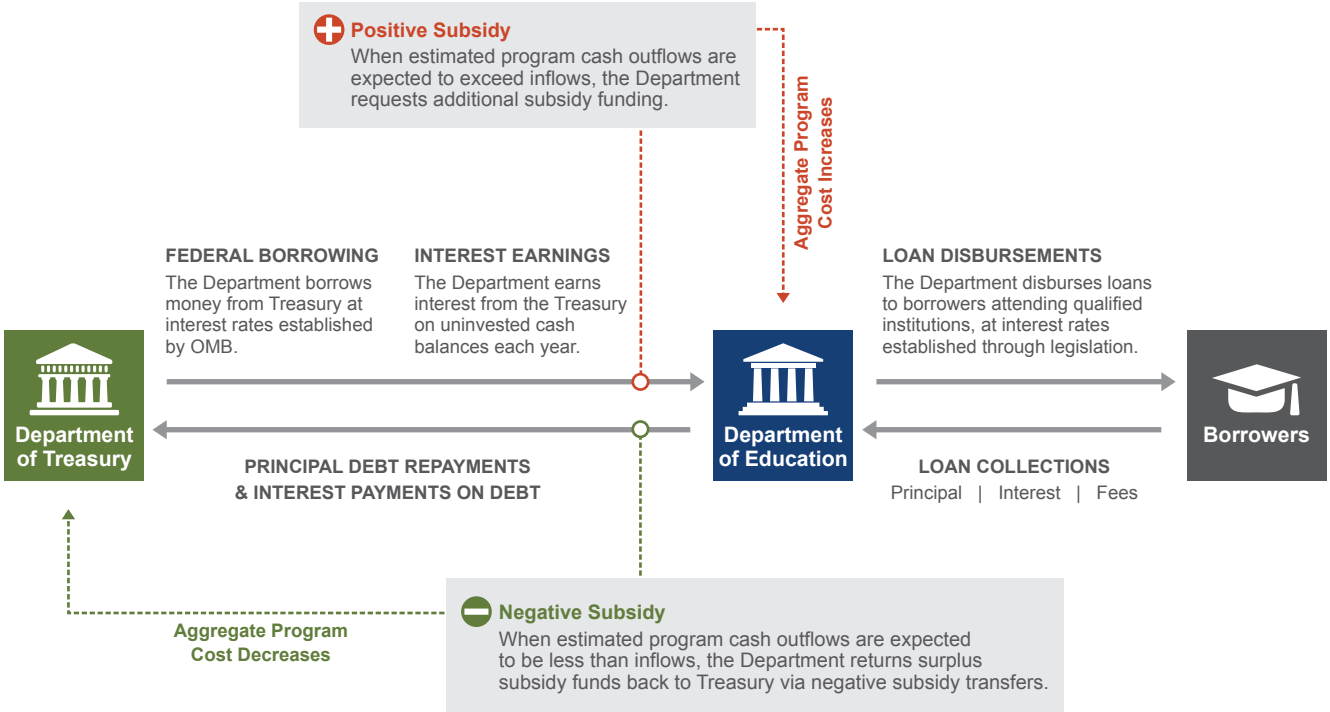


Figure 6. William D. Ford Federal Direct Loan Program: *Following the Funding*



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)					
Fiscal Year	2013	2014	2015	2016	2017
Net Borrowing	**149.0**	**120.6**	**90.9**	**84.4**	**67.3**
Borrowing from Treasury	177.7	171.2	159.7	147.0	160.5
Debt Repayments to Treasury	(28.7)	(50.6)	(68.7)	(62.6)	(93.2)
Interest Expense to Treasury	(22.7)	(25.2)	(27.6)	(30.5)	(31.3)
Interest Earned from Treasury	3.4	3.7	4.2	3.9	4.3
Cumulative Taxpayer Cost / (Savings)	(65.2)	(47.4)	(35.5)	(5.3)	16.8
Current Subsidy Expense (Revenue)	(39.6)	8.1	(0.9)	16.1	5.3

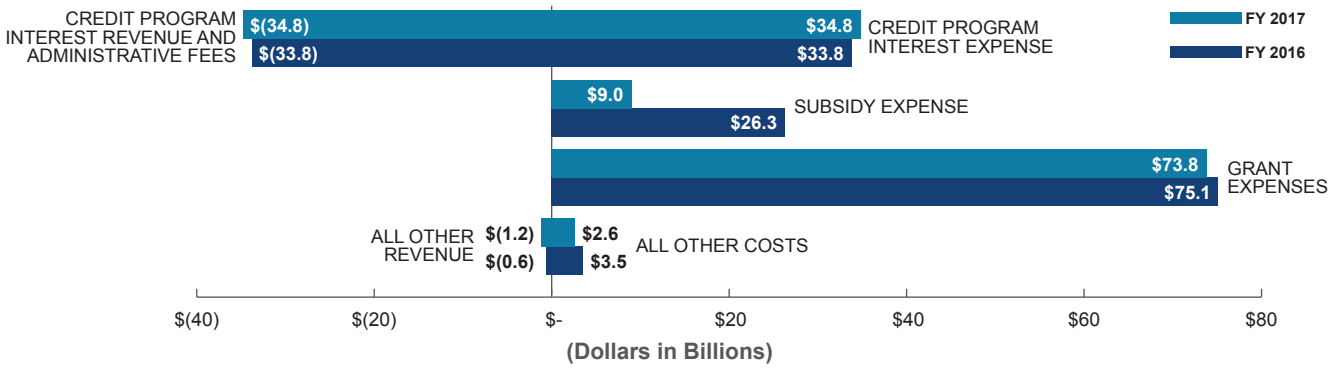
Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)					
Fiscal Year	2013	2014	2015	2016	2017
Loan Disbursements	**129.5**	**134.1**	**142.2**	**140.5**	**142.5**
Stafford Subsidized	26.5	25.9	24.0	23.8	23.4
Stafford Unsubsidized	56.1	54.7	52.7	52.3	51.4
Parent PLUS	19.4	18.9	19.2	19.0	18.7
Consolidation[1]	27.5	34.5	46.4	45.5	49.0
Loan Collections	**36.2**	**48.8**	**65.1**	**73.2**	**82.0**
Principal	26.4	36.3	50.0	55.9	62.6
Interest	8.1	10.8	13.4	15.5	17.6
Fees	1.7	1.8	1.8	1.8	1.9

[1] Consolidation disbursement amounts stem from a number of loan programs, including most notably FFEL, in addition to Direct Loans.
Numbers may not add up due to rounding.

The major components of the Department's gross cost and earned revenue are shown in Figure 7 and include:

- Credit program interest expense offset by credit program interest revenue and administrative fees as the result of subsidy amortization;
- Credit program subsidy expense (see also Figure 8); and
- Grant expenses (see also Figure 9).

Figure 7. Major Components of Gross Cost and Earned Revenue

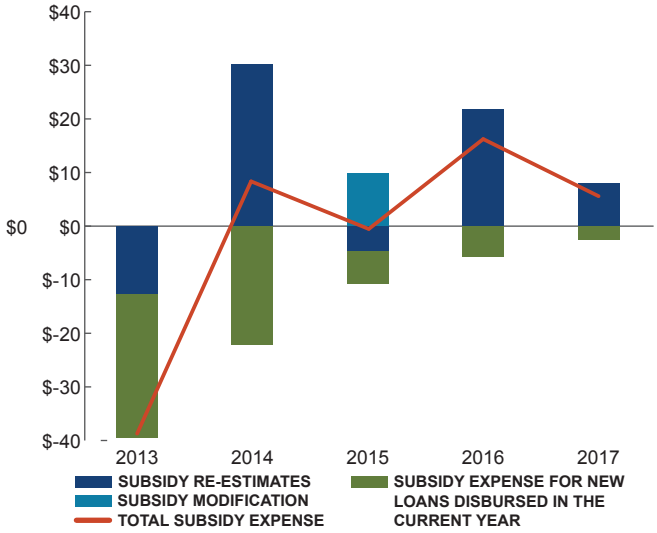


One of the components significantly impacting the Department's gross costs pertains to the estimated subsidy expense of the Direct Loan program. The Department's gross costs can fluctuate significantly each year as a result of changes in the estimated subsidy expense. Subsidy expense is an estimate of 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). Figure 8 shows these three components of the Direct Loan program subsidy expense for the past five years.

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 has been negative in recent years primarily because lending interest rates charged

Figure 8. Direct Loan Program Subsidy Expense
(Dollars in Billions)



	2013	2014	2015	2016	2017
Subsidy Expense for New Loans Disbursed in the Current Year	$(27.0)	$(22.1)	$(6.2)	$(5.7)	(2.6)
Subsidy Re-estimates	(12.6)	30.2	(4.6)	21.8	7.9
Subsidy Modification	-	-	9.9	-	-
Total Subsidy Expense—(negative) and positive	**$(39.6)**	**$8.1**	**$(0.9)**	**$16.1**	**5.3**

to student and parent borrowers were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy and/or a downward re-estimate of prior years' 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. Conversely, a positive subsidy and/or an upward re-estimate of prior years' subsidy occurs when the interest and/or fees charged to the borrower do not cover the interest on Treasury borrowings and the cost of borrower defaults.

Direct Loan program re-estimated subsidy cost was adjusted upward by $7.9 billion in FY 2017. In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates, including interest rates provided by the Office of Management and Budget, volume, and enter repayment rates. Prepayment rates increased from the FY 2016 estimate, resulting in a $2.4 billion upward re-estimate. Contract collection costs were updated for new data reflecting lower overall average commission rates, resulting in a $5.1 billion downward re-estimate.

- **IDR Model Changes.** The U.S. Government Accountability Office (GAO) audit, *Federal Student Loans: Education Needs to Improve Its Income Driven Repayment Plan Budget Estimates*, identified several areas in which the Department could improve its IDR cost estimates. Largely in response to this audit, as well as concerns raised in FY 2016's Independent Auditors' Report, in FY 2017 the Department incorporated an adjustment for inflation into the Department's IDR submodel, modified the current IDR submodel to estimate IDR subsidies by loan type, and implemented methods to address concerns regarding the volatility of the submodel's income data. In addition, default; collection; death, disability, and bankruptcy; and prepayment rate assumptions used by the submodel were updated. The combined effect of these changes was a net downward re-estimate of $14.7 billion.

- **Repayment Plan Selection.** The GAO audit referred to above also recommended the Department help ensure that subsidy estimates reasonably reflect trends in IDR plan participation. In response, the Department updated its methodology for repayment plan selection, taking into account the timing of repayment plan selection as well as recent growth trends in the selection of income-driven repayment plans. The combined effect of these changes was a net upward re-estimate of $18.4 billion.

- **Death, Disability, and Bankruptcy.** The Department made major updates to the death, disability, and bankruptcy assumption in FY 2017. These updates included a revised accounting for the effect of a matching agreement with Social Security Administration, updates to closed school regulations, and revised borrower defense regulations. Updates to the data used to calculate discharges were also incorporated. The combined effect of these changes was a net upward re-estimate of $9.2 billion.

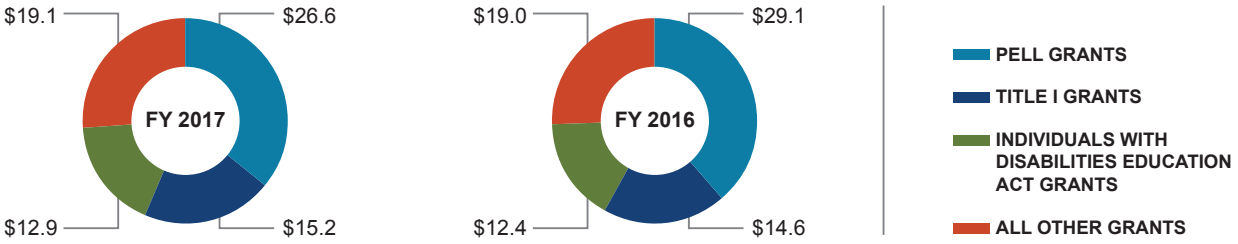
The Department has more than 100 grant and loan programs (**www.ed.gov/programs/inventory.html**). The largest grant programs are shown in Figure 9 and include:

- **Pell Grants**—provides need-based grants to low-income undergraduate and certain postbaccalaureate students to promote access to postsecondary education. Students may use their grants at any one of approximately 5,400 participating postsecondary institutions. 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.

- **Title I Grants to Local Educational Agencies**—provides financial assistance through state educational agencies to local educational agencies 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.

- **Individuals with Disabilities Education Act Grants**—provides formula grants 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 from birth through age two and their families. Also provides discretionary grants to institutions of higher education, public agencies, and nonprofit organizations to support research, demonstrations, technical assistance and dissemination, technology, personnel development and parent-training and information centers.

Figure 9. Grant Costs by Major Program (Dollars in Billions)



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.

STATEMENT OF CHANGES IN NET POSITION

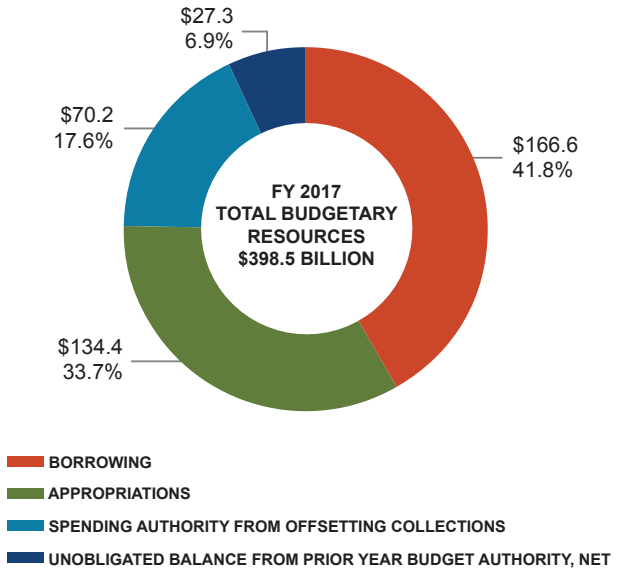
The consolidated statement of changes in net position reports the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended 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 $57.2 billion as of September 30, 2017. This reflects a 74.4 percent increase over the net position of $32.8 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 the statement is based on budgetary transactions as prescribed by OMB and Treasury.

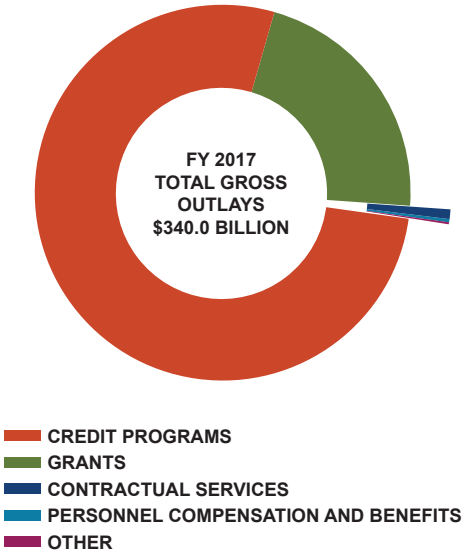
The Department's budgetary resources totaled $398.5 billion for the period ended September 30, 2017, increasing from $335.0 billion, or approximately 19.0 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $152.2 billion and non-budgetary credit reform resources of $246.3 billion. The non-budgetary credit reform resources are predominantly borrowing authority for the loan programs.

Figure 10. Budgetary Resources



The Department's gross outlays totaled $340.0 billion for the period ended September 30, 2017. Gross outlays are primarily comprised of credit program loan disbursements and claim payments, credit program subsidy interest payments to Treasury, and grant payments. Credit program gross outlays were offset by $168.2 billion of collections—primarily principal, interest and subsidy collections.

Figure 11. Gross Outlays by Type



	Billions	%
CREDIT PROGRAMS	**$ 263.0**	**77.4%**
DIRECT LOAN PROGRAM	237.0	69.7%
FFEL PROGRAM	25.2	7.4%
OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION	0.8	0.2%
GRANTS	**$ 73.5**	**21.6%**
PELL GRANTS	26.9	7.9%
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	15.2	4.5%
INDIVIDUALS WITH DISABILITIES EDUCATION ACT GRANTS	12.7	3.7%
ALL OTHER GRANTS	18.7	5.5%
CONTRACTUAL SERVICES	**$ 2.8**	**0.8%**
PERSONNEL COMPENSATION AND BENEFITS	**$ 0.6**	**0.2%**
OTHER	**$ 0.1**	**0.0%**
TOTAL	**$ 340.0**	**100.0%**

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 2017 and FY 2016, 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.