Notes to the Consolidated Balance Sheet for the Year Ended September 30, 2023

NOTE 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

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

The Department is a component of the U.S. government. For this reason, some of the assets and liabilities reported by the Department may be eliminated for governmentwide reporting because they are offset by assets and liabilities of another U.S. government entity. The Consolidated Balance Sheet should be read with the realization that it is for a component of the U.S. government.

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

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

The Direct Loan Program, added to the *Higher Education Act of 1965* (HEA) in 1993 by the *Student Loan Reform Act of 1993*, authorizes the Department to make loans through participating schools to eligible undergraduate and graduate students and their parents. The Direct Loan Program offers four types of loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students (PLUS), and Consolidation Loans. 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 provide loan guarantees on loans made by private lenders to eligible students with reinsurance and interest subsidies provided by the Department. The SAFRA Act, which was included in the *Health Care and Education Reconciliation Act of 2010*, stated that no new FFEL loans would be made effective July 1, 2010. FFEL Program receivables include defaulted FFEL loans and acquired FFEL loans. Acquired FFEL loans include student loan assets acquired using temporary authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. The Department implemented three activities under this authority: loan purchase commitments; purchases of loan participation interests; and a put, or forward purchase commitment, with an asset-backed commercial paper (ABCP) Conduit. This authority expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. However, under the terms of the Put Agreement with the conduit, ABCP Conduit activity ceased operations in January 2014.

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

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

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

The COVID-19 relief legislation and administrative actions also provided support for student loan borrowers by:

- Temporarily suspending nearly all federal student loan payments, interest free.
- Authorizing Guaranty Agencies to reimburse themselves from the Federal Student Loan Reserve Fund for lost revenue that resulted from student loan repayment deferrals.
- Making temporary changes to the PSLF program to allow student borrowers to get credit for payments made while working for a qualifying employer.
- Addressing issues with IDR payment counting.

Funding for these actions was provided through indefinite appropriations.

Other regulatory flexibilities and incentives provided to help students through COVID-19 included:

- Stopping all federal wage garnishments and collection actions for borrowers with federally held loans in default.

- Federal Supplemental Educational Opportunity Grants to provide emergency aid to students.
- Continuation of work-study payments, even if students can no longer work on-site.
- Pell Grants, financial aid, and loans originated for the spring 2020 term, which students who have had to leave college campuses will not have to pay back. Moreover, none of this aid will count against students' financial aid lifetime limits.
- Waiving satisfactory academic progress requirements to help ensure that students do not lose academic standing and the ability to receive federal financial student aid.
- Tax credits that incentivize employers to help pay for student loans.

Program Offices

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

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

Other offices that administer programs and provide leadership, technical assistance, and financial support to states, LEAs, and IHEs for reform, strategic investment, and innovation in education include: the Office of Career, Technical, and Adult Education (OCTAE); Office of Postsecondary Education (OPE); Institute of Education Sciences (IES); and Office of English Language Acquisition (OELA). In addition, the Office for Civil Rights (OCR) works to ensure equal access to education through the vigorous enforcement of civil rights and the collection of data from public schools, promotes educational excellence throughout the nation, and serves student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights issues.

Basis of Accounting and Presentation

The Consolidated Balance Sheet was prepared to report the financial position of the Department, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The Consolidated Balance Sheet was prepared from the books and records of the Department, in accordance with Generally Accepted Accounting Principles (GAAP) accepted in the United States for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as revised. FSA also issues a stand-alone Consolidated Balance Sheet that is included in their annual report.

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

Intradepartmental transactions and balances have been eliminated from the consolidated Balance Sheet.

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 (expense) of direct loans and loan guarantees, in present value terms, at the time the loan is disbursed (subsidy). Components of subsidy costs for loans and guarantees include defaults (net of recoveries); contractual payments to third-party, private loan collectors who receive a set percentage of amounts collected; and, as an offset, origination and other fees collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from the U.S. Department of Treasury (Treasury) and interest rates charged to particular borrowers is also subsidized (or may provide an offset to subsidy if the Department's rate is less).

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.
- 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.

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 for all loan types except subsidized Direct Loans. Loans are canceled if a person dies, meets disability requirements, or occasionally through the bankruptcy courts. Loans are also canceled through the Public Service Loan Forgiveness (PSLF) program, which forgives the remaining balance on a direct loan after 120 qualifying monthly payments are made. These payments must be made under a qualifying repayment plan while working full-time for a qualifying employer. In addition, the Department offers income-driven repayment plans under which borrowers may receive forgiveness of the remaining balance of their loans after 10, 20 or 25 years under certain rules.

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

Cash and Other Monetary Assets

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

The balance of guaranty agencies' federal funds represents consolidated reserve balances of the 15 guaranty agencies based on the guaranty agency financial reports that each agency submits annually to the Department. Although the Department and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit. A year-end valuation adjustment is made to adjust the Department's balances to comply with federal accounting principles and disclose funds held outside of Treasury.

Guaranty agencies' federal funds are classified as other than intragovernmental non-entity assets and are offset by a corresponding liability due to Treasury on the Department's balance sheets. The funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The guaranty agencies' federal funds are the property of the United States and are reflected in the President's Budget. Payments made to the Department from guaranty agencies' federal funds through a statutory recall or agency closures represent capital transfers and are returned to Treasury's General Fund. (See Note 2)

Loan Receivables, Net and Loan Guarantee Liabilities

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

The loan guarantee liabilities represent 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 10)

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. Liabilities are classified as covered by budgetary resources if budgetary resources are available to pay them. Credit program liabilities funded by permanent indefinite appropriations are also considered covered by budgetary resources.

Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not requiring appropriated budgetary resources include those related to deposit funds, Subsidy Due to Treasury General Fund for future liquidating account collections (pre-1992 loan guarantee programs), and Federal Perkins Loan program balances due to be repaid to the Treasury General Fund. (See Note 6)

Debt Associated with Loans

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

Subsidy Due to Treasury

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

Accounts Payable

Accounts payable include amounts owed by the Department for goods and services received from other entities, as well as payments not yet processed. Other than intragovernmental accounts payable include in-process grant and loan disbursements.

Accrued Grant Liabilities

The Department records grant expenses as grantees drawdown funding on their available grant balances. Some grant recipients incur allowable expenditures as of the end of an accounting period but have not yet drawn on their available balances to be reimbursed by the Department. The Department accrues liabilities for these allowable expenditures. The liability amounts are estimated using a combination of historical data and a statistical sample survey of current unliquidated balances. Some grantees drawdown funding in advance of incurring grant expenditures. A statistical estimate is made for these advance drawdowns and is recorded as other than intragovernmental advances (see Note 4).

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.

Contributions for CSRS, FERS, and other retirement benefits are insufficient to fund the programs fully and are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees in the Department's Statements of Net Cost. These OPM imputed costs are offset by imputed financing sources from costs absorbed by others in the Department's Statements of Changes in Net Position.

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

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

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as an other than intragovernmental liability, 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)

Net Position

The components of net position are classified on the Department's Consolidated Balance Sheet as follows:

Unexpended Appropriations. Unexpended Appropriations is the portion of the Department's appropriations received that are represented by undelivered orders or are unobligated.

Cumulative Results of Operations. Cumulative Results of Operations represents the accumulated net difference since inception between (1) expenses and (2) revenues and financing sources.

Allocation Transfers

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent activity (e.g. movement of unexpended appropriations which affect cumulative results of operations) performed by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

The Department is a party to allocation transfers as a parent entity to the Department of the Interior and receives allocation transfers as a child entity from the Department of Health and Human Services.

Taxes

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

Use of Estimates

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

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

NOTE 2. Non-Entity Assets

(Dollars in Millions)

	2023 (Unaudited)	
	Intragovernmental	Other than Intragovernmental
Non-Entity Assets		
Fund Balance with Treasury	$ 862	$ -
Loans Receivable, Net	-	1,386
Cash and Other Monetary Assets	-	564
Accounts Receivable, Net	-	36
Total Non-Entity Assets	**862**	**1,986**
Entity Assets	243,320	1,071,881
Total Assets	**$ 244,182**	**$ 1,073,867**

The Department's FY 2023 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 other than intragovernmental assets primarily consist of guaranty agency reserves (28.4 percent), reported as cash and other monetary assets, and Federal Perkins Loan program loan receivables (69.8 percent), reported as loan receivables, net. Federal Perkins Loan program receivables are a non-entity asset because the assets are held by the Department but are not available for use by the Department. The corresponding liabilities for non-entity assets are reflected in various accounts, including intragovernmental accounts payable, Guaranty Agencies' Federal Funds Due to Treasury, and other liabilities. (See Note 9)

NOTE 3. Fund Balance with Treasury

(Dollars in Millions)

	2023 (Unaudited)
Appropriated Funds	$ 102,088
Revolving Funds	65,913
Special Funds	9
Non-Budgetary: Trust Funds	1
COVID-19 Funds	75,263
All Other Funds	755
Total Fund Balance with Treasury	**$ 244,029**

In FY 2023, $523 million of unused funds from canceled appropriations was returned to Treasury. Such balances are excluded from the amount reported as Fund Balance with Treasury in accordance with Treasury guidelines.

NOTE 4. Other Assets

(Dollars in Millions)

	2023 (Unaudited)	
	Intragovernmental	Other than Intragovernmental
Accounts Receivable, Net	$ 6	$ 307
Advances to Others and Prepayments	145	2
Property and Equipment, Net	-	2
Other	2	-
Total Other Assets	**$ 153**	**$ 311**

Included in the other than intragovernmental accounts receivable are amounts owed because of criminal restitution orders that are to be collected by the Department of Justice on behalf of the Department of Education. Amounts collected for these criminal restitutions are generally returned to the Treasury General Fund. Gross receivables and the allowance for uncollectible amounts as of September 30, 2023, related to criminal restitutions totaled $138 million, and $127 million, respectively.

NOTE 5. Loan Receivables, Net and Loan Guarantee Liabilities

Loans Receivables

(Dollars in Millions)

	2023 (Unaudited)			
	Principal	Accrued Interest	Allowance for Subsidy	Net
Direct Loan Program	$ 1,336,158	$ 83,439	$ (388,685)	$ 1,030,912
FFEL Program	78,991	20,840	(60,517)	39,314
Other Credit Programs for Higher Education	2,874	562	(670)	2,766
Total Loans Receivable	**$ 1,418,023**	**$ 104,841**	**$ (449,872)**	**$ 1,072,992**

The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority. The emergency relief measures provided by Congress and the administration in response to the COVID-19 pandemic were recorded as loan modifications. Per OMB guidance, loan modifications were calculated using the President's Budget formulation discount rates.

As the net loans receivable represents the net present value of future cash flows, it is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

What follows is additional analysis for each of the loan programs.

DIRECT LOAN PROGRAM

The federal government makes loans directly to students and parents through participating IHEs under the Direct Loan Program. Direct loans are originated and serviced through contracts with private vendors.

Direct Loan Program loan receivables include defaulted and nondefaulted loans owned by the Department. Of the $1,419.6 billion in gross loan receivables, as of September 30, 2023, $76.5 billion (5.4 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer.

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

	2023 (Unaudited)
Stafford	$ 15,671
Unsubsidized Stafford	44,878
PLUS	23,928
Consolidation	37,792
Total Disbursements	**$ 122,269**

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 $37.8 billion during FY 2023. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows associated with that cohort.

Direct Loan Subsidy Rates—Cohort 2023 (Unaudited)

	Interest Differential	Defaults	Fees	Other*	Total
Stafford	24.63%	1.99%	-1.06%	-11.39%	14.17%
Unsubsidized Stafford	26.89%	1.81%	-1.06%	-16.16%	11.48%
PLUS	12.91%	1.20%	-4.23%	-16.56%	-6.68%
Consolidation	26.33%	0.20%	0.00%	7.01%	33.54%
Weighted Average Total	**23.89%**	**1.21%**	**-1.29%**	**-8.19%**	**15.62%**

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

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

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

Federal Family Education Loan Program

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

FFEL Guaranteed Loans Outstanding
(Dollars in Billions)

	2023 (Unaudited)
Outstanding Principal of Guaranteed Loans, Face Value	$ 80.6
Amount of Outstanding Principal Guaranteed	$ 80.6

As of September 30, 2023, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately $80.6 billion. Additionally, the FFEL Program guarantees outstanding interest balances. As of September 30, 2023, the interest balances outstanding for guaranteed loans held by lenders was approximately $3.8 billion. The Department's total FFEL Program guarantees (principal and interest) are approximately $84.4 billion as of September 30, 2023. 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)

	2023 (Unaudited)			
	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,208	$ 5,029	$ (8,014)	$ 223
FFEL GSL Program (Post-1991)	37,829	8,044	(34,253)	11,620
Total Defaulted FFEL Guaranteed Loans	**41,037**	**13,073**	**(42,267)**	**11,843**
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	13,083	2,490	(8,204)	7,369
Loan Participation Purchase	23,673	4,939	(9,879)	18,733
ABCP Conduit	1,198	338	(167)	1,369
Total Acquired FFEL Loans	**37,954**	**7,767**	**(18,250)**	**27,471**
FFEL Program Loan Receivables	**$ 78,991**	**$ 20,840**	**$ (60,517)**	**$ 39,314**

Liabilities for Loan Guarantees
(Dollars in Millions)

	2023 (Unaudited)
Post-1991 FFEL Loan Guarantee Liability	$ 11,084
Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees	(138)
FFEL Liabilities for Loan Guarantees	**10,946**
HEAL Liabilities for Loan Guarantees	251
Total Ending Balance for Liabilities for Loan Guarantees	**$ 11,197**

Other Credit Programs for Higher Education

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

	2023 (Unaudited)			
	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
Federal Perkins Loans	$ 1,313	$ 467	$ (394)	$ 1,386
TEACH Program Loans	809	67	(322)	554
HEAL Program Loans	368	25	(5)	388
Facilities Loan Programs	384	3	51	438
Total	**$ 2,874**	**$ 562**	**$ (670)**	**$ 2,766**

Federal Perkins Loan Program. Loans made through the Federal Perkins Loan program were low-interest federal student loans for undergraduate and graduate students with exceptional financial needs. Schools made these Perkins loans to their students and are responsible for servicing the loans throughout the repayment term. Borrowers who undertake certain public, military, or teaching service employment are eligible to have all or part of their loans canceled.

The Perkins Loan program was a revolving loan program where the loan repayments collected from former students were used to make new loans to current students. The Department provided most of the capital used by schools to make these loans to eligible students. Participating schools provided the remaining program funding. In some statutorily defined cases, funds were provided by the Department to reimburse schools for loan cancellations. The above schedule includes only Perkins loans that were assigned to the Department when schools discontinued their participation in the program. For these assigned Perkins loans, collections of principal, interest, and fees, net of amounts paid to cover contract collection costs totaled $343 million in FY 2023.

The *Federal Perkins Loan Program Extension Act of 2015* (Extension Act) eliminated the authorization for schools to make new Perkins loan disbursements as of September 30, 2017, and ended all Perkins loan disbursements by June 30, 2018. Before the authority for new Perkins loans ended, collections made by the schools would go back into each school's Perkins fund to be used to make more loans. Schools are required to return to the Department the federal share of any excess beyond what is needed (excess liquid capital).

Schools are not required to liquidate and close out their programs now that no new Perkins loans are being made. Schools continue to take in collections and are required to return the federal share of the capital that is collected to the Department on an annual basis. Schools returned $521 million to the Department in FY 2023 for the federal share of collected cash.

Beginning with the 2023 reporting year, as part of the wind-down of the Federal Perkins Loan Program, the Secretary began requiring schools to assign to the Department all Perkins Loans that have been in default for more than two years for which there have been no current collections. While the mandatory assignment policy has driven more schools to liquidate, the majority of schools are continuing to service existing portfolios to recover the money they contributed to their Perkins funds and will do so for as long as it is feasible or until the eventual wind-down of their portfolios. Schools that liquidate and close out their programs must transfer any outstanding portfolio to the Department and liquidate any final cash. Most recent data from the 2024-25 FISAP shows a $1.6 billion outstanding principal balance on Perkins loans held by schools and the Department's equity interest on this portfolio is $1.4 billion.

The amounts collected by the Department annually for defaulted Perkins loans and for the return of the federal share of schools' Perkins capital contributions are returned to the Treasury General Fund.

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 2023 (Unaudited)

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	76.72%	1.56%	0.00%	-32.63%	45.65%

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

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

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 $378 million in outstanding borrowing from the FFB to support loans made to HBCU institutions and $951 million obligated to support near term lending as of September 30, 2023.

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

NOTE 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2023 (Unaudited)	
	Intragovernmental	Other than Intragovernmental
Liabilities Not Covered By Budgetary Resources		
Unfunded Leave	$ -	$ 55
FECA Liabilities	4	14
Total Liabilities Not Covered By Budgetary Resources	**4**	**69**
Liabilities Not Requiring Budgetary Resources		
Subsidy Due to Treasury General Fund	529	-
Federal Perkins Loan Program	1,377	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	(68)	865
Custodial Liabilities	1	-
Total Liabilities Not Requiring Budgetary Resources	**1,839**	**865**
Total Liabilities Covered By Budgetary Resources	1,190,647	20,259
Total Liabilities	**$ 1,192,490**	**$ 21,193**

NOTE 7. Debt Associated with Loans

(Dollars in Millions)

	2023 (Unaudited)
Debt to the Bureau of Public Debt	
Direct Loan Program	$ 1,127,011
FFEL Program	60,896
Other Credit Programs for Higher Education	678
Total Debt to the Bureau of Public Debt	**1,188,585**
Debt to the Federal Financing Bank	
Other Credit Programs for Higher Education	378
Total Debt Associated with Loans	**$ 1,188,963**

The Department borrows from Treasury's Bureau of the Public Debt and the FFB to fund the disbursement of new loans and the payment of credit program outlays and related costs. 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 94.8 percent of the Department's debt, as of September 30, 2023, is attributable to the Direct Loan Program.

NOTE 8. Subsidy Due to Treasury

(Dollars in Millions)

	2023 (Unaudited)
Credit Program Downward Subsidy Re-estimates	
Direct Loan Program	$ 585
FFEL Program	516
Total Credit Program Downward Subsidy Re-estimates	**1,101**
Future Liquidating Account Collections	
FFEL Program	529
Total Future Liquidating Account Collections	**529**
Total Subsidy Due to Treasury General Fund	**$ 1,630**

NOTE 9. Other Liabilities

(Dollars in Millions)

	2023 (Unaudited)	
	Intragovernmental	Other than Intragovernmental
Federal Perkins Loan Program	$ 1,377	$ -
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	(68)	865
Liability for Advances and Prepayments	2	-
Accrued Funded Payroll and Leave	-	28
Accrued Unfunded Annual Leave	-	55
Employer Contributions and Payroll Taxes Payable	16	2
FECA Liabilities	4	14
Custodial Liabilities	1	-
Total Other Liabilities	**$ 1,332**	**$ 964**

NOTE 10. 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)

2023 (Unaudited)		
2024	$	54
2025		47
2026		48
2027		49
2028		50
After 2028		51
Total	**$**	**299**

The Department leases from the GSA all or a portion of 15 privately owned and 10 publicly owned buildings in 20 cities. The table above presents the estimated future minimum lease payments for these privately and publicly owned buildings. The decrease in the estimated future minimum lease payments is due to anticipated releases of building and floor rentals.

Guaranty Agencies

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in FY 2023 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material impact on the Department's financial position. As appropriate, the Department would seek recovery from Treasury's Judgment Fund for any loss in litigation that may occur. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government if appropriated funds cannot be used.

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2023. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2023, is not expected to have a material impact on these financial statements.