NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

NOTE 1. Summary of Significant Accounting Policies

REPORTING ENTITY AND PROGRAMS

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

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

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

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

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

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

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

PROGRAM OFFICES

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

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

Other offices that administer programs and provide leadership, technical assistance, and financial support to state and local educational activities and institutions of higher education for reform, strategic investment, and innovation in education include: the Office of Career, Technical, and Adult Education (OCTAE); Office of Postsecondary Education (OPE); Institute of Education Sciences (IES); and Office of English Language Acquisition (OELA). In addition, the Office for Civil Rights (OCR) works to ensure equal access to education, promotes educational excellence throughout the nation, and serves student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights issues. (See Note 10)

BASIS OF ACCOUNTING AND PRESENTATION

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

The Department's financial statements should be read as a component of the U.S. government, a sovereign entity. One of the many implications of this is that the liabilities cannot be liquidated without legislation providing resources and legal authority to do so.

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

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

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

ACCOUNTING FOR FEDERAL CREDIT PROGRAMS

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

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

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

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

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

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury General Fund receipt accounts. Financing accounts are presented separately in the combined statements of budgetary resources (SBR) as non-budgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the *Budget of the United States Government* (President's Budget).

- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.

- Treasury General Fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans. (See Notes 11 and 12)

The Department records an obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. The Department advances funds to schools based on these estimates. Promissory notes are signed when schools reach individual agreements with borrowers and the schools subsequently report each disbursement of advanced funds to the Department. A new promissory note is usually not required for students in the second or later year of study. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's obligation estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 7.8 percent of the amount obligated for new loan awards will not be disbursed.

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

BUDGETARY RESOURCES

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

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

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

Unobligated balances represent the cumulative amount of budgetary resources that are not obligated and that remain available for obligation under law, unless otherwise restricted. Resources expiring at the end of the fiscal year remain available for five years, but only for upward adjustments of prior year obligations, after which they are cancelled and may not be used. Resources that have not expired at year-end are available for new obligations, as well as upward adjustments of prior year obligations.

Funds are appropriated on an annual, multiyear, or no-year basis. Appropriated funds expire on the last day of availability and are no longer available for new obligations. Amounts in expired funds are unavailable for new obligations, but may be used to adjust previously established obligations.

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

Reauthorization of Legislation. Funds for most Department programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue in accordance with congressional budgeting rules. (See Note 11)

ENTITY AND NON-ENTITY ASSETS

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

FUND BALANCE WITH TREASURY

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

ACCOUNTS RECEIVABLE

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

GUARANTY AGENCIES' FEDERAL FUNDS

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

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

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

CREDIT PROGRAM RECEIVABLES, NET AND LIABILITIES FOR LOAN GUARANTEES

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

The liability for loan guarantees presents the net present value of all future cash flows from currently insured FFEL loans, including claim payments, interest assistance, allowance payments, and recoveries from assigned loans. Guaranteed loans that default are initially turned over to guaranty agencies for collection. Defaulted FFEL loans are accounted for as assets and reported at their net present value, similar to direct loans, although they are legally not direct student loans. Credit program receivables, net includes defaulted FFEL loans owned by the Department and held by the Department or guaranty agencies. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over by the guaranty agencies to the Department for collection.

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

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

PROPERTY AND EQUIPMENT, NET AND LEASES

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

The Department also leases information technology and telecommunications equipment, as part of a contractor-owned, contractor-operated services contract. Lease payments associated with this equipment have been determined to be operating leases and, as such, are expensed as incurred. The noncancellable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options. (See Notes 4 and 13)

LIABILITIES

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

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

DEBT

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

SUBSIDY DUE TO TREASURY GENERAL FUND

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

ACCOUNTS PAYABLE

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

ACCRUED GRANT LIABILITY

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

PERSONNEL COMPENSATION AND OTHER EMPLOYEE BENEFITS

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

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

FERS consists of Social Security, a basic annuity plan, and the Thrift Savings Plan. The Department and the employee contribute to Social Security and the basic annuity plan at rates prescribed by law. In addition, the Department is required to contribute to the Thrift Savings Plan a minimum of 1 percent per year of the basic pay of employees covered by this system, match voluntary employee contributions up to 3 percent of the employee's basic pay, and match one-half of contributions between 3 percent and 5 percent of the employee's basic pay. For FERS employees, the Department also contributes the employer's share of Medicare.

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

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

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

INTER-ENTITY COSTS

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

NET COST OF OPERATIONS

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

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

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

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

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

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

NET POSITION

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

ALLOCATION TRANSFERS

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

TAXES

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

USE OF ESTIMATES

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

The Department's estimates for credit programs are calculated using a series of assumption models that are updated using a statistically valid sample of National

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

NOTE 2. Non-Entity Assets

(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Non-Entity Assets				
Fund Balance with Treasury	$ 294	$ -	$ 310	$ -
Credit Program Receivables, Net	-	607	-	551
Other Assets				
Guaranty Agencies' Federal Funds	-	1,956	-	2,176
Accounts Receivable, Net	-	84	-	65
Total Non-Entity Assets	**294**	**2,647**	**310**	**2,792**
Entity Assets	104,690	1,203,065	114,446	1,210,434
Total Assets	**$ 104,984**	**$ 1,205,712**	**$ 114,756**	**$ 1,213,226**

The Department's FY 2019 assets are predominantly entity assets (99.8 percent), leaving a small portion of assets remaining as non-entity assets. Non-entity intragovernmental assets primarily consist of balances in deposit and clearing accounts. Non-entity assets with the public primarily consist of guaranty agency reserves (73.9 percent), reported as Guaranty Agencies' Federal Funds, and Federal Perkins Loan program loan receivables (22.9 percent), reported as credit program receivables, net. Federal Perkins Loan program receivables are a non-entity asset because the assets are held by the Department but are not available for use by the Department. The corresponding liabilities for these non-entity assets are reflected in various accounts, including intragovernmental accounts payable, Guaranty Agencies' Federal Funds Due to Treasury, and other liabilities. (See Note 9)

NOTE 3. Fund Balance with Treasury

(Dollars in Millions)

	2019	2018
Unobligated Balance		
Available	$ 13,578	$ 14,495
Unavailable	19,564	24,907
Obligated Balance, Not Disbursed	127,291	137,680
Authority Temporarily Precluded from Obligation	1	1
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 11)	(55,845)	(62,752)
Other	329	274
Total Fund Balance with Treasury	**$ 104,918**	**$ 114,605**

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Total unavailable unobligated balance ($19.5 billion) differs from unapportioned and expired amounts on the SBR ($21.5 billion) due to the Guaranty Agencies' Federal Funds ($2.0 billion).

NOTE 4. Other Assets

(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Guaranty Agencies' Federal Funds	$ -	$ 1,956	$ -	$ 2,176
Accounts Receivable, Net	2	251	1	154
Advances	64	35	150	15
Property and Equipment, Net	-	8	-	29
Other	-	6	-	3
Total Other Assets	**$ 66**	**$ 2,256**	**$ 151**	**$ 2,377**

Included in the accounts receivable with the public are amounts owed as a result of criminal restitution orders that are to be collected by the Department of Justice on behalf of the Department of Education. Amounts collected for these criminal restitutions are generally returned to the Treasury General Fund. Gross receivables and the allowance for uncollectible amounts as of September 30, 2019, related to criminal restitutions totaled $106.3 million and ($95.2) million, respectively.

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

Credit Program Receivables

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy	Net
2019				
Direct Loan Program	$ 1,164,883	$ 83,262	$ (124,438)	$ 1,123,707
FFEL Program	90,218	22,267	(35,718)	76,767
Other Credit Programs for Higher Education	3,225	396	(639)	2,982
Total Credit Receivables	**$ 1,258,326**	**$ 105,925**	**$ (160,795)**	**$ 1,203,456**
2018				
Direct Loan Program	$ 1,083,735	$ 71,981	$ (40,663)	$ 1,115,053
FFEL Program	95,083	21,116	(23,252)	92,947
Other Credit Programs for Higher Education	3,108	437	(696)	2,849
Total Credit Receivables	**$ 1,181,926**	**$ 93,534**	**$ (64,611)**	**$ 1,210,849**

The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority. What follows is additional analysis of the activity, costs and adjustments for each of the loan programs.

DIRECT LOAN PROGRAM.

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

Direct Loan program loan receivables include defaulted and nondefaulted loans owned by the Department. Of the $1,248.1 billion in gross loan receivables, as of September 30, 2019, $99.7 billion (8.0 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $84.9 billion (7.3 percent) as of September 30, 2018.

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

	2019	2018
Beginning Balance, Allowance for Subsidy	**$ 40,663**	**$ 16,805**
Activity		
Fee Collections	1,693	1,696
Loan Cancellations	(9,096)	(7,521)
Subsidy Allowance Amortization	30,290	25,918
Other Activities	(622)	(604)
Total Activity	**22,265**	**19,489**
Subsidy Expense for Direct Loans Disbursed in the Current Year by Component		
Interest Rate Differential	11,440	1,614
Defaults, Net of Recoveries	1,862	1,106
Fees	(1,720)	(1,747)
Other Components	(14,563)	(4,103)
Total of the Above Subsidy Expense Components	**(2,981)**	**(3,130)**
Components of Loan Modifications		
Loan Modification Costs	-	144
Modification Adjustment Transfers Gain	-	(8)
Loan Modifications	**-**	**136**
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**$ 59,947**	**$ 33,300**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(981)	(4,573)
Technical and Default Re-estimates	65,472	11,936
Net Upward Subsidy Re-estimates	**64,491**	**7,363**
Ending Balance, Allowance for Subsidy	**$ 124,438**	**$ 40,663**

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

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

Loan cancellations consist of write-offs of loans because the borrower died, became disabled, or declared bankruptcy. The interest rate re-estimate reflects the cost of finalizing the Treasury borrowing rate to be used for borrowings received to fund the disbursed portion of the loan awards obligated.

The two major components of the subsidy expense for direct loans disbursed in the current period (subsidy transfers) are Interest Rate Differential and Other Components. Interest rate differential is attributable to the difference between the borrowers' interest payments due to the Department and the Department's estimated cost to finance the direct loan on a present value basis. The Other Components of subsidy transfers primarily consists of contract collection costs, program review collections, fees, and loan forgiveness. In FY 2019, the Department began including the prepayment effect on principal and interest repayments in the interest rate differential component rather the other component as in previous years.

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

	2019	2018
Interest Expense on Treasury Borrowing	$ 33,817	$ 32,329
Total Interest Expense	**$ 33,817**	**$ 32,329**
Interest Revenue from the Public	$ 59,815	$ 54,157
Interest Revenue on Uninvested Funds	4,082	3,890
Administrative Fees	210	200
Amortization of Subsidy	(30,290)	(25,918)
Total Revenues	**$ 33,817**	**$ 32,329**

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2019	2018
Subsidy Expense for Direct Loans Disbursed in the Current Year		
Interest Rate Differential	$ 11,440	$ 1,614
Defaults, Net of Recoveries	1,862	1,106
Fees	(1,720)	(1,747)
Other	(14,563)	(4,103)
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	**(2,981)**	**(3,130)**
Loan Modifications	-	136
Net Upward Subsidy Re-estimates	64,491	7,363
Direct Loan Subsidy Expense	**$ 61,510**	**$ 4,369**

Net Upward Subsidy Re-estimates for All Prior Year Loan Cohorts. The Direct Loan program subsidy re-estimate increased subsidy expense in FY 2019 by $64.5 billion. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2018. The re-estimate reflects the assumption updates and other changes described below.

- **IDR Model Changes.** During FY 2019, the Department enhanced the IDR model by examining the most current available IDR application data from NSLDS to supplement information previously used from the Department of Treasury's Office of Tax Analysis, in order to calibrate projected incomes. The Department's analysis determined a downward calibration was warranted, with the Departmental and FSA senior management concurrence. The impact of this calibration was the most significant factor in the IDR component of the re-estimate. The IDR update also reflects further refinement in the logic for switching borrowers among IDR plans and the appropriate balance to be paid off when they do switch. These updates led to a net upward re-estimate of $43.6 billion.

- **Deferment and Forbearance.** The Department made enhancements in the methodology for delinquency, to more precisely reflect interest accrual and the extension of the payment period than the method previously employed. These enhancements resulted in a lower rate of forbearance which led to an upward re-estimate of subsidy as less interest is accrued, capitalized, and collected. Deferment rates increased for PLUS loans eligible for in-school deferments. The combined effect of these changes, in addition to updated data from NSLDS, was a net upward re-estimate of $18.3 billion.

- **Maturity, Prepayment, and Loan Payoff.** The Department further enhanced the forecasting of amount of debt distributions and aligned all three sub-components of this assumption to enter repayment cohorts. The loan payoff component was improved as well by using a more precise method to estimate payoff for loans enrolled in graduated repayment plans. As mentioned above, the impact on repayment of delinquency was moved to the payoff maturity assumption to better reflect interest accrual and the extension of the payment period. These adjustments resulted in longer assumed terms, resulting in a longer stream of payments, more interest accrual and less subsidy. The combined effect of these changes led to a net downward re-estimate of $26.1 billion.

- **Financing Account Interest Adjustment.** Beginning in FY 2019, the Department implemented a process to calculate and execute a financing account interest adjustment to address differences between net financing account interest executed for cohorts each year and amounts earned based on final Treasury interest rates for those cohorts. This resulted in a net upward re-estimate of $6.3 billion
- **Default.** The Department updated the data and made a change in methodology to a weighted fractional logit in order to more appropriately reflect the different sizes of the grouped data. The combined effect of these changes led to a net downward re-estimate of $1.0 billion.
- **Collections.** As a result of analyzing updated DMCS data, collection rate estimates were revised which resulted in a net upward re-estimate of $4.2 billion.
- **2018 Cohort Assumption Changes.** The technical re-estimate cannot reflect the impacts of certain assumption changes applicable to the current year loan cohort until the following fiscal year per OMB guidance. The current year's re-estimate includes a net upward adjustment of $5.8 billion for these prior year changes attributable to the FY 2018 cohort.
- **Interest on the Re-estimate.** Interest on re-estimates is the amount of interest that would have been earned or paid by each cohort on the subsidy re-estimate, if the re-estimated subsidy had been included as part of the original subsidy estimate. The interest on the re-estimate calculated on the overall subsidy re-estimate resulted in a net upward re-estimate of $9.7 billion.
- **Interactive Effects.** The re-estimate includes a net upward re-estimate of $3.2 billion attributed to the interactive effects of the assumption changes described above.

Direct Loan Subsidy Rates—Cohort 2019

	Interest Differential	Defaults	Fees	Other	Total
Stafford	20.50%	1.63%	-1.06%	-12.42%	8.65%
Unsubsidized Stafford	13.85%	1.05%	-1.06%	-17.06%	-3.22%
PLUS	2.73%	0.75%	-4.25%	-18.27%	-19.04%
Consolidation	6.88%	1.40%	0.00%	3.76%	12.04%
Weighted Average Total	**-11.62%**	**1.25%**	**-1.16%**	**11.78%**	**0.25%**

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

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year and are weighted on gross volume. The subsidy rates shown above, which reflect aggregate positive subsidy in the FY 2019 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole. The Department does not re-estimate student loan cohorts until they are at least 90 percent disbursed. As a result, the financial statement re-estimate does not include a re-estimate of the current year cohort. The first re-estimate of this cohort will take place upon execution of the FY 2021 President's Budget.

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

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

	2019	2018
Stafford	$ 19,984	$ 20,343
Unsubsidized Stafford	48,142	49,009
PLUS	22,709	23,117
Consolidation	39,830	41,625
Total Disbursements	**$ 130,664**	**$ 134,094**

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

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

Direct loan consolidations were $39.8 billion during FY 2019 and $41.6 billion during FY 2018. Under the FCRA, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows associated with that cohort.

FEDERAL FAMILY EDUCATION LOAN PROGRAM.

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

FFEL Guaranteed Loans Outstanding
(Dollars in Billions)

	2019
Outstanding Principal of Guaranteed Loans, Face Value	$ 141.6
Amount of Outstanding Principal Guaranteed	$ 141.6

As of September 30, 2019, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately $141.6 billion.

Additionally, the FFEL program guarantees outstanding interest balances. As of September 30, 2019, the interest balances outstanding for guaranteed loans held by lenders was approximately $4.0 billion.

The Department's total FFEL program guarantees (principal and interest) are approximately $145.6 billion as of September 30, 2019. Of the total guaranteed amount, the Department would expect to pay a smaller amount to the guaranty agencies. The guarantee rates range from 75 to 100 percent of the principal and interest balance depending on the type of claim, when the loan was made and the guaranty agency's claim experience. For purposes of disclosing the Department's total risk exposure for FFEL guarantees, the highest reimbursement rate of 100 percent is assumed.

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

FFEL Program Loan Receivables
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2019				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,729	$ 5,858	$ (8,776)	$ 811
FFEL GSL Program (Post-1991)	33,780	8,561	(20,113)	22,228
Total Defaulted FFEL Guaranteed Loans	37,509	14,419	(28,889)	23,039
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	17,536	2,519	(2,531)	17,524
Loan Participation Purchase	33,696	4,983	(3,843)	34,836
ABCP Conduit	1,477	346	(455)	1,368
Total Acquired FFEL Loans	52,709	7,848	(6,829)	53,728
FFEL Program Loan Receivables	**$ 90,218**	**$ 22,267**	**$ (35,718)**	**$ 76,767**
2018				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,917	$ 5,836	$ (8,077)	$ 1,676
FFEL GSL Program (Post-1991)	33,849	7,802	(15,186)	26,465
Total Defaulted FFEL Guaranteed Loans	37,766	13,638	(23,263)	28,141
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	19,277	2,435	(21)	21,691
Loan Participation Purchase	36,475	4,713	458	41,646
ABCP Conduit	1,565	330	(426)	1,469
Total Acquired FFEL Loans	57,317	7,478	11	64,806
FFEL Program Loan Receivables	**$ 95,083**	**$ 21,116**	**$ (23,252)**	**$ 92,947**

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

	2019	2018
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 2,591**	**$ 3,636**
Activity		
Interest Supplement Payments	(1,332)	(1,052)
Claim Payments	(5,583)	(5,716)
Fee Collections	1,385	1,550
Interest on Subsidy Amortization	(1,096)	(1,099)
Other	2,374	6,476
Total Activity	**(4,252)**	**159**
Upward/(Downward) Subsidy Re-estimates	6,866	(1,204)
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**5,205**	**2,591**
FFEL Liquidating Account Liability for Loan Guarantees	1	1
FFEL Liabilities for Loan Guarantees	**$ 5,206**	**$ 2,592**

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

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

Allowance for Subsidy Reconciliation for Acquired FFEL Loans

(Dollars in Millions)

	Loan Purchase Commitment	Loan Participation Purchase	ABCP Conduit	Total
2019				
Beginning Balance, Allowance for Subsidy	**$ 21**	**$ (458)**	**$ 426**	**$ (11)**
Activity				
Subsidy Allowance Amortization	571	1,027	52	1,650
Loan Cancellations	(165)	(308)	(18)	(491)
Direct Asset Activities	(40)	(62)	(5)	(107)
Total Activity	**366**	**657**	**29**	**1,052**
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**$ 387**	**$ 199**	**$ 455**	**$ 1,041**
Net Upward Subsidy Re-estimates	2,144	3,644	-	5,788
Ending Balance, Allowance for Subsidy	**$ 2,531**	**$ 3,843**	**$ 455**	**$ 6,829**
2018				
Beginning Balance, Allowance for Subsidy	**$ (1,656)**	**$ (2,072)**	**$ 400**	**$ (3,328)**
Activity				
Subsidy Allowance Amortization	550	903	48	1,501
Loan Cancellations	(168)	(314)	(16)	(498)
Direct Asset Activities	(44)	(68)	(6)	(118)
Total Activity	**338**	**521**	**26**	**885**
Ending Balance of the Subsidy Cost Allowance Before Re-estimates	**$ (1,318)**	**$ (1,551)**	**$ 426**	**$ (2,443)**
Net Upward Subsidy Re-estimates	1,339	1,093	-	2,432
Ending Balance, Allowance for Subsidy	**$ 21**	**$ (458)**	**$ 426**	**$ (11)**

FFEL Program Subsidy Expense

(Dollars in Millions)

	2019	2018
Upward/(Downward) Subsidy Re-estimates		
FFEL Loan Guarantee Program	$ 6,866	$ (1,204)
Loan Purchase Commitment	2,144	1,339
Loan Participation Purchase	3,644	1,093
FFEL Program Subsidy Expense	**$ 12,654**	**$ 1,228**

The FFEL subsidy re-estimate increased subsidy expense in FY 2019 by $12.7 billion. The net upward re-estimates in these programs were due primarily to interest rates provided by OMB and updated collection and prepayment rates.

OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION

Receivables, Net for Other Credit Programs for Higher Education

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2019				
Federal Perkins Loans	$ 532	$ 235	$ (160)	$ 607
TEACH Program Loans	764	99	(247)	616
HEAL Program Loans	396	33	(34)	395
Facilities Loan Programs	1,533	29	(198)	1,364
Total	**$ 3,225**	**$ 396**	**$ (639)**	**$ 2,982**
2018				
Federal Perkins Loans	$ 474	$ 297	$ (220)	$ 551
TEACH Program Loans	746	91	(253)	584
HEAL Program Loans	397	32	(69)	360
Facilities Loan Programs	1,491	17	(154)	1,354
Total	**$ 3,108**	**$ 437**	**$ (696)**	**$ 2,849**

Federal Perkins Loan Program. The Federal Perkins Loan program provides low-interest loans to eligible postsecondary school students. In some statutorily defined cases, funds are provided to reimburse schools for loan cancellations. For defaulted loans assigned to the Department, collections of principal, interest, and fees, net of amounts paid by the Department to cover contract collection costs, are transferred to Treasury annually. The *Federal Perkins Loan Program Extension Act of 2015* (Extension Act) eliminated the authorization for schools to make new Perkins Loan disbursements as of September 30, 2017, and ended all Perkins Loan disbursements by June 30, 2018.

TEACH Grant Program. The Department awards annual grants of up to $4,000 to eligible undergraduate and graduate students who agree to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. The maximum lifetime grant for students is $16,000 for undergraduate programs and $8,000 for graduate programs. For students failing to fulfill the service requirement, the grants are converted to direct unsubsidized Stafford Loans. The program is operated as a loan program under the FCRA for budget and accounting purposes since grants can be converted to direct loans.

TEACH Subsidy Rates—Cohort 2019

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	71.18%	0.25%	0.00%	-43.06%	28.37%

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

HEAL Program. The Department assumed responsibility in FY 2014 for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL program is structured as required by the FCRA. A liquidating account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed prior to 1992. All loan activity for 1992 and beyond is recorded in corresponding financing accounts.

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

The total amount of support for HBCU programs, along with any accrued interest and unpaid servicing fees, will be capitalized to principal and be reamortized through the original maturity date of June 1, 2037. The Department has approximately $1.5 billion in outstanding borrowing from the FFB to support loans made to HBCU institutions and $360 million obligated to support near term lending as of September 30, 2019.

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

NOTE 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Liabilities Not Covered by Budgetary Resources				
Other Liabilities				
Accrued Unfunded Annual Leave	$ -	$ 35	$ -	$ 37
FECA Liabilities	3	11	3	15
Total Liabilities Not Covered by Budgetary Resources	3	46	3	52
Liabilities Not Requiring Budgetary Resources				
Subsidy Due to Treasury General Fund	1,239	-	2,037	-
Federal Perkins Loan Program	593	-	538	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	123	303	34	317
Total Liabilities Not Requiring Budgetary Resources	1,955	303	2,609	317
Total Liabilities Covered by Budgetary Resources	1,300,035	11,864	1,267,654	8,541
Total Liabilities	**$ 1,301,993**	**$ 12,213**	**$ 1,270,266**	**$ 8,910**

NOTE 7. Debt

(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Ending Balance
2019				
Direct Loan Program	$ 1,150,610	$ 137,583	$ (96,055)	$ 1,192,138
FFEL Program	107,261	-	(12,590)	94,671
Other Credit Programs for Higher Education	2,094	197	(95)	2,196
Total	**$ 1,259,965**	**$ 137,780**	**$ (108,740)**	**$ 1,289,005**
2018				
Direct Loan Program	$ 1,061,559	$ 155,257	$ (66,206)	$ 1,150,610
FFEL Program	116,290	227	(9,256)	107,261
Other Credit Programs for Higher Education	2,222	336	(464)	2,094
Total	**$ 1,180,071**	**$ 155,820**	**$ (75,926)**	**$ 1,259,965**

The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2019, debt increased 2.3 percent from $1,260.0 billion in the prior year to $1,289.0 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Approximately 92.5 percent of the Department's debt, as of September 30, 2019, is attributable to the Direct Loan program. The majority of the net borrowing activity (borrowing less repayments) for the year was designated for funding new Direct Loan disbursements.

The Department also borrows from Treasury for activity in the other credit programs for higher education. During FY 2019, TEACH net borrowing of $63.3 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2019, debt in HBCU increased by $40.2 million, or 2.8 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

NOTE 8. Subsidy Due to Treasury General Fund

(Dollars in Millions)

	2019	2018
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ 2,718	$ 2,484
FFEL Program	6,345	3,015
Total Credit Program Downward Subsidy Re-estimates	**9,063**	**5,499**
Future Liquidating Account Collections		
FFEL Program	1,239	1,856
Other Credit Programs for Higher Education	-	181
Total Future Liquidating Account Collections	**1,239**	**2,037**
Total Subsidy Due to Treasury General Fund	**$ 10,302**	**$ 7,536**

NOTE 9. Other Liabilities

(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Accounts Payable	$ -	$ 3,765	$ 1	$ 3,792
Accrued Grant Liability	-	2,637	-	1,914
Guaranty Agencies' Funds Due to Treasury	1,956	-	2,176	-
Loan Guarantee Liability	-	5,436	-	2,814
Federal Perkins Loan Program	593	-	538	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	123	303	34	317
Advances from Others and Deferred Credits	3	8	7	4
Accrued Unfunded Annual Leave	-	35	-	37
FECA Liabilities	3	11	3	15
Accrued Payroll and Benefits	-	17	-	16
Employer Contributions and Payroll Taxes	7	1	5	1
Custodial Liabilities	1	-	1	-
Total Other Liabilities	**$ 2,686**	**$ 12,213**	**$ 2,765**	**$ 8,910**

NOTE 10. Net Cost of Operations

As required by the *GPRA Modernization Act of 2010*, the Department's programs have been aligned with the goals presented in the Department's *Strategic Plan* as shown below. Goals 3 and 4 in the *Strategic Plan* are considered crosscutting goals, and therefore costs and revenues associated with these activities are included in the net cost programs associated with Goals 1 and 2.

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

Gross Costs and Earned Revenue by Program
(Dollars in Millions)

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

Gross Costs and Earned Revenue by Program
(Dollars in Millions)

2018	FSA	OESE	OSERS	Other	Total
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS					
Gross Cost					
Grants	$ -	$ 20,856	$ 13,073	$ 2,526	$ 36,455
Other	-	58	1	763	822
Earned Revenue	-	-	-	(82)	(82)
Net Program Costs	**-**	**20,914**	**13,074**	**3,207**	**37,195**
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY					
Direct Loan Program					
Gross Cost					
Credit Program Interest Expense	32,329	-	-	-	32,329
Subsidy Expense	4,369	-	-	-	4,369
Administrative Expenses	1,267	-	-	-	1,267
Earned Revenue					
Interest & Administrative Fees	(58,247)	-	-	-	(58,247)
Subsidy Amortization	25,918	-	-	-	25,918
Net Cost of Direct Loan Program	**5,636**	**-**	**-**	**-**	**5,636**
FFEL Program					
Gross Cost					
Credit Program Interest Expense	4,233	-	-	-	4,233
Subsidy Expense	1,228	-	-	-	1,228
Subsidy Amortization (Guaranteed Loans)	(1,099)	-	-	-	(1,099)
Guaranty Agencies	96	-	-	-	96
Administrative Expenses	141	-	-	-	141
Earned Revenue					
Interest & Administrative Fees	(4,635)	-	-	-	(4,635)
Subsidy Amortization (Acquired FFEL Loans)	1,501	-	-	-	1,501
Guaranty Agencies	(202)	-	-	-	(202)
Net Cost of FFEL Program	**1,263**	**-**	**-**	**-**	**1,263**
Other Credit Programs for Higher Education					
Gross Cost					
Credit Program Interest Expense	19	-	-	54	73
Subsidy Expense	56	-	-	168	224
Administrative Expenses	1	-	-	-	1
Earned Revenue					
Interest & Administrative Fees	(48)	-	-	(60)	(108)
Subsidy Amortization	29	-	-	6	35
Other	(540)	-	-	(8)	(548)
Net Cost of Other Credit Programs for Higher Education	**(483)**	**-**	**-**	**160**	**(323)**
Non-Credit Programs					
Gross Cost					
Grants	28,456	1	3,476	3,438	35,371
Other	136	-	2	255	393
Earned Revenue	-	-	-	(10)	(10)
Net Cost of Non-Credit Programs	**28,592**	**1**	**3,478**	**3,683**	**35,754**
Net Program Costs	**35,008**	**1**	**3,478**	**3,843**	**42,330**
Total Gross Costs	**71,232**	**20,915**	**16,552**	**7,204**	**115,903**
Total Earned Revenues	**(36,224)**	**-**	**-**	**(154)**	**(36,378)**
Net Cost of Operations	**$ 35,008**	**$ 20,915**	**$ 16,552**	**$ 7,050**	**$ 79,525**

Credit Program Interest Expense and Revenues
(Dollars in Millions)

	Gross Interest Expense	Subsidy Amortization	Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization	Net Revenue
	Intragovernmental	With the Public		Intragovernmental	With the Public	With the Public	
2019							
Direct Loan Program	$ 33,817	$ -	$ 33,817	$ 4,082	$ 60,025	$ (30,290)	$ 33,817
FFEL Program	3,838	(1,096)	2,742	905	3,487	(1,650)	2,742
Other Credit Programs for Higher Education	59	-	59	11	88	(40)	59
Total	**$ 37,714**	**$ (1,096)**	**$ 36,618**	**$ 4,998**	**$ 63,600**	**$ (31,980)**	**$ 36,618**
2018							
Direct Loan Program	$ 32,329	$ -	$ 32,329	$ 3,890	$ 54,357	$ (25,918)	$ 32,329
FFEL Program	4,233	(1,099)	3,134	1,032	3,603	(1,501)	3,134
Other Credit Programs for Higher Education	73	-	73	23	85	(35)	73
Total	**$ 36,635**	**$ (1,099)**	**$ 35,536**	**$ 4,945**	**$ 58,045**	**$ (27,454)**	**$ 35,536**

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

Grant Expenses by Appropriation
(Dollars in Millions)

	2019	2018
IMPROVE LEARNING OUTCOMES FOR ALL P–12 STUDENTS		
Education for the Disadvantaged	$ 16,318	$ 15,243
Special Education—Individuals With Disabilities Education Act (IDEA) Grants	12,630	13,073
School Improvement Programs	4,477	3,614
Impact Aid	1,420	1,466
Innovation and Improvement	945	1,201
English Language Acquisition	749	693
Career, Technical, and Adult Education	480	445
Hurricane Education Recovery	345	232
Institute of Education Sciences	195	187
Other	313	301
Subtotal	37,872	36,455
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY		
Student Financial Assistance		
Pell Grants	30,530	26,672
Federal Work-Study Program	1,030	1,015
Federal Supplemental Educational Opportunity Grants	648	769
Rehabilitation Services	3,210	3,130
Higher Education	2,528	2,027
Career, Technical, and Adult Education	1,282	1,135
Special Education—Individuals With Disabilities Education Act (IDEA) Grants	124	120
Hurricane Education Recovery	24	1
Institute of Education Sciences	45	43
Other	462	459
Subtotal	39,883	35,371
Total Grant Costs	**$ 77,755**	**$ 71,826**

The Department has more than 100 grant programs. Descriptions of the major grant program areas are as follows:

STUDENT FINANCIAL ASSISTANCE

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

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

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

Education for the Disadvantaged—primarily consists of Title I grants that provide 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. Also provides funds to states to support educational services to children of migratory farmworkers and fishers, and to neglected or delinquent children and youth in State-run institutions, attending community day programs, and correctional facilities.

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

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

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

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

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

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

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

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

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

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

NOTE 11. Statements of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2019, budgetary resources were $358.2 billion and net agency outlays were $144.5 billion. As of September 30, 2018, budgetary resources were $358.5 billion and net agency outlays were $146.8 billion.

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

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

Unused Borrowing Authority
(Dollars in Millions)

	2019	2018
Beginning Balance, Unused Borrowing Authority	**$ 62,752**	**$ 58,701**
Current Year Borrowing Authority	148,493	167,897
Funds Drawn from Treasury	(137,880)	(155,820)
Borrowing Authority Withdrawn	(17,520)	(8,026)
Ending Balance, Unused Borrowing Authority	**$ 55,845**	**$ 62,752**

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

Undelivered Orders
(Dollars in Millions)

	2019		2018	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Unpaid	$ 215	$ 121,561	$ 159	$ 132,716
Paid	64	563	238	120
Undelivered Orders	**$ 279**	**$ 122,124**	**$ 397**	**$ 132,836**

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

Distributed Offsetting Receipts
(Dollars in Millions)

	2019	2018
Negative Subsidies and Downward Re-estimates of Subsidies:		
Direct Loan Program	$ 9,906	$ 26,539
FFEL Program	2,099	236
Facilities Loan Programs	5	9
TEACH Program	1	-
HEAL Program	34	8
Total Negative Subsidies and Downward Re-estimates	12,045	26,792
Other	228	578
Distributed Offsetting Receipts	**$ 12,273**	**$ 27,370**

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

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

	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statements of Budgetary Resources	**$ 358,504**	**$ 316,926**	**$ 27,370**	**$ 146,810**
Expired Funds	(2,016)	(835)	-	-
FFEL Guaranty Agency Amounts Included in the President's Budget	7,257	7,257	-	-
Distributed Offsetting Receipts	-	-	-	27,370
Other	(155)	(3)	-	-
Budget of the United States Government[1]	**$ 363,590**	**$ 323,345**	**$ 27,370**	**$ 174,180**

[1] Amounts obtained from the Appendix, *Budget of the United States Government, FY 2020*.

The FY 2021 *Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2019, has not been published as of the issue date of these financial statements. The FY 2021 President's Budget is scheduled for release in February 2020 and will be made available on OMB's website. The table above reconciles the FY 2018 SBR to the FY 2020 President's Budget (FY 2018 actual amounts) for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays.

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

NOTE 12. Reconciliation of Net Cost to Net Outlays

(Dollars in Millions)

	2019		
	Intragovern-mental	With the Public	Total
Net Cost of Operations	**$ 33,374**	**$ 121,355**	**$ 154,729**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Subsidy Expense	-	(74,208)	(74,208)
Increase/(Decrease) in Assets	(87)	10	(77)
(Increase)/Decrease in Liabilities	(81)	(611)	(692)
Federal Employee Retirement Benefit Costs Paid by OPM and Imputed to Agency	(37)	-	(37)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	**(205)**	**(74,809)**	**(75,014)**
Components of the Budgetary Outlays Not Part of Net Operating Costs			
Loan Disbursement/(Collection) Activities, Net	-	52,734	52,734
Loan Subsidy Transfers	12,045	-	12,045
Receipts To Be Returned to Treasury	-	(4)	(4)
Increase/(Decrease) in Deposit Funds	-	(25)	(25)
Total Components of the Net Budgetary Outlays Not Part of Net Operating Costs	**12,045**	**52,705**	**64,750**
Net Outlays (Calculated Total)	**$ 45,214**	**$ 99,251**	**$ 144,465**
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (Discretionary and Mandatory)			$ 156,738
Distributed Offsetting Receipts			(12,273)
Agency Outlays, Net (Discretionary and Mandatory)			**$ 144,465**

The Department implemented SFFAS 53, *Budget and Accrual Reconciliation*, in FY 2019 requiring this reconciliation to explain the relationship between the Department's net cost of operations and its net outlays. Reconciling items result from transactions which did not result in a current period outlay but did result in a current period cost, and current period outlays that did not result in a current period cost. Comparison with the prior year is not required in the initial year of implementation.

Subsidy expense included in net cost of operations primarily represents subsidy re-estimates that are recognized without a concurrent cash disbursement. For credit programs, most loan disbursement and collection activities, other than those related to loan administrative costs, increase or decrease loan asset and liability balances and therefore do not affect net cost of operations. Loan subsidy transfers are amounts paid from the Department's financing accounts to Treasury receipt accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans

NOTE 13. Commitments and Contingencies

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

Future Minimum Lease Payments
(Dollars in Millions)

2019			2018		
2020	$	73	2019	$	73
2021		78	2020		73
2022		81	2021		77
2023		83	2022		81
2024		86	2023		82
After 2024		87	After 2023		83
Total	**$**	**488**	**Total**	**$**	**469**

The Department leases from the General Services Administration all or a portion of 15 privately owned and 12 publicly owned buildings in 20 cities. The table above presents the estimated future minimum lease payments for these privately and publicly owned buildings.

GUARANTY AGENCIES

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in fiscal years 2019 or 2018 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

FEDERAL PERKINS LOAN PROGRAM

The Federal Perkins Loan program provided financial assistance to eligible postsecondary school students. In FY 2019, the Department reported for Academic Year 2017-2018 that it provided funding of 83.0 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.0 percent of program funding. For the academic year that ended June 30, 2018, approximately 256 thousand loans were made totaling $630.5 million at 1,079 institutions, making an average of $2,461 per loan. The Department's equity interest, as of the end of Academic Year 2016-2017 (June 30, 2017), was approximately $5.8 billion.

Federal Perkins Loan program borrowers who meet statutory eligibility requirements—such as those who provide service as teachers in low-income areas or as Peace Corps or AmeriCorps VISTA volunteers, as well as those who serve in the military, law enforcement, nursing, or family services—may receive partial loan forgiveness for each year of qualifying service.

The Federal Perkins Loan program was scheduled to officially end on September 30, 2015. However, the program was extended through September 30, 2017 by the *Federal Perkins Loan Program Extension Act of 2015* (Extension Act). The Extension Act eliminated the Perkins Loan grandfathering provisions that the Department had put in place, and establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans. As of September 30, 2017, schools are no longer authorized to make new Perkins Loans.

LITIGATION AND OTHER CLAIMS

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material impact on the Department's financial position.

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2019. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2019, is not expected to have a material impact on these financial statements.

OTHER MATTERS

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

NOTE 14. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Operations and Changes in Net Position for FR Compilation Process

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

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

A copy of the 2018 FR can be found on Treasury's website and a copy of the 2019 FR will be posted to this site as soon as it is released.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2019

(Dollars in Millions)

FY 2019 Department Balance Sheet		Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
ASSETS			**ASSETS**
Intragovernmental:			Federal:
Fund Balance with Treasury	$ 104,918	$ 104,918	Fund Balance with Treasury
Other Intragovernmental Assets	66	64	Advances to Others and Prepayments
		2	Accounts Receivable
Total Intragovernmental	**104,984**	**104,984**	**Total Federal Assets**
Public:			Non-Federal:
Credit Program Receivables, Net			
Direct Loan Program	1,123,707	1,123,707	Loans Receivable, Net
FFEL Program	76,767	76,767	Loans Receivable, Net
Other Credit Programs for Higher Education	2,982	2,982	Loans Receivable, Net
Other Assets	2,256	41	Other Assets
		1,956	Cash and Other Monetary Assets
		8	Property, Plant, and Equipment, Net
		251	Accounts and Taxes Receivable, Net
Total Public	**1,205,712**	**1,205,712**	**Total Non-Federal Assets**
Total Assets	**$ 1,310,696**	**$ 1,310,696**	**Total Assets**
LIABILITIES			**LIABILITIES**
Intragovernmental:			Federal:
Debt			
Direct Loan Program	$ 1,192,138	$ 1,192,138	Loans Payable
FFEL Program	94,671	94,671	Loans Payable
Other Credit Programs for Higher Education	2,196	2,183	Loans Payable
		13	Interest Payable - Loans and Not Otherwise Classified
Subsidy Due to Treasury General Fund	10,302	10,302	Liability to the General Fund of the U.S. Government
Other Intragovernmental Liabilities	2,686	2,639	Liability to the General Fund of the U.S. Government
		3	Advances from Others and Deferred Credits
-		7	Benefit Program Contributions Payable
		37	Other Liabilities (Without Reciprocals)
Total Intragovernmental	**1,301,993**	**1,301,993**	**Total Federal Liabilities**
Public:			Non-federal:
Other Liabilities	12,213	3,000	Other Liabilities
		5,436	Loan Guarantee Liabilities
		3,765	Accounts Payable
		12	Federal Employee and Veteran Benefits Payable
Total Public	**12,213**	**12,213**	**Total Non-Federal Liabilities**
Total Liabilities	**$ 1,314,206**	**$ 1,314,206**	**Total Liabilities**
NET POSITION			**NET POSITION**
Unexpended Appropriations	$ 72,757	$ 72,756	Net Position - Funds Other Than Dedicated Collections
		1	Net Position - Funds from Dedicated Collections
Cumulative Results of Operations	(76,267)	(76,269)	Net Position - Funds Other Than Dedicated Collections
		2	Net Position - Funds from Dedicated Collections
Total Net Position	**$ (3,510)**	**$ (3,510)**	**Total Net Position**
Total Liabilities & Net Position	**$ 1,310,696**	**$ 1,310,696**	**Total Liabilities & Net Position**

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ending September 30, 2019

(Dollars in Millions)

FY 2019 Department Statement of Net Cost		Line Items Used to Prepare FY 2019 Government-wide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Total Program Gross Cost	$ 191,639	$ 153,260	Non-Federal Gross Cost
		108	Benefit Program Costs
		37	Imputed Costs
		508	Buy/Sell Cost
		37,714	Borrowing and Other Interest Expense
		12	Other Expenses (Without Reciprocals)
Total Program Gross Cost	**$ 191,639**	**$ 191,639**	**Department Total Gross Cost**
Total Earned Revenue	$ (36,910)	$ (31,905)	Non-Federal Earned Revenue
		(7)	Buy/Sell Revenue (Exchange)
		(4,998)	Borrowing and Other Interest Revenue (Exchange)
Total Earned Revenue	**(36,910)**	**(36,910)**	**Department Total Earned Revenue**
Net Cost of Operations	**$ 154,729**	**$ 154,729**	**Net Cost of Operations**

Reclassification of Statement of Changes in Net Position to Line Items Used for the Government-wide Statement of Operations and Changes in Net Position for the Year Ending September 30, 2019

(Dollars in Millions)

FY 2019 Department Statement of Changes in Net Position		Line Items Used to Prepare FY 2019 Government-wide Statement of Operations and Changes in Net Position	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Unexpended Appropriations			
Beginning Balance	$ 72,166	$ 72,116	Net Position, Beginning of Period (Net of GTAS Adjustment)
Appropriations Received	122,058	118,101	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments (Rescissions, etc.)	(4,007)		
Appropriations Used	(117,460)	(117,460)	Appropriations Used
Unexpended Appropriations, Ending Balance	**$ 72,757**	**$ 72,757**	
Cumulative Results of Operations			
Beginning Balance	$ (23,360)	$ (23,360)	Net Position, Beginning of Period
Appropriations Used	117,460	117,460	Appropriations Expended
Nonexchange Revenue	15	15	Collections Transferred Into a TAS Other Than the General Fund of the U.S. Government - Nonexchange
Imputed Financing from Costs Absorbed by Others	37	37	Imputed Financing Sources
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	(15,690)	(12,506)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		(3,586)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		6	Other Taxes and Receipts
		396	Other Budgetary Financing Sources
Net Cost of Operations	(154,729)	(154,729)	Net Cost of Operations
Cumulative Results of Operations, Ending Balance	**$ (76,267)**	**$ (76,267)**	
Net Position	**$ (3,510)**	**$ (3,510)**	**Net Position, End of Period**