
***Financial
Details***

FROM THE CHIEF FINANCIAL OFFICER

The Department recognizes the importance of public disclosure and accountability. This report is a demonstration of our commitment to fulfill our fiduciary responsibilities to the American taxpayer.

It gives me great pleasure to report that the Department received an unqualified or "clean" opinion on its FY 2002 financial statements. Ernst & Young, LLP, an independent public accounting firm working through the Department's Inspector General audited these statements. This is a major accomplishment in our efforts to achieve management excellence throughout the Department.

Challenges remain in our continuous effort to improve financial management. As of the end of FY 2002, we have been able to close out 166 of the 174 recommendations included in financial audits dating back to 1995. The FY 2002 internal control report identifies one material weakness and two reportable conditions for which we will develop corrective action plans that will be implemented in an expeditious manner.

Over the last year, we have worked diligently to improve the financial management of the Department. The Department convened an Accounting Integrity Board, an Audit Steering Committee, and an Accounting Assurance Group to proactively plan, implement and manage quality accounting change control. The implementation of Oracle Federal Financials was a significant milestone towards meeting the Department's objectives for improved reporting and accountability.

The Department also took steps to strengthen information system controls during FY 2002. During the past year, we have completed risk assessments of our major systems and we are pursuing all necessary certification and accreditation steps. We have also implemented an agency-wide systematic vulnerability assessment program.

These financial statements fairly present the Department's financial position and were prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America and Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements."



Jack Martin
January 31, 2003

LIMITATIONS OF FINANCIAL STATEMENTS

The following limitations apply to the preparation of the FY 2002 Financial Statements:

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b).

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

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One application of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

***Financial Statements
Notes to the Financial
Statements and
Required Supplementary
Information***

United States Department of Education
Departmentwide Consolidated Balance Sheet
As of September 30, 2002 and 2001
(Dollars In Thousands)

	2002	2001
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$52,116,459	\$40,476,338
Accounts Receivable (Note 5)	75,950	10,731
Other Intragovernmental Assets		57
Total Intragovernmental	52,192,409	40,487,126
Cash and Other Monetary Assets (Note 3)	1,204,575	2,462,445
Accounts Receivable, Net (Note 5)	188,207	112,741
Credit Program Receivables, Net (Note 4)	91,706,146	80,699,130
General Property, Plant and Equipment, Net (Note 6)	36,915	25,223
Other Assets	38,737	298,682
Total Assets	\$145,366,989	\$124,085,347
Liabilities:		
Intragovernmental:		
Accounts Payable	\$20,403	\$22,177
Treasury Debt (Note 7)	89,782,147	77,487,419
Guaranty Agency Federal and Restricted Funds Due to Treasury (Note 3)	1,169,107	2,462,445
Payable to Treasury (Note 8)	4,713,206	4,212,555
Other Intragovernmental Liabilities (Note 9)	185,913	56,426
Total Intragovernmental	95,870,776	84,241,022
Accounts Payable	329,839	591,035
Accrued Grant Liability (Note 10)	1,721,277	1,854,941
Liabilities for Loan Guarantees (Note 4)	11,679,393	8,376,767
Federal Employee and Veterans' Benefits (Note 9)	21,664	22,723
Other Liabilities (Note 9)	461,274	346,972
Total Liabilities	\$110,084,223	\$95,433,460
Commitments and Contingencies (Note 18)		
Net Position:		
Unexpended Appropriations (Note 11)	\$39,121,204	\$30,691,818
Cumulative Results of Operations (Note 11)	(3,838,438)	(2,039,931)
Total Net Position	\$35,282,766	\$28,651,887
Total Liabilities and Net Position	\$145,366,989	\$124,085,347

The accompanying notes are an integral part of these statements.

United States Department of Education
Departmentwide Consolidated Statement of Net Cost
For the Years Ended September 30, 2002 and 2001

(Dollars in Thousands)

	2002	2001
Program Costs		
Program A (Enhancement of Post Secondary and Adult Education)		
Intragovernmental Gross Costs	\$6,325,072	\$5,709,830
Less: Intragovernmental Earned Revenue	1,387,782	1,522,371
<i>Intragovernmental Net Costs</i>	4,937,290	4,187,459
Gross Costs with the Public	22,155,653	15,885,140
Less: Earned Revenues from the Public	4,763,806	4,058,252
<i>Net Costs with the Public</i>	17,391,847	11,826,888
Program A Total Net Cost	\$22,329,137	\$16,014,347
Program B (Creation of Student Achievement, Culture of Achievement and Safe Schools)		
Intragovernmental Gross Costs	\$222,063	\$87,810
Less: Intragovernmental Earned Revenue	17	17
<i>Intragovernmental Net Costs</i>	222,063	87,793
Gross Costs with the Public	16,478,499	14,276,371
Less: Earned Revenues from the Public	159	159
<i>Net Costs with the Public</i>	16,478,340	14,276,371
Program B Total Net Cost	\$16,700,403	\$14,364,164
Program C (Transformation of Education)		
Intragovernmental Gross Costs	\$27,501	\$44,219
Less: Intragovernmental Earned Revenue	24	24
<i>Intragovernmental Net Costs</i>	27,501	44,195
Gross Costs with the Public	674,970	559,590
Less: Earned Revenues from the Public	1,284	2
<i>Net Costs with the Public</i>	673,686	559,588
Program C Total Net Cost	\$701,187	\$603,783
Program D (Special Education and Program Execution)		
Intragovernmental Gross Costs	\$17,667	\$11,150
Less: Intragovernmental Earned Revenue	2,483	1
<i>Intragovernmental Net Costs</i>	15,184	11,149
Gross Costs with the Public	10,021,576	8,665,562
Less: Earned Revenues from the Public	1,810	4,110
<i>Net Costs with the Public</i>	10,019,766	8,661,452
Program D Total Net Cost	\$10,034,950	\$8,672,601
Total Program Net Costs	\$49,765,677	\$39,654,895
Unassigned Programs		
Costs not assigned to programs		\$155,067
Less: Earned Revenues not attributed to programs		1,999
<i>Net Costs not assigned to programs</i>		153,068
Net Cost of Operations (Note 16)	\$49,765,677	\$39,807,963

The accompanying notes are an integral part of these statements.

United States Department of Education
Departmentwide Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2002

(Dollars In Thousands)

	Consolidated	
	Cumulative Results	Unexpended Appropriations
Beginning Balance	\$(2,039,931)	\$30,691,818
Beginning Balance, As Adjusted	\$(2,039,931)	\$30,691,818
Budgetary Financing Sources		
Appropriations Received		\$57,087,703
Appropriations Transferred - In/Out (+/-)		(500)
Other Adjustments (+/-)		(198,500)
Appropriations Used	\$48,463,506	(48,459,317)
Donations/Forfeitures of Cash	485	
Other Financing Sources		
Transfers In/Out Without Reimbursements (+/-)	(27)	
Imputed Financing (Note 13)	23,750	
Other (+/-)	(520,544)	
Total Financing Sources	\$47,967,170	\$8,429,386
Net Cost of Operations (+/-)	\$(49,765,677)	
Ending Balances (Note 11)	\$(3,838,438)	\$39,121,204

The accompanying notes are an integral part of these statements.

United States Department of Education
Departmentwide Combined Statement of Budgetary Resources
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Combined	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:		
Budget Authority :		
Appropriations Received	\$57,086,247	\$1,941
Borrowing Authority		22,045,839
Net Transfers	(500)	
Unobligated Balance:		
Beginning of Period	2,643,777	5,094,963
Beginning of Period Adjustments (Note 14)	2,462,445	
Net Transfers, Actual (+/-)	887	
Spending Authority From Offsetting Collections:		
Earned		
Collected	2,571,029	22,634,614
Receivable From Federal Sources	67,491	(57)
Subtotal	\$2,638,520	\$22,634,557
Recoveries of Prior Year Obligations	837,093	22,042
Permanently Not Available	(2,719,035)	(8,325,714)
Total Budgetary Resources (Note 14)	\$62,949,434	\$41,473,628
Status of Budgetary Resources:		
Obligations Incurred: (Note 14)		
Direct	\$58,196,677	\$33,668,988
Reimbursable	70,814	
Subtotal	\$58,267,491	\$33,668,988
Unobligated Balance:		
Apportioned	3,091,706	1,119,601
Unobligated Balance Not Available	1,590,237	6,685,039
Total Status of Budgetary Resources	\$62,949,434	\$41,473,628
Relationship of Obligations to Outlays:		
Obligated Balance, Net, Beginning of Period	\$30,468,796	\$5,618,208
Obligated Balance, Net, End of Period:		
Accounts Receivable	(73,845)	
Undelivered Orders	36,689,040	6,802,243
Accounts Payable	2,346,257	9,370
Outlays:		
Disbursements	48,870,249	32,453,597
Collections	(2,571,029)	(22,634,614)
Subtotal	\$46,299,220	\$9,818,983
Less: Offsetting Receipts	39,068	
Net Outlays (Note 14)	\$46,260,152	\$9,818,983

The accompanying notes are an integral part of these statements.

**United States Department of Education
Departmentwide Consolidated Statement of Financing
For the Year Ended September 30, 2002**

(Dollars in Thousands)

	Consolidated
Resources Used to Finance Activities	
Budgetary Resources Obligated	
Obligations Incurred (Note 14)	\$(91,936,479)
Less: Spending Authority from Offsetting Collections & Recoveries	<u>26,132,212</u>
Obligations Net of Offsetting Collections and Recoveries	(65,804,267)
Less: Offsetting Receipts	<u>(39,068)</u>
Net Obligations	\$(65,843,335)
Other Resources	
Transfers In/Out Without Reimbursement (+/-)	\$27
Imputed Financing From Costs Absorbed by Others (Note 13)	<u>(23,750)</u>
Net Other Resources Used to Finance Activities	<u>(23,723)</u>
Total Resources Used to Finance Activities	\$(65,867,058)
Resources Used to Finance Items Not Part of Net Cost of Operations	
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/-)	\$(9,937,029)
Resources that Fund Expenses Recognized in Prior Period	(45,245)
Credit Program Collections Which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	21,247,014
Other	72,162
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net	<u>(26,601,541)</u>
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	<u>\$(15,264,639)</u>
Total Resources Used to Finance the Net Cost of Operations	\$(50,602,419)
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	
Components Requiring or Generating Resources in Future Periods	
Increase in Annual Leave Liability	\$(23,973)
Upward/Downward Reestimates of Credit Subsidy Expense	(1,796,889)
Increase in Exchange Revenue Receivable from the Public	1,127,116
Other (+/-)	<u>4,478</u>
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	\$(689,268)
Components Not Requiring or Generating Resources	
Depreciation and Amortization	\$1,523,208
Other (+/-)	<u>2,802</u>
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	\$1,526,010
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	<u>\$636,742</u>
Net Cost of Operations (Note 16)	<u><u>\$(49,765,677)</u></u>

The accompanying notes are an integral part of these statements.

United States Department of Education
Notes to Principal Financial Statements
For the Years Ended September 30, 2002 and 2001

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The **U.S. Department of Education** (the Department) was established on May 4, 1980, by Congress, under the Department of Education Organization Act of 1979 (Public Law 96-88). It is responsible, through the execution of its congressionally approved budget, for administering direct loans, guaranteed loans, and grant programs.

The Department's **Federal Student Aid (FSA)** administers the Federal Direct Student Loan Program, the Federal Family Education Loan (FFEL) Program, Pell Grants, and the Campus-Based Program. The **Federal Direct Student Loan Program**, authorized by the Student Loan Reform Act of 1993, makes loans directly to eligible undergraduate and graduate students and their parents through participating schools. The **Federal Family Education Loan (FFEL) Program**, authorized by the Higher Education Act (HEA) of 1965, as amended, cooperates with state and private non-profit Guaranty Agencies to provide loan guarantees and interest subsidies on loans made by private lenders to eligible students. The **Pell Grant** and **Campus-Based Programs** provide educational grants and other financial assistance to eligible applicants.

The Department also administers numerous **Grant Programs** and the **Facilities Loan Program**. **Grant Programs** include grants for elementary and secondary education, special education and rehabilitative services, and educational research and improvement, along with grants for needs of the disadvantaged. Through the **Facilities Loan Program**, the Department administers low-interest loans to institutions of higher learning for the construction and renovation of facilities.

Organization and Structure of Education

The statements consolidate 193 discrete appropriations comprising 55 fund accounts within the following eight reporting groups:

- Federal Student Aid (FSA)
- Office of Elementary and Secondary Education (OESE)
- Office of Special Education and Rehabilitative Services (OSERS)
- Office of Vocational and Adult Education (OVAE)
- Office of Postsecondary Education (OPE)
- Office of Educational Research and Improvement (OERI)
- Office of English Language Acquisition (OELA)
- Department Management (DM)

United States Department of Education
Notes to Principal Financial Statements
For the Years Ended September 30, 2002 and 2001

Basis of Accounting and Presentation

These consolidated financial statements have been prepared to report the financial position, net cost of operation, changes in net position, budgetary resources, and financing of the U.S. Department of Education, as required by the Government Management Reform Act of 1994, as of September 30, 2002 and 2001. The financial statements were prepared from the books and records of the Department, in accordance with accounting principles generally accepted (GAAP) in the United States of America and Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements". GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard setting body for the federal government. 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 Department's use of budgetary resources.

The financial statements should be read with the realization they are a component of the U.S. Government, a sovereign entity. One implication of this is that 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 proprietary accounting rules, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash, and financing sources are recorded when available for use. Under budgetary accounting rules, budgetary resources are determined and obligated on the basis of legal and regulatory requirements.

Use of Estimates

The preparation of the financial statements in accordance with generally accepted accounting principles in the United States requires management to make assumptions and estimates that directly affect the amounts reported in the financial statements. Actual results may differ from those estimates.

Estimates for credit program receivables and liabilities contain assumptions that have a significant impact on the financial statements. The primary components of this assumption set include, but are not limited to, collections, repayments, default rates, prevailing interest rates and loan volume. Actual loan volume, interest rates, cash flows and other critical components used in the estimation process may differ significantly from the assumptions made at the time the financial statements were prepared. Minor adjustments to any of these assumption components may create significant changes to the estimate.

The Department recognizes the sensitivity of the changes in assumptions and the impact that the projections can have on estimates. In the case of Credit Reform, management has attempted to mitigate these fluctuations by using trend analysis to project future cash flows. The assumptions used for the September 30, 2002 and 2001 financial statements are based on the best information available at the time the estimate was derived.

Changes in these assumptions could significantly affect the amounts reflected in these statements. For example, a long-term change in the projected interest rate charged to borrowers could change

United States Department of Education
Notes to Principal Financial Statements
For the Years Ended September 30, 2002 and 2001

the current subsidy re-estimate by a significant amount. The Department monitors these assumptions and can explain the impact of any material change. In addition, the Department and OMB have established a Student Loan Credit Modeling Working Group that has studied the underlying assumptions used to generate baseline and policy estimates. This Working Group is developing options to minimize, where possible, the volatility of student loan subsidy cost estimates. No approaches currently under consideration are expected to have a material impact on the estimate.

To date, the Working Group has not agreed upon a specific set of alternative assumptions or new model structures. No significant changes were made to the student loan credit estimating models or assumptions for the FY 2003 president's budget, released in February 2002, or for the mid-session review, released in July 2002. Although the Administration may continue to examine alternative model structures and assumptions as part of developing the FY 2004 president's budget, there are no detailed plans at this time to make significant changes.

Thus, the current model and estimating methods were the same used in recent years. This model was the official estimating model as of September 30, 2002 and 2001, and was used to calculate the subsidy re-estimates shown in these financial statements.

Budget Authority

Budget authority is the authorization provided by law for the Department to incur financial obligations that will result in outlays. The Department's budgetary resources for fiscal years 2002 and 2001 included (1) unobligated balances of resources from prior years, (2) recoveries of obligations in prior years, and (3) new resources—appropriations, authority to borrow from the U.S. Department of Treasury (Treasury), and spending authority from collections and certain collection-related activity. Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for net upward adjustments of prior-year obligations, after which they are canceled and may not be used. Unobligated balances of resources that have not expired at year-end may have new obligations placed against them, as well as net upward adjustments of prior-year obligations.

Treasury Debt provides most of the funding for the loan principal disbursements made under the Federal Direct Student Loan Program. Subsidy and administrative costs of the program are funded primarily by appropriations. Budgetary resources from collections are used primarily to repay the Department's debt to Treasury. These collections come from other Federal agencies and from the public in exchange for goods or services the Department provides. Major sources of collections include (1) principal and interest on loans to borrowers, (2) related fees, and (3) interest from Treasury on balances in certain credit reform accounts that make and administer loans and guarantees.

Fund Balance with Treasury

The Department maintains cash accounts with Treasury. The fund balance with Treasury includes appropriated, revolving, and trust funds available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes the cash receipts and cash disbursements for the Department. The Department's records are reconciled with those of Treasury on a regular basis.

United States Department of Education
Notes to Principal Financial Statements
For the Years Ended September 30, 2002 and 2001

Cash and Other Monetary Assets

Section 422A of the Higher Education Act of 1965 (HEA), as amended, required FFEL Guaranty Agencies to establish a Federal Student Loan Reserve Fund (the “Federal Fund”) and an Operating Fund by December 6, 1998. The Federal Fund and the non-liquid assets developed or purchased by a Guaranty Agency as a result, in whole or in part with Federal funds, are the property of the United States. However, such ownership by the Department is independent of the actual control of the assets.

The Department disburses funds to the Guaranty Agency through the Federal Fund to pay lender claims and default aversion fees of a Guaranty Agency. The Operating Fund is the property of the Guaranty Agency except for funds an agency borrows from the Federal Fund (under Section 422A of the HEA of 1965, as amended). The Operating Fund is used by the Guaranty Agency to fulfill its responsibilities. These responsibilities include repaying money borrowed from the Federal Fund, default aversion and collection activities.

Guaranty Agency Reserves consist of the Department’s interest in the net assets of FFEL Program Guaranty Agencies. Guaranty Agency non-entity assets include initial Federal start-up funds (Guaranty Agency advances), receipts of Federal reinsurance payments, insurance premiums, Guaranty Agency share of collections on defaulted loans, investment income and administrative cost allowances, and other assets purchased out of reserve funds. Liabilities result from initial Federal start-up funds, lender claims, operating expenses, and Federal reinsurance fees. Guaranty agency reserves are recorded as a governmental asset (see Note 3) and as a corresponding liability due to Treasury.

Accounts Receivable

Accounts receivable are amounts due to the Department from the public and other Federal agencies. Receivables from the public typically result from such items as overpayments of educational assistance, whereas amounts due from other Federal agencies result from agreements entered into by the Department with these agencies for various goods and services. Accounts receivable are recorded at cost less an allowance for uncollectible amounts.

Credit Program Receivables and Loan Guarantee Liabilities

The financial statements at September 30, 2002 and 2001, reflect the Department’s estimate of the long-term cost of direct and guaranteed loans in accordance with the Federal Credit Reform Act of 1990 (the Act). Loans and interest receivable are valued at their gross amounts less an allowance for the present value of the amounts not expected to be recovered and thus having to be subsidized—called “allowance for subsidy.” The difference is the present value of the cash flows to and from the Department expected from the receivables over their expected lives. Similarly, loan guarantee liabilities are valued at the present value of the cash outflows from the Department less the present value of related inflows. GAAP allows direct loans and loan guarantees obligated prior to October 1, 1992, to be stated on a present value basis or on a net realizable or expected value basis. The Department has chosen to record all loans and guarantees at their present values.

Components of subsidy costs involved with loans and guarantees include defaults, net of recoveries, contractual payments to third-party private loan collectors who receive a set percentage of amounts they collect, and, as an offset, application and other fees to be collected. For direct

United States Department of Education
Notes to Principal Financial Statements
For the Years Ended September 30, 2002 and 2001

loans, the difference between interest rates incurred by the government on its debt and interest rates provided to target groups is also subsidized (or may provide an offset to subsidy if the government's rate is less). The corresponding subsidy in loan guarantee programs is the payment of interest supplements to third party lenders in order to buy down the interest rates on loans made by those lenders. Subsidy costs are recognized when direct loans or guaranteed loans are disbursed to borrowers and are re-estimated each year.

Additional information on credit program receivables and loan guarantee liabilities is set forth in Note 4.

Property and Equipment

The Department capitalizes single items of property and equipment with an aggregate cost of \$50,000 or more that have an estimated useful life greater than two years. Additionally, the Department capitalizes bulk purchases of property and equipment with an aggregate cost of \$500,000 or more. A bulk purchase is defined as the purchase of like items related to a specific project or the purchase of like items occurring within the same fiscal year that have an estimated useful life greater than two years. These assets are depreciated using the straight-line method. The Department adopted the following useful lives for classes of depreciable property:

- 3-Year Property – Information Technology (IT) and Telecommunications equipment.
- 5-Year Property – Furniture and Fixtures.

Leases

The Department leases some office space from the General Services Administration (GSA). The Department does not have any capital leases. Because all lease contracts are operating leases, future lease payments are not accrued as liabilities, but rather are expensed as incurred. Under existing commitments as of September 30, 2002, estimated future minimum lease payments are as follows:

Future Minimum Lease Payments at September 30 (Dollars in Thousands)	
<u>Fiscal Year End</u>	<u>Amount</u>
2003	\$ 20,833
2004	34,474
2005	36,126
2006	37,029
2007	37,955
After 2007	38,904
Total	\$ 205,321

Liabilities

Liabilities represent actual and estimated amounts likely to be paid as a result of transactions or events that have already occurred. Liabilities without budget authority to pay them in law as of

United States Department of Education
Notes to Principal Financial Statements
For the Years Ended September 30, 2002 and 2001

year-end are classified as liabilities not covered by budgetary resources. FFEL and Federal Direct Student Loan Program liabilities are entitlements covered by permanent indefinite budget authority enacted as of year-end.

Liabilities for Loan Guarantees

The liability for loan guarantees under FFEL is the estimated present value of net long-term cash outflows of the Department for subsidized costs—primarily defaults, net of recoveries, interest supplements, and, as an offset, fees. Note 4 provides additional information.

Treasury Debt

The amount shown for the liability to Treasury from borrowings represents unpaid principal owing on the loans at year-end. The Department repays the loan principal based on available fund balances. Interest on the debt is calculated at fiscal year-end using rates set by Treasury. Principal and interest payments are made annually. Note 7 provides additional information.

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. A liability is accrued by the Department for expenditures incurred by grantees prior to receiving grant funds for the expenditures. The amount is estimated using statistical sampling techniques. Note 10 provides additional information.

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances of appropriations, except those in the liquidating funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. Note 11 provides additional information.

Personnel Compensation and Other Employee Benefits

Annual, Sick and Other Leave

The liability for annual leave, compensatory time off, and other leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. Annual leave earned but not taken, within established limits, is funded from future financing sources. Sick leave and other types of non-vested leave are expensed as taken and no future liability is recognized for these amounts.

Retirement Plans and Other Employee Benefits

Employees participate either in the Civil Service Retirement System (CSRS), a defined benefit plan, or in the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, the Department contributes a fixed percentage of pay. For FERS employees, the Department contributes fixed percentages to both a defined benefits plan and a defined contributions plan (Thrift Savings Plan). For FERS employees, the Department also contributes the employer's share for Social Security (FICA) and Medicare.

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For the Years Ended September 30, 2002 and 2001

The FERS program is fully funded by agency and worker contributions. Such contributions for other retirement plans and benefits are insufficient to fully fund the programs, which are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors OPM provides, and reports the full cost of the programs related to its employees.

Federal Employees Compensation Act

The Federal Employees Compensation Act (FECA) 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 (Labor), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two components. The first component is based on actual claims paid by Labor but not yet reimbursed by the Department. The Department reimburses Labor for the amount of actual claims as funds are appropriated for this purpose. There is generally two to three year time period between payment by the Department and reimbursement by Labor. As a result, the Department recognizes a liability for the actual claims paid by Labor and to be reimbursed by the Department.

The second component is the estimated liability for future benefit payments as a result of past events. This liability includes death, disability, medical and miscellaneous costs. Labor determines this component annually, as of September 30, using a 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 using OMB economic assumptions for 10-year Treasury notes and bonds. To provide for the effects of inflation on the liability, wage inflation factors (i.e., cost of living adjustments) and medical inflation factors (i.e., consumer price index medical adjustments) are applied to the calculation of projected future benefit payments. These factors are also used to adjust historical benefit payments and to adjust future benefit payments to current-year constant dollars. A discounting formula is also used to recognize the timing of benefit payments as 13 payments per year instead of one lump sum payment per year.

Labor evaluates the estimated projections to ensure that the resulting projections were reliable. The analysis includes two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

Intragovernmental Transactions

The Department's financial activities are interrelated with the Federal government as a whole. The Department is subject to financial regulation and management control by OMB and Treasury. As a result of this relationship, operations may not be conducted and financial positions may not be reported as they would if the Department were a separate, unrelated entity. Transactions and

United States Department of Education
Notes to Principal Financial Statements
For the Years Ended September 30, 2002 and 2001

balances among the Department's entities have been eliminated from the Consolidated Balance Sheet.

Reclassifications

The reclassifications were necessary for the comparative presentation of the FY 2001 and FY 2002 Balance Sheets, in accordance with OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*. The reformatting of the published FY 2001 financial statements resulted in rounding differences.

The balance sheet and statement of net cost were reclassified to make the Department's FY 2001 financial statements consistent with the FY 2002 financial statement presentation. The reclassifications had no effect on the total assets, liabilities, net position or change in net position as previously reported.

The following FY 2001 Balance Sheet presentations were reclassified:

- Borrowings from Treasury were reclassified to Treasury Debt for \$77.4 billion.
- Guaranty Agency Federal and Restricted Fund Receivable were reclassified to Cash and Other Monetary Assets for \$2.5 billion.
- Advances were reclassified to Other Governmental Assets for \$38.7 million.
- Interest Payable and Payable to the Federal Financing Bank were reclassified to Treasury Debt for \$7.9 million and \$31.3 million, respectively.
- Other Governmental Liabilities were decreased for the FECA actuarial liability and reclassified to Federal Employee and Veteran Benefits for \$22.7 million.
- Other Governmental Liabilities were reclassified to Other Intragovernmental Liabilities for \$11.6 million.

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Note 2. Fund Balance with Treasury

Fund Balance with Treasury at September 30 (Dollars in Thousands)		
	<u>FY 2002</u>	<u>FY2001</u>
Appropriated Funds	\$ 39,660,566	\$ 33,130,371
Revolving Funds	12,475,789	7,143,257
Other Funds	(19,896)	202,710
Total Fund Balance with Treasury	\$ 52,116,459	\$ 40,476,338

Status of Fund Balance with Treasury at September 30 (Dollars in Thousands)		
	<u>FY 2002</u>	<u>FY2001</u>
Unobligated Balance		
- Available	\$ 4,211,307	\$ 2,213,757
- Unavailable	7,106,166	5,520,186
Obligated Balance, Not Yet Disbursed	40,818,882	32,524,223
Other Funds	(19,896)	218,172
Total Status of Fund Balance with Treasury	\$ 52,116,459	\$ 40,476,338

The Fund Balance with Treasury is an entity asset with monies represented in the appropriated funds and revolving funds. It includes amounts the Department has borrowed from Treasury but has not disbursed as of year-end. The monies are available to pay current liabilities and finance loan programs. The Department has the authority to disburse the funds directly to agencies and institutions participating in its programs through the Treasury, which processes cash receipts and disbursements on its behalf.

A portion of the appropriated funds included at September 30, 2002, was funded in advance by multi-year appropriations for expenditures anticipated during the current and future fiscal years. Revolving funds conduct continuing cycles of business-like activity and do not require an annual appropriation. Their fund balance comes from collections from other Federal entities, the public, and from borrowings.

Available unobligated balances represent no-year and multi-year appropriations that can be obligated after September 30, 2002 and 2001. Unavailable unobligated balances are expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include reimbursements and other income earned, undelivered orders and expended authority-unpaid. Other funds primarily consist of suspense, deposit and clearing funds.

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Note 3. Cash and Other Monetary Assets

Cash and Other Monetary Assets at September 30 (Dollars in Thousands)			
	FY 2002		
	Guaranty Agency Reserves	Deposits in Transit	Total
Beginning Balance, September 30	\$ 2,462,445	\$ -	\$ 2,462,445
Current Year Activity	(208,606)	35,468	(173,138)
Funds Recall	(1,084,732)	-	(1,084,732)
Ending Balance, September 30	\$ 1,169,107	\$ 35,468	\$ 1,204,575

Cash and Other Monetary Assets at September 30 (Dollars in Thousands)			
	FY 2001		
	Guaranty Agency Reserves	Deposits in Transit	Total
Beginning Balance, September 30	\$ -	\$ 14,132	\$ 14,132
Current Year Activity	-	(14,132)	(14,132)
Reclassification of Guaranty Agency Reserves	2,462,445	-	2,462,445
Ending Balance, September 30	\$ 2,462,445	\$ -	\$ 2,462,445

Cash and Other Monetary Assets consist of Guaranty Agency reserves and deposits in transit. Guaranty Agency reserves are non-entity assets that the Department collects and holds on behalf of the U.S. Government. Additionally, Guaranty Agency reserves are a liability due to Treasury and are considered intragovernmental liabilities. These balances represent the Federal government's interest in the net assets of state and non-profit FFEL Program Guaranty Agencies (see Note 1).

In FY 2002, Guaranty Agencies participating in the FFEL program returned to Treasury, through the Department, \$1.1 billion in Federal assets. On September 30, 2002, Guaranty Agencies held approximately \$1.2 billion in Federal assets. The agencies use the funds to pay lender claims, primarily for loan defaults and discharges; the funds are replenished by Department insurance payments to Guaranty Agencies. Consistent with Section 422A(e) of the Higher Education Act,

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these funds are considered "property of the United States" and are reflected in the president's budget. The Department reclassified the beginning of year balance of agency-held reserves of \$2.5 billion.

Amounts returned to Treasury from Guaranty Agency reserve funds are not the Department's resources. Appropriation 91X4257, Federal Student Loan Reserve Fund, was established as a flow-through account to facilitate the return of Guaranty Agency reserve funds. This account is valued annually through the estimation of net revenues and expenses. In the FY 2001 financial statements, the \$2.5 billion was shown as a receivable to the Department from the Guaranty Agencies with an offsetting payable to Treasury. For 2002, the FY 2001 Balance Sheet was reclassified to show this amount as a Federal resource reported as "Cash and Other Monetary Assets."

The current year activity of (\$208.6) million approximately reflects a net decrease in cash held by the Guaranty Agencies which belong to Treasury.

The Department recorded deposits in transit totaling \$35.5 million in FY 2002. Deposits in transit were primarily student repayment of loans for the Direct Loan Program, which will be reflected as collections at Treasury in October 2002. The FFEL Program had approximately \$.02 million in deposits in transit.

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Note 4. Credit Program Receivables and Liabilities for Loan Guarantees

The Department operates the William D. Ford Direct Student Loan and Federal Family Education Loan (FFEL) programs to help students finance the costs of higher education. Under the programs, the Department makes loans directly or guarantees all or a portion of loans made by participating lending institutions to individuals who meet statutorily set eligibility criteria and attend eligible institutions of higher education—public and private two- and four-year institutions, graduate schools, and vocational training schools. Students and their parents receive loans regardless of income; student borrowers who demonstrate financial need also receive Federal interest subsidies.

Under the Direct Loan program, the Federal Government makes loans directly to students and parents through participating schools. Loans are originated and serviced through contracts with private vendors. Under the FFEL program, more than 4,000 financial institutions make loans directly to students and parents. FFEL loans are guaranteed by the Federal Government against default, with 36 state or private non-profit Guaranty Agencies acting as intermediaries in administering the guarantees. Beginning with loans first disbursed on or after October 1, 1993, financial institutions became responsible for 2 percent of the cost of each default; Guaranty Agencies also began paying a portion of the cost (in most cases, 5 percent) of each defaulted loan from Federal funds they hold in trust. FFEL participants receive statutorily set Federal interest and special allowance subsidies; Guaranty Agencies receive fee payments as set by statute. In most cases, loan terms and conditions under the two programs are identical.

The Federal Credit Reform Act of 1990 (the Act) underlies the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees, other than for general administration of the programs, is referred to as “subsidy cost.” Under the Act, subsidy costs for loans obligated beginning in FY 1992 are recognized at the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are revalued annually. Components of subsidy are described in Note 1 and set forth in more detail later in this note.

The Department estimates all future cash flows associated with Direct Loans and FFEL. Projected cash flows are used to develop subsidy estimates. Subsidy costs can be positive or negative; negative subsidies occur when expected program inflows of cash (e.g., repayments and fees) exceed expected outflows. Subsidy is recorded as the initial amount of the loan guarantee liability when guarantees are made—the loan liability—and as a valuation allowance to government held loans and interest receivable (i.e., direct and defaulted guaranteed loans).

The Department uses a computerized cash flow projection model to calculate subsidy estimates for direct loans and guaranteed FFEL program loans. Cash flows are projected over the life of the loan, aggregated by loan type, cohort year, and risk category. The loan’s cohort year represents the year a direct loan was obligated or a loan was guaranteed, regardless of the timing of disbursements. Risk categories include two-year colleges, freshmen and sophomores at four-year colleges, juniors and seniors at four-year colleges, graduate schools, and proprietary (for-profit) schools.

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The estimates reflected in these statements were prepared using assumptions developed for the FY 2003 Mid-Session Review, a government-wide exercise required annually by the OMB. These estimates are the most current available to the Department at the time the financial statements are prepared. Department management has a process to review these estimates in the context of subsequent changes in assumptions, and reflect the impact of these changes as appropriate.

In recent years, the consolidation of existing loans into new direct or guaranteed loans has increased significantly. Under the Act and requirements provided by OMB Circular A-11 (Budget Formulation and Execution), the retirement of loans being consolidated is considered a receipt of principal and interest; this receipt is offset by the disbursement related to the newly created consolidation loan. The underlying direct or guaranteed loans, whether performing or non-performing, in any given cohort are reduced in that consolidations provide payment of underlying loans in prior existing cohorts and open new loans in the current cohort for which consolidation activity has occurred. This consolidation activity is taken into consideration in setting the subsidy rate for defaults.

The FFEL estimated liability for loan guarantees is reported as the present value of estimated net cash outflows. Defaulted FFEL loans are reported net of an allowance for subsidy computed using net present value methodology, including defaults, collections, and other cancellations. The same methodology is used to estimate the allowance on Direct Loans receivables.

The Department disbursed approximately \$20 billion in Direct Loans to eligible borrowers in FY 2002 and approximately \$18 billion in loans in FY 2001. Half of all loan volume is obligated in the fourth quarter of the fiscal year. Loans typically disburse in multiple installments over an academic period; as a result, loan disbursements for an origination cohort year often cross fiscal years. Regardless of the fiscal year in which they occur, disbursements are tracked by the cohort to which they belong, which is determined by the time of obligation rather than disbursement.

As of September 30, 2002 and 2001, the total principal balance outstanding of guaranteed loans held by lenders were approximately \$182 billion and \$160 billion, respectively. As of September 30, 2002 and 2001, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately \$179 billion and \$157 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the Guaranty Agencies, based on the appropriate reinsurance rates, which range from 100 to 95 percent. Any remaining insurance not paid as reinsurance would be paid to lenders by the Guaranty Agencies from their Federal funds. Payments by Guaranty Agencies do not reduce government exposure because they are made from Federal funds administered by the agencies.

The Department accrues interest receivable and records interest revenue on its performing direct loans. Given the Department's substantial collection rates, interest receivable is also accrued and interest revenue is recognized on defaulted direct loans. Guaranteed loans that default are initially turned over to guaranty agencies for collection and interest receivable is accrued and recorded on these loans as the collection rate is substantial. After approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection. Due to the age of these loans, accrued interest is calculated but only recorded upon collection. Interest

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income is not recognized on defaulted guaranteed loans and collections of interest are considered recoveries of prior cost.

As previously noted, borrowers may pre-pay and close out existing loans without penalty from capital raised through the disbursement of a new consolidation loan. The loan liability and net receivables include estimates of future prepayments of existing loans; they do not reflect costs associated with anticipated future consolidation loans.

Due to the nature of the loan commitment process in which schools establish a loan commitment with the filing of an aid application, which may occur before a student has been accepted by the school or begins classes, approximately 10 percent of loan commitments are never disbursed. For Direct Loans committed in FY 2002, an estimated \$1.1 billion will not be disbursed. For guaranteed loans committed in FY 2002, an estimated \$4.0 billion will not be disbursed.

Credit Program Receivables, Net

The Credit Program Receivables, Net consist of the following program loans:

Credit Program Receivables, Net at September 30 (Dollars in Thousands)		
	<u>FY 2002</u>	<u>FY 2001</u>
Direct Loan Program Loan Receivables, Net	\$ 84,846,534	\$ 74,729,074
FFEL Program Loan Receivables, Net	6,287,762	5,587,131
Perkins Program Loan Receivables, Net	192,371	-
Facilities and Other Loan Receivables, Net	379,479	382,925
Credit Program Receivables, Net	\$ 91,706,146	\$ 80,699,130

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Direct and FFEL Loan Program Receivables

The schedules below summarize the direct and defaulted FFEL loan principal and related interest receivable, net or inclusive of the allowance for subsidy (see Notes 1 and 19).

Direct Loan Program Credit Program Receivables at September 30 (Dollars in Thousands)		
	FY 2002	FY 2001
Principal Receivable	\$ 80,070,351	\$ 70,544,902
Interest Receivable	2,661,242	2,615,855
Receivables Total	82,731,593	73,160,757
Allowance for Subsidy	2,114,941	1,568,317
Credit Program Receivables, Net	\$ 84,846,534	\$ 74,729,074

FFEL Program Credit Program Receivables at September 30 (Dollars in Thousands)						
	FY 2002			FY 2001		
	Pre-1992	Post-1991	Total	Pre-1992	Post-1991	Total
Principal Receivable	\$ 11,656,526	\$ 6,098,623	\$ 17,755,149	\$ 12,849,710	\$ 5,366,880	\$ 18,216,590
Interest Receivable	1,284,433	1,732,193	3,016,626	1,740,152	1,286,825	3,026,977
Receivables Total	12,940,959	7,830,816	20,771,775	14,589,862	6,653,705	21,243,567
Allowance for Subsidy	(11,904,071)	(2,579,942)	(14,484,013)	(13,217,526)	(2,438,910)	(15,656,436)
Credit Program Receivables, Net	\$ 1,036,888	\$5,250,874	\$ 6,287,762	\$ 1,372,336	\$ 4,214,795	\$ 5,587,131

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Direct Loan Program Reconciliation of Allowance for Subsidy

The reconciliation of allowance for subsidy for the Direct Loan Program follows:

Direct Loan Program Reconciliation of Allowance for Subsidy		
For the Years Ended September 30		
(Dollars in Thousands)		
	<u>FY 2002</u>	<u>FY 2001</u>
Beginning Balance, Allowance for Subsidy	\$ 1,568,317	\$ 2,585,250
Components of Subsidy Transfers		
Interest Rate Differential	1,500,008	2,204,550
Defaults, Net of Recoveries	(210,714)	(597,850)
Fees	302,128	243,567
Other	(869,493)	(811,259)
Current Year Subsidy Transfers from Program Account	721,929	1,039,008
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	-	875,608
Technical and Default Re-estimates	(1,598,930)	(3,221,618)
Total Subsidy Re-estimates	(1,598,930)	(2,346,010)
Activity		
Fee Collections	(374,592)	(315,040)
Loan Cancellations ¹	39,420	342,897
Subsidy Allowance Amortization	1,537,294	161,748
Other	221,503	100,464
Total Activity	1,423,625	290,069
Ending Balance, Allowance for Subsidy	\$2,114,941	\$ 1,568,317

¹Loan cancellations include write-offs of loans because the primary borrower died, became disabled, or declared bankruptcy.

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Liabilities for Loan Guarantees

Liabilities for loan guarantees represent the present value of future projected cash outflows from the Department, net of inflows, such as fees, and collection of principal and interest on defaulted guaranteed loans assumed for direct collection (see Note 1).

FFEL Program Reconciliation of Liabilities for Loan Guarantees

The FFEL Program liability for loan guarantees reconciliation is associated with the FFEL Program loans guaranteed in the financing account. The FFEL liquidating account Liability for Loan Guarantees is included in the total Liabilities for Loan Guarantees.

FFEL Program Reconciliation of Liability for Loan Guarantees
For the Years Ended September 30
(Dollars in Thousands)

	<u>FY 2002</u>	<u>FY 2001</u>
Beginning Balance, Liability for Loan Guarantees	\$ 8,226,207	\$ 9,534,955
Components of Subsidy Transfers		
Interest Supplement Costs	3,455,302	2,671,860
Defaults, Net of Recoveries	1,115,428	954,195
Fees	(2,118,056)	(1,371,175)
Other	1,337,713	854,129
Current Year Subsidy Transfers from Program Account	3,790,387	3,109,009
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	-	(43,022)
Technical and Default Re-estimates	128,444	(2,864,956)
Subsidy Re-estimates in Liability	128,444	(2,907,978)
Activity		
Interest Supplement Payments	(2,327,175)	(3,343,333)
Claim Payments	(2,779,963)	(2,568,548)
Fee Collections	1,515,435	1,392,343
Interest on Liability Balance	415,719	460,717
Other ¹	2,601,444	2,549,042
Total Activity	(574,540)	(1,509,779)
Ending Balance, Liability for Loan Guarantees	11,570,498	8,226,207
FFEL Liquidating Account Liability for Loan Guarantees	108,895	150,560
Total Liabilities for Loan Guarantees	\$ 11,679,393	\$ 8,376,767

¹Includes amounts recorded to the liability balance for defaults, adjustments and loan consolidation activity, as described in Note 1.

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Subsidy Expense

Direct Loan Program and FFEL Program subsidy expenses are as follows:

Direct Loan Program Subsidy Expense		
For the Years Ended September 30		
(Dollars in Thousands)		
	<u>FY 2002</u>	<u>FY 2001</u>
<u>Components of Current-Year Subsidy Transfers</u>		
Interest Rate Differential	\$ (1,500,008)	\$ (2,204,550)
Defaults, Net of Recoveries	210,714	597,850
Fees	(302,128)	(243,567)
Other	869,493	811,259
Current Year Subsidy Transfers	(721,929)	(1,039,008)
Re-estimates	1,598,930	2,346,010
Direct Loan Subsidy Expense	\$ 877,001	\$ 1,307,002

FFEL Program Loan Guarantee Subsidy Expense		
For the Years Ended September 30		
(Dollars in Thousands)		
	<u>FY 2002</u>	<u>FY 2001</u>
<u>Components of Current-Year Subsidy Transfers</u>		
Interest Supplement Costs	\$3,455,302	\$ 2,671,860
Defaults, Net of Recoveries	1,115,428	954,195
Fees	(2,118,056)	(1,371,175)
Other	1,337,713	854,129
Current Year Subsidy Transfers	3,790,387	3,109,009
Re-estimates	197,959	(3,423,314)
FFEL Loan Guarantee Subsidy Expense	\$3,988,346	\$ (314,305)

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Subsidy Rates

The subsidy rates are used to compute each year's subsidy expense, disclosed on the Statement of Net Cost. The subsidy rates applicable to the 2002 loan cohort year are as follows:

Subsidy Rates - Cohort 2002					
	Interest Differential	Defaults	Fees	Other	Total
Direct Loan Program	(7.87%)	1.07%	(1.69%)	4.61%	(3.88%)
	Interest Supplements	Defaults	Fees	Other	Total
FFEL Program	7.99%	2.61%	(4.88%)	3.12%	8.84%

The subsidy rates disclosed pertain only to the cohort listed. These rates cannot be applied to direct or guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new direct or guaranteed loans reported in the current year relate to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when direct loans are disbursed by the Department or third-party lenders disburse guaranteed loans.

Administrative Expenses

The administrative expenses for Direct Loan and FFEL are as follows:

Administrative Expenses (Dollars in Thousands)		
	FY 2002	
	Direct Loan	FFEL
Operating Expense	\$393,848	\$462,655
Other Interest Expense	152	14
Benefit Expense	184	99
Depreciation, Amortization Expense	7,995	34
Future Funded Expenses	121	(149)
Changes in Actuarial Liability	303	(244)
Total Administrative Expenses	\$402,603	\$462,409

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Perkins Loan Program

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. The Department provides funds to participating schools to provide about 85.5 percent of the capital used to make loans to eligible students at 5 percent interest. For certain defaulted loans, the Department reimburses the originating school and collects from the borrowers. At the end of FY 2002, loans receivable, net of an allowance for loss, was \$192 million. These loans, originally disbursed as grants, are valued at historical cost.

Facilities Loan Programs

The Department administers the College Housing and Academic Facilities Loans (CHAFL), College Housing Loans (CHL), and Higher Education Facilities Loans (HEFL) programs. 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. Since 1998, no new loans have been authorized.

The Department also administers the Historically Black Colleges and Universities (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 the loans to eligible institutions, charge interest, and collect principal and interest payments. In compliance with statute, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default. The credit program receivables are as follows:

Facilities Loan Program Receivables at September 30 (Dollars in Thousands)		
	<u>FY 2002</u>	<u>FY 2001</u>
Principal Receivable	\$ 478,823	\$ 481,608
Interest Receivable	7,366	7,426
Receivables Total	486,189	489,034
Allowance for Subsidy	(107,083)	(106,109)
Credit Program Receivables, Net	\$ 379,106	\$ 382,925

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Note 5. Accounts Receivable

Accounts Receivable, Net Amount Due at September 30 (Dollars in Thousands)						
	FY 2002			FY 2001		
	Gross Receivables	Allowance	Net Receivables	Gross Receivables	Allowance	Net Receivables
Intragovernmental	\$ 75,950	\$ -	\$ 75,950	\$ 10,731	\$ -	\$ 10,731
Governmental	375,073	(186,866)	188,207	608,879	(496,138)	112,741
Total Accounts Receivable	\$ 451,023	\$ (186,866)	\$ 264,157	\$ 619,610	\$ (496,138)	\$ 123,472

Accounts receivable represent balances due from recipients of grant and other financial assistance programs, and reimbursable agreements from other Federal agencies. They are recorded at their estimated net realizable value. Estimates for the allowance for loss on uncollectible accounts are based on historical data.

The intragovernmental accounts receivable increase is due primarily to a reimbursable agreement with the U. S. Department of Health and Human Services. The governmental accounts receivable increase is attributable to program and audit findings for FFEL and Direct Loans.

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Note 6. General Property, Plant and Equipment

General Property, Plant and Equipment at September 30 (Dollars in Thousands)						
	FY 2002			FY 2001		
	Asset Cost	Accumulated Depreciation	Net Asset Value	Asset Cost	Accumulated Depreciation	Net Asset Value
IT Equipment	\$ 53,815	\$ (18,433)	\$ 35,382	\$ 28,393	\$ (4,732)	\$ 23,661
Furniture and Fixtures	1,916	(504)	1,412	1,563	(156)	1,407
Building Improvements	173	(52)	121	173	(18)	155
Total General Property, Plant and Equipment	\$ 55,904	\$ (18,989)	\$ 36,915	\$ 30,129	\$ (4,906)	\$ 25,223

Information Technology Equipment consists of computer hardware and related software. The majority of these costs represent the continuing acquisition and implementation of a new financial accounting system. Furniture and fixtures and building improvements are related to renovating and furnishing new quarters for FSA.

Beginning in FY2001, the capitalization policy was modified to include the capitalization of single items with a cost of \$50,000 or more.

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Note 7. Treasury Debt

At September 30, 2002, the Department's Debt to the U.S. Treasury and the Federal Financing Bank (FFB) was \$89.7 billion and \$.07 billion, respectively. The table below depicts the change in debt from October 1, 2001 to September 30, 2002:

Treasury Debt at September 30 (Dollars in Thousands)					
U. S. Treasury					
	Direct Student Loans	Facilities Loans	Total	FFB	Total
	FY 2002	FY 2002	FY 2002	FY 2002	FY 2002
Beginning Balance	\$ 77,189,105	\$ 266,732	\$ 77,455,837	\$ 31,582	\$ 77,487,419
Accrued Interest	-	15,000	15,000	473	15,473
New Borrowing	20,604,901	-	20,604,901	41,614	20,646,515
Repayments	(8,296,136)	(66,790)	(8,362,926)	(4,334)	(8,367,260)
Ending Balance	\$ 89,497,870	\$ 214,942	\$ 89,712,812	\$ 69,335	\$ 89,782,147

At September 30, 2001, the Department's Debt to the U.S. Treasury and the Federal Financing Bank (FFB) was \$77.5 billion and \$.03 billion, respectively. The table below depicts the change in debt from October 1, 2000 to September 30, 2001:

Treasury Debt at September 30 (Dollars in Thousands)					
U. S. Treasury					
	Direct Student Loans	Facilities Loans	Total	FFB	Total
	FY 2001	FY 2001	FY 2001	FY 2001	FY 2001
Beginning Balance	\$ 65,346,881	\$ 374,915	\$ 65,721,796	\$ 20,699	\$ 65,742,495
Accrued Interest	-	16,504	16,504	233	16,737
New Borrowing	20,703,739	2,374	20,706,113	10,983	20,717,096
Repayments	(8,861,515)	(127,061)	(8,988,576)	(333)	(8,988,909)
Ending Balance	\$ 77,189,105	\$ 266,732	\$ 77,455,837	\$ 31,582	\$ 77,487,419

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Funds were borrowed to provide funding for direct loans to students and facilities loan programs. In addition, the FFB holds bonds issued by the Department on behalf of the HBCU Capital Financing Program. The Department reports the corresponding liability for full payment of principal and accrued interest as a payable to the FFB under rules established by the Credit Reform Act of 1990.

The level of repayments on borrowings to Treasury is derived from many factors:

- Beginning of the year cash balance, collections, borrowings, interest revenue, disbursements, and interest expense have an impact on the available cash to repay Treasury.
- Cash is held to cover future liabilities such as contract collection costs and disbursements in transit.

The Department's FY 2002 repayment was less than the previous year based on changes in the factors above.

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Note 8. Payable to Treasury

At September 30, 2002 and 2001, the Department reported \$4.7 billion and \$4.2 billion, respectively, as payable to the U.S. Treasury for estimated liquidating fund future cash inflows in excess of outflows and for downward re-estimates of subsidy, as shown in the table below:

Payable to the Treasury at September 30 (Dollars In Thousands)		
	<u>FY 2002</u>	<u>FY 2001</u>
Future Excess Liquidating Account Collections – FFEL	\$ 2,007,080	\$ 1,506,429
FFEL Downward Subsidy Re-estimate	2,706,126	2,706,126
Total Payable to Treasury	\$ 4,713,206	\$ 4,212,555

In accordance with the Credit Reform Act, the liquidating fund pays monies to Treasury each year based on available fund balances, and the financing funds pay the liability related to downward subsidy re-estimates. The payable associated with the FY 2001 FFEL Downward Subsidy Re-estimate was not paid to Treasury and accordingly, was carried forward into FY 2002.

The Department has the authority to borrow from Treasury for the Direct Loan program. The amount of this authority is established each year with the OMB. Borrowing authority, in and of itself, does not establish a payable to Treasury. Having no programmatic impact, unused annual borrowing authority that is not obligated is withdrawn.

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Note 9. Other Liabilities and Federal Employee and Veteran Benefits

Other liabilities covered by budgetary resources include current liabilities for contractual services, administrative services, deferred credit, liability for deposit funds, contingent liabilities and custodial liabilities. Other liabilities not covered by budgetary resources include the current liability for unfunded accrued annual leave and the non-current liabilities for unfunded accrued FECA and actuarial FECA disability benefits.

Other Liabilities and Federal Employee and Veteran Benefits				
at September 30				
(Dollars in Thousands)				
	FY 2002		FY 2001	
	Intra- governmental	Governmental	Intra- governmental	Governmental
Other Liabilities:				
Other Liabilities Covered by Budgetary Resources	\$ 168,671	\$ 244,013	\$ 52,408	\$ 321,195
Other Liabilities Not Covered by Budgetary Resources	17,242	217,261	4,018	25,777
	<u>185,913</u>	<u>461,274</u>	<u>56,426</u>	<u>346,972</u>
Federal Employee and Veteran Benefits:				
Other Liabilities Not Covered by Budgetary Resources	-	21,664	-	22,723
Total Other Liabilities and Federal Employee and Veteran Benefits	\$ 185,913	\$ 482,938	\$ 56,426	\$ 369,695

Total Other Liabilities Covered by Budgetary Resources (Intragovernmental and Governmental) were \$412.7 million in FY 2002 and \$373.6 million in FY 2001. Total Other Liabilities Not Covered by Budgetary Resources (Intragovernmental and Governmental) was \$256.2 million in FY 2002 and \$52.5 million in FY 2001.

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Note 10. Accrued Grant Liability

At September 30, 2002 and 2001, the accrued grant liability totaled \$1.7 billion and \$1.9 billion, respectively. The nature of the Department's accrued grant liability was discussed in Note 1. The components by internal reporting groups are shown in the table below:

Accrued Grant Liability at September 30 (Dollars in Thousands)		
	<u>FY 2002</u>	<u>FY 2001</u>
FSA	\$ 749,376	\$ 899,180
OESE	337,043	298,203
OSERS	220,219	303,824
OVAE	61,155	45,419
OPE	272,394	187,077
OERI	55,749	61,934
OELA	25,341	59,304
Total Accrued Grant Liability	\$ 1,721,277	\$ 1,854,941

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Note 11. Net Position

The nature of the Department's net position was discussed in Note 1, and the components are set forth in the statement of changes in net position. The table below reports the composition of appropriations which have not been used to fund goods and services received or benefits provided as of year-end.

Unexpended Appropriations at September 30 (Dollars in Thousands)		
	<u>FY 2002</u>	<u>FY 2001</u>
Unobligated		
Available	\$ 2,077,966	\$ 2,209,285
Not Available	400,571	283,903
Undelivered Orders	36,642,667	28,198,630
Total Unexpended Appropriations	\$ 39,121,204	\$ 30,691,818

Undelivered orders and unobligated balances for Federal credit financing and liquidating funds are not included in the chart above because they are not funded through appropriations. As a result, unobligated and undelivered order balances in the chart above will differ from these balances in the Combined Statement of Budgetary Resources.

The Department had Cumulative Results of Operations of (\$3.8) billion as of September 30, 2002, and (\$2.0) billion as of September 30, 2001. Cumulative results of operations arise from unfunded expenses, capital equipment purchases and upward loan subsidy re-estimates. Upward re-estimate expense contributing to the balance of Cumulative Results of Operations for the Direct Loan Program was \$1.6 billion and \$2.1 billion for FY 2002 and FY 2001, respectively. The FFEL Program expensed \$.2 billion in FY 2002 as an upward subsidy re-estimate. As agreed with OMB, the Department has not executed subsidy re-estimates for budgetary purposes. Upon such execution, the Department will receive an appropriation that will reduce net cost and eliminate Cumulative Results of Operations.

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Note 12. Interest Revenue and Expense

For the Direct Loan program, non-Federal interest revenue is earned on the individual non-defaulted loans in the loan portfolio and Federal interest is earned on the uninvested fund balances with Treasury. For the Direct Loan program, interest expense is incurred on the Department's borrowings from Treasury. For the FFEL program, Federal interest revenue is earned on the uninvested fund balance with Treasury in the financing fund. Program A, Enhancement of Post Secondary and Adult Education includes the Direct Loan Program and the FFEL Program.

The interest revenues and expenses directly attributable to the Direct Loan Program, the FFEL Program, and other remaining programs are summarized below:

Interest Revenue and Expenses								
For the Years Ended September 30								
(Dollars in Thousands)								
	Direct Student Loans		FFEL Program		Other Programs		Total	
	FY 2002	FY 2001	FY 2002	FY 2001	FY 2002	FY 2001	FY 2002	FY 2001
Interest Revenue:								
Federal	\$ 972,063	\$1,061,471	\$415,719	\$460,717	\$ 76	\$ 183	\$1,387,858	\$1,522,371
Non-Federal	4,743,677	4,039,690	-	-	38,908	18,561	4,782,585	4,058,251
Total Interest Revenue	\$5,715,740	\$5,101,161	\$415,719	\$460,717	\$38,984	\$18,744	\$6,170,443	\$5,580,622
Interest Expense:								
Federal	\$5,715,740	\$5,101,161	\$415,719	\$460,717	\$17,933	\$16,167	\$6,149,392	\$5,578,045
Non-Federal	(20)	183	15	159	3,605	69	3,600	411
Total Interest Expense	\$5,715,720	\$5,101,344	\$415,734	\$460,876	\$21,538	\$16,236	\$6,152,992	\$5,578,456

Note 13. Imputed Financing

The Statement of Changes in Net Position recognized an imputed financing source of \$23.8 million for the year ended September 30, 2002, and \$20.6 million for the year ended September 30, 2001. Corresponding imputed post-employment benefit expenses are recognized on the Statement of Net Cost as a program cost under salaries and administrative expense for both fiscal years. Imputed financing is discussed further in Note 1.

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Note 14. Statement of Budgetary Resources

The Statement of Budgetary Resources compares budgetary resources with the status of those resources. As of September 30, 2002, budgetary resources were \$104.4 billion and outlays for the year were \$56.1 billion.

Budgetary Resources

The nature of budgetary resources was discussed in Note 1.

Apportionment Categories of Obligations Incurred

The Department receives apportionments of its resources from OMB. Category A apportionments are those for resources which can be obligated without restriction on the purpose of the obligation, other than to be in compliance with legislation underlying programs for which the resources were made available. Category B apportionments are restricted by purpose for which obligations can be incurred. In addition, some resources are available without apportionment by OMB.

The apportionment categories of obligations incurred during FY 2002 are summarized below:

Apportionment Categories of Obligations Incurred For the Years Ended September 30 (Dollars in Thousands)				
	Category A	Category B	Exempt from Apportionment	Total
Direct	\$ 1,233,557	\$ 90,423,051	\$ 209,057	\$ 91,865,665
Reimbursable	-	70,814	-	70,814
Total Apportionment Categories of Obligations Incurred	\$ 1,233,557	\$ 90,493,865	\$ 209,057	\$ 91,936,479

Adjustments to Beginning Balance of Budgetary Resources

Guaranty Agency reserves are non-entity assets that the Department collects and holds on behalf of the U.S. Government. These balances represent the Federal government's interest in net assets of state and non-profit FFEL Program Guaranty Agencies (see Note 1). In FY 2002, the Department reclassified Guaranty Agency reserves from a receivable to "Cash and Other Monetary Assets" (see Note 3). This reclassification, for amounts prior to October 1, 2001, is reflected on the Statement of Budgetary Resources as an upward adjustment of \$2.5 billion to the beginning unobligated balance.

The beginning balance for unobligated balances was adjusted for approximately \$4.8 million. During FY 2002, the Department determined the beginning balance for unobligated balances in appropriation X0201-Higher Education was understated. The understatement was due to an incorrect closing entry recorded in FY 1999. The correction was recorded in the general ledger during FY 2002 as an adjustment to unobligated balances, beginning balances.

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Permanent Indefinite Appropriation

The Federal Direct Student Loan Program and the FFEL Program were granted permanent indefinite appropriation budget authority through legislation. Part D of the William D. Ford Federal Direct Loan Program and part B of the Federal Family Education Loan program, pursuant to the HEA of 1965, pertains to the existence, purpose, and availability of this permanent indefinite appropriations authority.

Unused Borrowing

The Department is given authority to draw funds from the U.S. Treasury to help finance the majority of its direct lending activity in accordance with its needs. Unliquidated Borrowing Authority is considered a budgetary resource and is available to support obligations at the end of the fiscal year. The Department periodically reviews its borrowing authority balances and cancels unused amounts. Unused Borrowing Authority as of September 30, 2002, and September 30, 2001, was determined as follows:

Unused Borrowing Authority from Treasury at September 30 (Dollars in Thousands)		
	<u>FY 2002</u>	<u>FY 2001</u>
Beginning Balance, Unused Borrowing Authority	\$ 3,571,406	\$ 4,818,734
Current Year Borrowing Authority	22,045,839	21,831,507
Funds Drawn From Treasury	(20,644,289)	(20,714,722)
Prior Year Unused Borrowing Authority Cancelled	(20,082)	(2,364,113)
Ending Balance, Unused Borrowing Authority	\$ 4,952,874	\$ 3,571,406

Comparison to the Budget of the United States Government

Statement of Federal Financial Accounting Standards No. 7 (*SFFAS No. 10*), *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires an explanation of material differences between budgetary resources available, the status of those resources and outlays as presented in the statement of budgetary resources to the related actual balances published in the *Budget of the United States Government*. However, the *Budget of the United States Government* has not yet been published. The Budget is scheduled for publication in February 2003 and will be available through OMB. Accordingly, information required for such disclosure is not available at the time of publication of these financial statements.

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Note 15. Statement of Financing

The Statement of Financing provides information on the total resources used by an agency, both those received through budgetary resources and those received through other means during the reporting period. The statement reconciles these resources with the net cost of operations by (1) removing resources which do not fund net cost of operations and (2) including components of net cost of operations that did not generate or use resources during the year.

The Statement of Financing is presented as a consolidated statement for the Department and its major programs. Net interagency eliminations are presented for proprietary amounts. The budgetary amounts are reported on a combined basis as presented in the Statement of Budgetary Resources (SBR). Accordingly, net interagency eliminations for budget amounts are not presented.

The relationship between the amounts reported as liabilities not covered by budgetary resources on the balance sheet and amounts reported as components requiring or generating resources in future periods on the statement of financing were analyzed. The differences are primarily due to the increase in custodial liability, which does not generate net cost of operations or require the use of budgetary resources.

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Note 16. Cost and Earned Revenue by Budget Function

The Department's gross costs and revenue, by budget function for September 30, 2002 and 2001, are presented below:

Gross Cost and Earned Revenue by Budget Function For the Years Ended September 30 (Dollars in Thousands)						
	FY 2002			FY 2001		
	Gross Costs	Earned Revenue	Net Costs	Gross Costs	Earned Revenue	Net Costs
Education, Training Employment and Social Services	\$55,806,127	\$(6,157,322)	\$49,648,805	\$45,250,504	\$(5,586,645)	\$39,663,859
Administration of Justice	116,874	(2)	116,872	144,235	(131)	144,104
Total	\$55,923,001	\$(6,157,324)	\$49,765,677	\$45,394,739	\$(5,586,776)	\$39,807,963

The Department's intragovernmental gross costs and revenue, by budget function for September 30, 2002 and 2001 are presented below:

Intragovernmental Gross Cost and Earned Revenue by Budget Function For the Years Ended September 30 (Dollars in Thousands)						
	FY 2002			FY 2001		
	Gross Costs	Earned Revenue	Net Costs	Gross Costs	Earned Revenue	Net Costs
Education, Training Employment and Social Services	\$6,579,028	\$(1,390,263)	\$5,188,765	\$5,871,390	\$(1,522,413)	\$4,348,977
Administration of Justice	13,275	(2)	13,273	12,658	-	12,658
Total	\$6,592,303	\$(1,390,265)	\$5,202,038	\$5,884,048	\$(1,522,413)	\$4,361,635

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Note 17. Program Costs by Segment

The format of the Statement of Net Cost was changed to be in compliance with OMB Bulletin 01-09, Form and Content of Agency Financial Statements. Specifically, responsibility segments were aligned with the major goals of the Department of Education's Strategic Plan (2002-2007), as required by the Government Performance and Results Act (GPRA).

Responsibility segments were aligned with the following Strategic Goals:

- Enhance the quality and access to postsecondary and adult education
- Create a culture of achievement
- Improve student achievement
- Develop safe schools and strong character
- Transform education into an evidence-based field

The importance of Special Education was highlighted by maintaining a separate responsibility segment for this on the face of the Statement of Net Cost.

Program A on the Statement of Net Cost relates directly to Strategic Goal 5: "Enhance the quality and access to postsecondary and adult education." It combines the reporting groups of Federal Student Aid, the Office of Vocational and Adult Education, and the Office of Postsecondary Education. Program B relates directly to Strategic Goals 1, 2, and 3: "Create a culture of achievement, Improve student achievement, and Develop safe schools and strong character". Program B combines the Office of Elementary and Secondary Education and the Office of English Language Acquisition. Program C relates to Strategic Goal 4: "transform education into an evidenced-based field", and includes the Office of Educational Research and Improvement. Finally, Program D relates to special education and Program Execution and includes the Office of Special Education and Rehabilitative Services.

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Note 18. Contingencies

Guaranty Agencies

The Department can assist Guaranty Agencies experiencing financial difficulties by advancing funds or by other means. No provision has been made in the principal statements for potential liabilities related to financial difficulties of Guaranty Agencies because the likelihood of such occurrences is uncertain and cannot be estimated with sufficient reliability.

Perkins Loans Reserve Funds

The Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. The Department provides funds to participating schools to provide about 85.5 percent of the capital used to make loans to eligible students at 5 percent interest. The school provides the remaining 14.5 percent of program funding. For the latest academic year ended June 30, 2002, approximately 663,527 loans were made, totaling approximately \$1.2 billion at approximately 1,790 institutions, averaging \$1,872 per loan. For the academic year ended June 30, 2001, approximately 620,000 loans were made, totaling approximately \$1.1 billion at approximately 1,761 institutions, averaging \$1,790 per loan. The Department's share of the Perkins Loan Program was approximately \$6.5 billion as of September 30, 2002, and approximately \$6.1 billion as of September 30, 2001.

Perkins Loan borrowers who meet statutory eligibility requirements—such as service as a teacher in low-income areas, as a Peace Corps or VISTA volunteer, in the military or in law enforcement, nursing, or family services—may receive partial loan forgiveness for each year of qualifying service. In these circumstances a contingency is deemed to exist. The Department may be required to compensate Perkins Loan institutions for the cost of the partial loan forgiveness.

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. Judgments resulting from litigation against the Department are paid by the Department of Justice. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial statements. There is a nationwide class action composed of borrowers seeking to recover amounts collected by the Department for collection costs that exceed the limits on those costs contained in their promissory notes. Approximately two-thirds of the Department's FFELP loans limit collection costs to 25 percent of principal and interest collected. The Department charged collection costs on these accounts equivalent to approximately 28 percent of the gross amount of payments received. A settlement agreement was reached and given preliminary approval by the court. The estimated total loss from this claim is approximately \$18 million.

Other Matters

Some portion of the current year financial assistance expenses (grants) may include funded recipient expenditures which were 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 statements.

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Note 19. Guaranty Agency Receivable Adjustment

The Department has performed a reconciliation of its FFEL Program Credit Program Receivables disclosed in Note 4 that are maintained by the Guaranty Agencies. The Guaranty Agencies maintain these balances on behalf of the Department commensurate with their loan servicing agreement. As a result of this reconciliation, the Department has adjusted its FY 2001 loans receivable beginning balance downward by \$1.27 billion. Consistent with the Department's practice of recording loans, the offsetting allowance for subsidy was reduced by the same amount. The adjustment of loans receivable and allowance for subsidy has no effect on the Credit Program Receivable, Net amount on the Balance Sheet.

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INVESTMENT IN HUMAN CAPITAL

The U. S. Department of Education executes programs under the Education, Training, and Employment and Social Services function established by Congress in the Budget Act of 1974. This report presents Human Capital activity related to the execution of the Department's congressionally approved budget and programs.

Narrative Discussion

The Department of Education's mission is to ensure equal access to education and to promote educational excellence throughout the nation. To carry out this mission, the Department works in partnership with States, schools, communities, institutions of higher education and financial institutions - and through them, with students, teachers and professors, families, administrators, and employers. Key functions of the partnership are:

- Leadership to address critical issues in American education.
- Grants to education agencies and institutions to strengthen teaching and learning and prepare students for citizenship, employment in a changing economy, and lifelong learning.
- Student loans and grants to help pay for the costs of postsecondary education.
- Grants for literacy, employment, and self-sufficiency training for adults.
- Monitoring and enforcement of civil rights to ensure nondiscrimination by recipients of federal education funds.
- Support for statistics, research, development, evaluation, and dissemination of information to improve educational quality and effectiveness.

HUMAN CAPITAL

Federal investment in Human Capital comprises those expenses for general public education and training programs that are intended to increase or maintain national economic productive capacity. The Department of Education's Human Capital programs include Elementary and Secondary, Postsecondary, Student Financial Assistance, Special and Rehabilitative Education, Research and Improvement, English Language Acquisition, and Vocational and Adult Education.

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Elementary and Secondary Education

The Office of Elementary and Secondary Education provides leadership, technical assistance, and financial support to State and local educational agencies for maintenance and improvement of preschool, elementary, and secondary education.

Compensatory Education Programs provide financial assistance to State and local education agencies and other institutions to support services for children in high poverty schools, institutions for neglected and delinquent children, homeless children, and certain Indian children.

The Comprehensive School Reform Demonstration Program provides grants to States to help public schools adopt or develop effective comprehensive school reforms with an emphasis on basic academics and parental involvement.

Goals 2000 Programs provide grants to support State and local district efforts to improve schools and parental involvement in schools so all children can reach challenging academic standards.

The Impact Aid Program provides financial assistance for the maintenance and operations of school districts in which the Federal Government has acquired substantial real property. It provides direct assistance to local educational agencies that educate substantial numbers of federally connected pupils (children who live on, or whose parents work on, Federal property).

Indian Education supports the efforts of local educational agencies, Indian tribes, and other entities to meet the academic needs of American Indians and Alaska Natives so these students can achieve to the same State performance standards as all students.

Migrant Education Programs support high-quality comprehensive educational programs for migratory children to address disruptions in schooling and other problems that result from repeated moves.

Office of Safe and Drug-Free Schools (OSDFS) programs provide leadership to ensure that all schools are free of drugs and violence and the unauthorized presence of firearms and alcohol and that all schools offer a disciplined environment that is conducive to learning.

Academic Improvement and Demonstration Programs Unit provide financial assistance to State and Local Educational Agencies, institutions of higher education, and other public and private nonprofit organizations for general assistance, projects to meet special educational needs of target children and teacher development.

Class Size Reduction Program is an initiative to help schools improve student learning by hiring additional, highly qualified teachers so children — especially those in the early elementary grades — can attend smaller classes.

The 21st Century Community Learning Centers Program provides support to extended-learning projects that keep children safe and provide academic enrichment and other recreational and enrichment opportunities such as band, drama, art, and other cultural events for children. It also provides life-long learning opportunities for community members.

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The Community Technology Centers Program expands access to information technology and learning services by creating computer learning centers in low-income communities. The centers are used for pre-school preparation, workforce development, after-school enrichment, and adult and continuing education.

The Reading Excellence Program helps children learn to read through instruction based on research, professional development, family literacy, and extended learning activities.

Postsecondary Education

The Office of Postsecondary Education formulates policy and coordinates programs that assist postsecondary educational institutions and students pursuing a postsecondary education.

Policy, Planning, and Innovation supports The Fund for the Improvement of Postsecondary Education, which provides grants to colleges and universities to promote reform, innovation, and improvement in postsecondary education.

Higher Education Programs (HEP) administer discretionary funds and provide support services that improve student access to postsecondary education and foster excellence in institutions of higher education.

Learning Anytime Anywhere Partnerships (LAAP) - The Office of Postsecondary Education supports partnerships among colleges, businesses, and other organizations to promote technology-mediated distance education that is not limited by time or place.

Office of Federal Student Aid (FSA) Programs

FSA administers need-based financial assistance programs for students pursuing postsecondary education. The Department makes available federal grants, loans and work-study funding to eligible undergraduate and graduate students.

The Department's two major loan programs are the Federal Family Education Loan Program (FFELP) and the William D. Ford Direct Student Loan Program. The FFELP operates with State and private nonprofit guaranty agencies to provide loan guarantees and interest supplements through permanent budget authority on loans by private lenders to eligible students. The William D. Ford Direct Student Loan Program is a direct lending program in which loan capital is provided to students by the Federal Government through borrowing from the U.S. Treasury.

Special Education and Rehabilitative Services

The Office of Special Education and Rehabilitative Services supports programs that assist in educating children with special needs. It provides for the rehabilitation of youth and adults with disabilities and supports research to improve the lives of individuals with disabilities.

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The Office of Special Education Programs administers programs and projects relating to the free public education of all children, youth, and adults with disabilities from birth through age 21.

Rehabilitation Services Administration oversees programs and projects related to the vocational rehabilitation and independent living of individuals with disabilities to increase their employment, independence, and integration into the community.

The National Institute on Disability and Rehabilitation provides leadership and support for a comprehensive program of research related to the rehabilitation of individuals with disabilities.

Office of Innovation and Improvement

The Office of Educational Research and Improvement is responsible for expanding America's fundamental knowledge and understanding of education through research and development.

Media and Information Services provides leadership in developing effective media and information services for the Office of Innovation and Improvements.

The National Center for Education Statistics fulfills a Congressional mandate to collect, collate, analyze, and report complete statistics on the condition of American education, conduct and publish reports, and review and report on education activities internationally.

The National Institute on Early Childhood Development and Education administers a comprehensive program of research and development to improve early childhood development and education.

The National Institute on the Education of At-Risk Students administers a comprehensive program of research and development for the improvement of education for at-risk students (defined as those who because of limited English proficiency, poverty, race, geographic location, or economic disadvantage face a greater risk of low education achievement or reduced academic expectations).

The National Institute on Educational Governance, Finance, Policymaking, and Management develops and disseminates information to guide the design and implementation of effective governance strategies.

The National Institute on Postsecondary Education, Libraries, and Lifelong Learning provides information about the education and training of adults in a variety of settings including postsecondary institutions, community-based education programs, libraries, and the workplace.

The National Institute on Student Achievement, Curriculum, and Assessment administers a comprehensive program of research and development to provide leadership for states and localities to improve student achievement and enhance student learning.

The National Library of Education (NLE) is the largest federally funded library devoted entirely to education and provides services in three areas: Reference and Information Services, Collection and Technical Services, and Resource Sharing and Cooperation.

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The Office of Reform Assistance and Dissemination supports comprehensive education reform by linking teachers, administrators, parents, policymakers, and the public with the best knowledge from education research, statistics, and practice.

English Language Acquisition

The Office of English Language Acquisition helps school districts meet their responsibility to provide equal education opportunity to limited English proficient children.

Office of Vocational and Adult Education

The Office of Vocational and Adult Education provides funds for vocational-technical education for youth and adults. Most of the funds are awarded in the form of grants to State education agencies.

Stewardship Expenses

In the Department of Education, discretionary spending constitutes approximately 90 percent of the budget and includes nearly all programs, the major exceptions being student loans and rehabilitation services. While spending for entitlement programs is usually a function of the authorizing statutes creating the programs, and is not generally affected by appropriations laws, spending for discretionary programs is decided in the annual appropriations process. Most Department programs are discretionary - for example, Impact Aid, Vocational Education, Special Education, Pell Grants, Research, and Statistics.

Summary of Human Capital Expenses
(Dollars in Thousands)

	FY 2002	FY 2001
<u>Federal Student Aid</u>		
Direct Loan Subsidy Expense	\$ 877,001	\$ 1,307,002
Guaranteed Loan Subsidy Expense	3,988,346	(314,305)
Grant Program Expense	12,255,984	10,812,779
Salaries & Administrative Expense	206,358	248,945
Subtotal	17,327,689	12,054,421
<u>Other Departmental</u>		
Elementary and Secondary Education Expense	16,126,586	13,850,422
Special Education & Rehabilitative Services Expense	9,905,514	8,590,455
Other Departmental Program Expense	4,531,357	3,892,814
Salaries & Administrative Expense	472,366	341,074
Subtotal	31,035,823	26,674,765
Grand Total	\$48,363,512	\$38,729,186

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Intra-Governmental Amounts		
(Dollars in thousands)		
	FY 2002	FY 2001
Assets		
Fund Balance With Treasury	\$52,116,459	\$40,476,338
Accounts Receivable	75,950	10,731
Interest Receivable	-	57
Total Assets	\$52,192,409	\$40,487,126
Liabilities		
Treasury Debt	\$89,782,147	\$77,487,419
Guaranty Agency Federal & Restricted Funds Due to Treasury	1,169,107	2,462,445
Payable to Treasury	4,713,206	4,212,555
Accounts Payable	20,403	22,177
Other Intra-Governmental Liabilities Covered by Budgetary Resources	168,671	52,408
Other Intra-Governmental Liabilities Not Covered by Budgetary Resources	17,242	4,018
Total Liabilities	\$95,870,776	\$84,241,022

Program Outputs

Education is primarily a State and local responsibility in the United States. States and communities, as well as public and private organizations, establish schools and colleges, develop curricula, and determine requirements for enrollment and graduation. The structure of education finance in America reflects this predominantly State and local role. Of the estimated \$732 billion being spent nationwide on education at all levels for the schools year 2001-2002, about 90 percent comes from State, local, and private sources. The Federal contribution to national education expenditures is about 10 percent. The Federal contribution includes educational expenditures not only from the Department, but also from other Federal agencies, such as the Department of Health and Human Services' Head Start program and the Department of Agriculture's School Lunch program. The Department's \$55.8 billion appropriation is about 6 percent of total educational expenditures and about 2.7 percent of the Federal Government's \$2.1 trillion budget in fiscal year 2002.

The Department currently administers programs affecting every area and level of education. The Department's elementary and secondary programs annually serve 15,000 school districts and more than 50 million students attending almost over 92,000 public schools and more than 27,000 private schools. Department programs also provide grant, loan, and work-study assistance to more than 8 million postsecondary students.

While the Department's programs and responsibilities have grown substantially over the years, the Department itself has not. In fact, ED's staff of 4,710 is nearly 40 percent below the 7,528

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employees who administered Federal education programs in 1980, the year the Department was created. These staff reductions, along with a wide range of management improvements, have helped limit administrative costs to less than 3 percent of the Department's budget. This means that ED delivers about 97 cents on the dollar in education assistance to States, school districts, postsecondary institutions, and students.

Program Outcomes

Education is the stepping-stone to higher living standards for American citizens. Education is key to national economic growth. But education's contribution is more than increased productivity and incomes. Education improves health, promotes social change and opens doors to a better future for children and adults.

Economic outcomes, such as wage and salary levels, historically have been determined by the educational attainment of individuals and the skills employers expect of those entering the labor force. Recently, both individuals and society as a whole have placed increased emphasis on educational attainment as the workplace has become increasingly technological and employers now seek employees with the highest level of skills. For prospective employees, the focus on higher-level skills means investing in learning or developing skills through education. Like all investments, developing higher-level skills involves costs and benefits.

Returns, or benefits, of investing in education come in many forms. While some returns accrue for the individual, others benefit society and the Nation in general. Returns related to the individual include higher earnings, better job opportunities, and jobs that are less sensitive to general economic conditions. Returns related to the economy and society includes reduced reliance on welfare subsidies, increased participation in civic activities, and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of completing high school and investing in postsecondary education:

- **Labor Force:** Adults with higher levels of education were most likely to participate in the labor force (including those who were employed and those actively seeking employment) than those with less education. About 80 percent of adults, 25 years old and over with a bachelor's or higher degree, participated in the labor force in 2000 compared with 65 percent of persons who were high school graduates. In contrast, 43 percent of those 25 and older, which were not high school graduates, were in the labor force.

Persons with lower levels of educational attainment were more likely to be unemployed than those who had higher levels of educational attainment. The 2000 unemployment rate for adults (25 years old and over) who had not completed high school was 6.4 percent compared with 3.5 percent of those with 4 years of high school and 1.7 percent for those with a bachelor's degree or higher. Younger people with high school diplomas tended to have higher unemployment rates than persons 25 and over with similar levels of education.

United States Department of Education
Required Supplementary Information
For the Years Ended September 30, 2002 and 2001

- **Annual Income:** Between 1996 and 1999, the median annual income of male full-time year-round workers, when adjusted for inflation, increased by 7 percent and the income for females rose by 5 percent. Women's incomes remain lower than men's incomes, even after adjusting for level of education. The average 1999 incomes for full-time year-round workers with a bachelor's degree were \$52,985 for men and \$37,993 for women.

These returns of investing in education directly translate into the advancement of the American economy as a whole.

Supplementary Information

**United States Department of Education
Departmentwide Consolidating Balance Sheet
As of September 30, 2002**

(Dollars in Thousands)

	Consolidated	Intra-Reporting Group Eliminations	Federal Student Aid	Office of Elementary & Secondary Education	Office of Special Education & Rehabilitative Services	Office of Vocational & Adult Education	Office of Postsecondary Education	Office of Educational Research & Improvement	Office of English Language Acquisition	Department Management
Assets:										
Intragovernmental:										
Fund Balance with Treasury (Note 2)	\$52,116,459		\$21,939,736	\$16,675,088	\$7,387,621	\$1,712,754	\$2,775,700	\$689,650	\$650,975	\$136,675
Accounts Receivable (Note 5)	79,950	\$(165,893)	4,468	60,688	2,548	25	6,425	6,425		167,689
Total Intragovernmental	52,196,409	(165,893)	21,944,204	16,685,776	7,395,669	1,712,779	2,775,700	695,955	650,975	304,364
Cash and Other Monetary Assets (Note 3)	1,204,575		1,204,527	625			1,502			48
Accounts Receivable, Net (Note 5)	168,207		168,200				379,105	328		10,000
Prepaid Expenses (Note 4)	91,364,444		91,364,444							374
Property, Plant and Equipment, Net (Note 6)	36,915		18,028							20,559
Other Assets	38,737		38,737							
Total Assets	\$145,396,989	\$(165,893)	\$114,705,263	\$16,686,401	\$7,389,669	\$1,712,759	\$3,159,307	\$696,283	\$650,975	\$336,325
Liabilities:										
Intragovernmental:										
Accounts Payable	530,403	\$(165,893)	\$11,474	\$145,665	\$1,813	\$86	\$193	\$3,394		\$23,641
Treasury Deposits (Note 7)	69,762,147		69,487,970				284,277			
Grants (Agency/Federal and Restricted Funds Due to Treasury) (Note 3)	1,169,107		1,169,107							
Payable to Treasury (Note 8)	4,713,206		4,713,206							
Other Intragovernmental Liabilities (Note 9)	485,913		4,539	60,739	2,660	130	370	5,949	34	111,383
Total Intragovernmental	95,970,776	\$(165,893)	95,996,196	206,424	4,573	236	284,640	9,242	34	135,034
Accounts Payable	329,839		238,102	25,914	20,942	4,571	18,402	12,302	2,730	6,976
Accrued Grant Liability (Note 10)	1,721,277		749,376	337,043	220,219	81,165	272,354	55,749	25,341	
Liabilities for Loan Guarantees (Note 4)	11,679,393		11,679,393							
Federal Employee and Veterans' Benefits (Note 9)	21,654		4,277	1,221	1,103	636	2,249	1,656	205	9,718
Other Liabilities (Note 9)	481,274		322,687	15,778	5,186	3,599	2,363	20,905	672	89,984
Total Liabilities	\$110,054,223	\$(165,893)	\$109,390,231	\$596,380	\$262,723	\$70,186	\$580,288	\$59,754	\$28,962	\$241,612
Commitments and Contingencies (Note 18)										
Net Position:										
Unexpended Appropriations (Note 11)	\$39,121,204		\$10,225,661	\$16,102,432	\$7,142,270	\$1,644,137	\$2,487,310	\$398,415	\$822,622	\$97,254
Cumulative Results of Operations (Note 11)	(3,836,499)		(3,510,929)	(2,119)	(5,824)	(1,564)	26,729	(12,869)	(639)	(5,541)
Total Net Position	\$35,284,705		\$6,714,732	\$13,980,021	\$1,536,446	\$1,652,573	\$2,514,039	\$585,525	\$822,013	\$91,713
Total Liabilities and Net Position	\$145,396,989	\$(165,893)	\$114,705,263	\$16,686,401	\$7,389,669	\$1,712,759	\$3,159,307	\$696,283	\$650,975	\$336,325

The accompanying notes are an integral part of these statements.

United States Department of Education
 Departmentwide Consolidating Statement of Net Cost
 For the Year Ended September 30, 2002
 (Dollars in Thousands)

	Consolidated	Federal Student Aid	Office of Elementary & Secondary Education	Office of Special Education & Rehabilitative Services	Office of Vocational Education	Office of Postsecondary Education	Office of Educational Research & Improvement	Office of English Language Acquisition	Department Management
Program Costs									
Program A (Enhancement of Post Secondary and Adult Education)									
Intragovernmental Gross Costs	\$6,325,072	\$6,276,055			\$20,393	\$28,624			
Less: Intragovernmental Earned Revenue	1,387,782	1,387,782				28,624			
Intragovernmental Net Costs	4,937,290	4,888,273			20,393				
Gross Costs with the Public	22,155,653	18,286,566			1,805,312	2,063,775			
Less: Earned Revenues from the Public	4,763,805	4,744,213			55	19,539			
Net Costs with the Public	17,391,847	13,542,353			1,805,257	2,044,237			
Program A Total Net Cost	\$22,329,137	\$18,430,626			\$1,825,650	\$2,072,861			
Program B (Creation of Student Achievement, Culture of Achievement and Safe Schools)									
Intragovernmental Gross Costs	\$222,083		\$220,401					\$1,662	
Less: Intragovernmental Earned Revenue									1,662
Intragovernmental Net Costs	222,083		220,401						
Gross Costs with the Public	16,478,489		16,087,104					391,395	
Less: Earned Revenues from the Public	159		139					20	
Net Costs with the Public	16,478,330		16,096,965					391,375	
Program B Total Net Cost	\$16,700,403		\$16,307,995					\$393,037	
Program C (Transformation of Education)									
Intragovernmental Gross Costs	\$27,501						\$27,501		
Less: Intragovernmental Earned Revenue									
Intragovernmental Net Costs	27,501						27,501		
Gross Costs with the Public	674,970						674,970		
Less: Earned Revenues from the Public	1,284						1,284		
Net Costs with the Public	673,686						673,686		
Program C Total Net Cost	\$701,187						\$701,187		
Program D (Special Education and Program Execution)									
Intragovernmental Gross Costs	\$17,667			\$17,667					
Less: Intragovernmental Earned Revenue	2,483			2,483					
Intragovernmental Net Costs	15,184			15,184					
Gross Costs with the Public	10,021,576			10,021,576					
Less: Earned Revenues from the Public	1,810			1,810					
Net Costs with the Public	10,019,766			10,019,766					
Program D Total Net Cost	\$10,034,950			\$10,034,950					
Total Program Net Costs	\$48,785,677	\$18,430,626	\$16,307,366	\$10,034,950	\$1,825,650	\$2,072,861	\$701,187	\$393,037	\$0
Unassigned Programs									
Costs not assigned to programs									
Less: Earned Revenues not attributed to programs									
Net Costs not assigned to programs									
Net Cost of Operations (Note 16)	\$48,785,677	\$18,430,626	\$16,307,366	\$10,034,950	\$1,825,650	\$2,072,861	\$701,187	\$393,037	\$0

The accompanying notes are an integral part of these statements.

United States Department of Education
Departmentwide Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2002

Page 1 of 2

(Dollars in Thousands)

	Consolidated		Federal Student Aid		Office of Elementary & Secondary Education		Office of Special Education & Rehabilitative Services		Office of Vocational & Adult Education	
	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations
Beginning Balance	\$ (2,039,931)	\$ 30,691,818	\$ (2,114,625)	\$ 9,738,795	\$ (2,785)	\$ 11,400,664	\$ (163)	\$ 5,335,102	\$ (1,471)	\$ 1,511,642
Beginning Balance, As Adjusted	\$ (2,039,931)	\$ 30,691,818	\$ (2,114,625)	\$ 9,738,795	\$ (2,785)	\$ 11,400,664	\$ (163)	\$ 5,335,102	\$ (1,471)	\$ 1,511,642
Budgetary Financing Sources										
Appropriations Received		\$ 57,087,703		\$ 18,425,874		\$ 21,018,240		\$ 11,784,931		\$ 1,934,060
Appropriations Transferred - In/Out (+/-)		(500)		815		815		(40,442)		(6,471)
Other Adjustments (+/-)		(198,500)		(21,203)		(80,695)		(9,537,321)		(1,795,094)
Appropriations Used	\$ 48,463,506	(48,459,317)	\$ 16,918,605	(16,918,605)	\$ 16,243,589	(16,244,369)	\$ 9,937,026	(9,537,321)	\$ 1,795,094	(1,795,094)
Donations/Forfeitures of Cash	485									
Other Financing Sources										
Transfers In/Out Without Reimbursements (+/-)	(37)									
Imputed Financing (Note 13)	23,750		229,139		64,148		92,663		30,463	
Other (+/-)	(520,544)		(513,322)							
Total Financing Sources	\$ 47,967,170	\$ 8,428,396	\$ 16,634,422	\$ 1,467,096	\$ 16,307,737	\$ 4,701,771	\$ 10,025,689	\$ 1,607,169	\$ 1,825,557	\$ 132,495
Net Cost of Operations (+/-)	\$ (49,765,677)		\$ (18,430,626)		\$ (16,307,366)		\$ (10,034,950)		\$ (1,825,650)	
Ending Balances (Note 11)	\$ (3,838,438)	\$ 39,121,204	\$ (3,910,829)	\$ 10,225,861	\$ (2,414)	\$ 16,102,435	\$ (5,424)	\$ 7,142,270	\$ (1,564)	\$ 1,644,137

The accompanying notes are an integral part of these statements.

United States Department of Education
Departmentwide Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Office of Postsecondary Education			Office of Educational Research & Improvement			Office of English Language Acquisition			Department Management		
	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations
Beginning Balance, As Adjusted	\$66,870	\$2,241,554	\$(3,946)	\$790,474	\$(497)	\$547,781	\$(13,314)	\$125,809	\$(13,314)	\$125,809		
Budgetary Financing Sources												
Appropriations Received		\$2,271,862		\$443,870		\$685,000		\$542,866		\$685,000		\$542,866
Appropriations Transferred - In/Out (+/-)		(3,000)		(6,315)		(731)		3,731		(731)		3,731
Other Adjustments (+/-)		(16,370)		(3,946)		(7,631)		(21,542)		(7,631)		(21,542)
Appropriations Used	\$2,012,316	(2,006,796)	\$621,407	(821,666)	\$381,897	(381,897)	\$553,572	(553,607)				
Donations/Contributions of Cash							465					
Other Financing Sources												
Transfers In/Out Without Reimbursements (+/-)	(27)				11,128		(544,284)					
Imputed Financing (Note 13)	\$9,653		60,840									
Other (+/-)	(7,222)											
Total Financing Sources	\$2,084,720	\$245,796	\$702,247	\$(191,059)	\$393,025	\$274,741	\$8,773	\$28,532				
Net Cost of Operations (+/-)	\$(2,072,861)		\$(701,187)		\$(393,037)							
Ending Balance (Note 11)	\$88,729	\$2,487,310	\$(2,885)	\$599,415	\$(509)	\$822,522	\$(3,541)	\$97,254	\$(3,541)	\$97,254		

The accompanying notes are an integral part of these statements.

**United States Department of Education
Departmentwide Combining Statement of Budgetary Resources
For the Year Ended September 30, 2002**

(Dollars in Thousands)

	Combined		Federal Student Aid		Office of Elementary & Secondary Education		Office of Special Education & Rehabilitative Services		Office of Vocational & Adult Education	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:										
Budget Authority	\$57,086,247	\$1,941	\$18,426,874	\$21,906,839	\$21,019,240	\$11,784,931			\$1,634,060	
Appropriations Received										
Encroaching Authority										
Net Transfers	(500)				8,616					
Unobligated Balance										
Beginning of Period	2,643,777	5,084,863	1,646,189	5,094,983	729,683	142,408			66,987	
Beginning of Period Adjustments (Note 14)	2,482,446		2,462,446							
Net Transfers, Actual (+/-)	867									
Standing Authority From Offsetting Collections										
Earned	2,571,029	22,634,614	2,527,286	22,612,536	23	63			25	
Collected	67,681	(57)			60,538	591			25	
Receivable From Federal Sources	\$2,639,220	\$22,634,557	\$2,527,286	\$22,612,536	\$60,561	\$684			\$51	
Recoveries of Prior Year Obligations	837,983	22,042	441,210	7,887	270,471	34,502			8,176	
Permanently Not Available	(2,719,035)	(6,326,714)	(2,501,434)	(8,296,136)	(82,589)	(40,441)			(6,471)	
Total Budgetary Resources (Note 14)	\$52,949,434	\$41,473,628	\$20,002,510	\$41,416,069	\$22,005,201	\$11,922,055			\$2,003,803	
States of Budgetary Resources:										
Obligations Incurred (Note 14)										
Direct	\$58,196,677	\$33,668,898	\$19,477,869	\$33,610,770	\$21,119,901	\$11,747,460			\$1,943,250	
Reimbursable	70,814				80,555	2,347			26	
Subtotal	\$58,267,491	\$33,668,898	\$19,477,869	\$33,610,770	\$21,180,456	\$11,749,807			\$1,943,276	
Unobligated Balance:										
Appropriated	3,091,706	1,119,601	2,046,230	1,119,800	793,714	158,538			57,462	
Unobligated Balance Not Available	1,590,237	6,685,039	1,478,381	6,664,689	31,031	15,710			3,065	
Total Status of Budgetary Resources	\$62,949,434	\$41,473,628	\$20,002,510	\$41,416,069	\$22,005,201	\$11,922,055			\$2,003,803	
Relationship of Obligations to Outlays:										
Obligated Balance, Net, Beginning of Period	\$30,488,796	\$5,618,208	\$8,406,634	\$5,577,030	\$11,004,528	\$5,317,160			\$1,495,604	
Obligated Balance, Net, End of Period	(73,845)	6,802,243	8,856,661	8,776,923	(66,688)	(2,546)			(25)	
Accounts Receivable	36,689,040				15,338,232	6,971,566			1,589,635	
Accounts Payable	2,346,257	9,370	1,033,183	9,370	522,801	245,737			68,586	
Outlays:										
Disbursements	46,870,249	32,453,897	17,526,479	32,399,699	16,053,630	10,017,101			1,777,472	
Collections	(2,571,029)	(22,634,614)	(2,527,286)	(22,612,536)	(23)	(63)			(26)	
Subtotal	\$46,299,220	\$9,819,283	\$14,999,193	\$9,787,163	\$16,053,607	\$10,017,038			\$1,777,446	
Less: Offsetting Receipts	39,069				39,041					
Net Outlays (Note 14)	\$46,260,152	\$9,818,983	\$14,960,152	\$9,751,163	\$16,053,607	\$10,017,038			\$1,777,446	

The accompanying notes are an integral part of these statements.

**United States Department of Education
Departmentwide Combining Statement of Budgetary Resources
For the Year Ended September 30, 2002**

(Dollars in Thousands)

	Office of Postsecondary Education		Office of Educational Research & Improvement		Office of English Language Acquisition		Department Management	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:								
Budget Authority:								
Appropriations Received	\$2,289,921	\$1,341	\$443,970	\$865,000	\$543,351			
Borrowing Authority		50,000						
Net Transfers	(3,000)		(6,315)	(731)	3,731			
Unobligated Balance:								
Beginning of Period	36,683		6,662	5,033	10,901			
Beginning of Period Adjustments (Note 14)								
Net Transfers, Actual (+/-)	887							
Spending Authority From Offsetting Collections:								
Earned	40,769	22,078	150		2,712			
Collected	80	(57)	6,185		92			
Receivable From Federal Sources								
Subtotal	\$40,849	\$22,021	\$6,315		\$2,804			
Recoveries of Prior Year Obligations	37,186	14,175	8,890	9,246	26,412			
Permanently Not Available	(64,942)	(29,678)	(3,946)	(7,631)	(21,641)			
Total Budgetary Resources (Note 14)	\$2,327,554	\$88,559	\$451,706	\$670,977	\$552,856			
Status of Budgetary Resources:								
Obligations Incurred (Note 14)	\$2,270,462	\$68,218	\$438,583	\$652,585	\$546,547			
Direct								
Reimbursable								
Subtotal	\$2,270,462	\$68,218	\$444,936	\$652,585	\$546,000			
Unobligated Balance:								
Apportioned	23,444	1	474	12,048	2,796			
Unobligated Balance Not Available	33,678	240	6,296	6,294	4,782			
Total Status of Budgetary Resources	\$2,327,554	\$68,559	\$451,706	\$670,977	\$552,856			
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	\$2,401,649	\$41,116	\$378,229	\$600,438	\$150,554			
Obligated Balance, Net, End of Period:								
Accounts Receivable	(90)		(6,425)		(4,078)			
Undelivered Orders	2,421,307	25,320	589,224	804,190	65,215			
Accounts Payable	292,109		89,362	26,453	65,417			
Outlays:								
Disbursements	1,921,509	59,888	625,350	414,133	534,575			
Collections	(45,769)	(22,078)	(150)		(2,712)			
Subtotal	\$1,886,740	\$37,820	\$625,200	\$414,133	\$531,863			
Less: Offsetting Receipts	27							
Net Outlays (Note 14)	\$1,886,713	\$37,820	\$625,200	\$414,133	\$531,863			

The accompanying notes are an integral part of these statements.

**United States Department of Education
Departmentwide Consolidating Statement of Financing
For the Year Ended September 30, 2002**

(Dollars in Thousands)

	Consolidated	Federal Student Aid	Office of Elementary and Secondary Education	Office of Special Education & Rehabilitative Services	Office of Vocational & Adult Education	Postsecondary Education	Office of Educational Research & Improvement	Office of English Language Acquisition	Department Management
Resources Used to Finance Activities									
Budgetary Resources Obligated	\$91,939,479	\$50,068,659	\$21,180,459	\$11,748,807	\$1,843,276	\$2,328,689	\$444,339	\$652,395	\$548,880
Obligations Incurred (Note 14)	26,132,212	25,588,958	33,032	35,155	\$,227	14,231	15,255	8,246	22,873
Less: Spending Authority from Offsetting Collections & Recoveries	(8,538,272)	(7,149,447)	(2,949,426)	(11,714,851)	(1,584,949)	(2,214,476)	(429,731)	(643,339)	(510,894)
Less: Offsetting Receipts	(130,689)	(138,841)				(27)			
Net Obligations	\$65,803,335	\$27,528,801	\$20,846,424	\$11,714,851	\$1,334,049	\$2,214,476	\$429,731	\$643,339	\$518,884
Other Resources	\$7					\$7			
Transfers In/Out Without Reimbursement (+/-)	(23,750)	(23,139)	(84,148)	(92,893)	(30,483)	(80,860)	(81,860)	(11,128)	\$44,254
Impired Financing From Costs Allocated by Others (Note 13)	(27,423)	(25,339)	(84,359)	(92,893)	(30,483)	(80,860)	(81,860)	(11,128)	\$44,254
Net Other Resources Used to Finance Activities	\$18,877,059	\$27,767,340	\$20,913,572	\$11,807,314	\$1,884,512	\$2,274,102	\$510,571	\$654,467	\$25,420
Total Resources Used to Finance the Net Cost of Operations	\$84,680,394	\$55,296,141	\$41,760,000	\$23,522,165	\$3,218,561	\$4,488,578	\$940,302	\$1,297,806	\$79,304
Resources Used to Finance Items Not Part of Net Cost of Operations									
Change in Subsidy Resources Obligated for Goods, Services and Benefits (Note 15)	\$19,927,029	\$13,109,854	\$4,697,569	\$1,774,757	\$1,138,928	\$211,009	\$195,302	\$201,450	\$31,781
Resources that Fund Expenses Recognized in Prior Period	(46,348)	(4,454)	(2,880)	(4,273)	(1,521)	(4,379)	(4,482)	(488)	(22,798)
Credit Program Collections Which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net Including Allowances for Subsidy	21,247,014	21,202,251	60,338	2,890	25	44,763	5,575		3,441
Other	72,182								
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net	(25,861,541)	(25,529,217)	(62,628,886)	(1,175,445)	(140,425)	(14,269)	0		(16,017)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$15,285,534	\$16,642,274	\$62,628,886	\$1,175,445	\$140,425	\$212,532	\$195,442	\$321,938	\$16,533
Total Resources Used to Finance the Net Cost of Operations	\$99,965,928	\$71,938,415	\$103,328,886	\$24,697,610	\$3,358,986	\$4,701,110	\$1,135,744	\$1,619,744	\$95,837
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period									
Components Requiring or Generating Resources in Future Periods	\$29,973	\$2,714	\$1,519	\$2,423	\$625	\$1,431	\$2,289	\$295	\$12,048
Unwind/Downward Reversals of Credit Subsidy Expense	(1,795,899)	(1,795,899)							
Increase in Exchange Revenue Receivable from the Public	1,127,116	1,127,116							
Other (+/-)	4,478	36,368	(2,391)	(1,859)	(239)	(12,250)	(1,969)	(239)	(13,829)
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	\$189,229	\$165,528	\$13,917	\$1,084	\$1,365	\$13,681	\$13,569	\$598	\$26,022
Components Not Requiring or Generating Resources	\$1,923,208	\$1,526,284							\$5,840
Depreciation and Amortization	2,802	2,304	625			4			(131)
Other (+/-)	\$1,920,406	\$1,523,980	\$625			\$4			\$6,971
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	\$1,926,180	\$1,531,568	\$625			\$4			\$6,971
Net Cost of Operations (Note 16)	\$101,952,108	\$88,470,683	\$117,351,772	\$25,699,715	\$3,500,411	\$4,714,712	\$1,249,288	\$1,919,688	\$102,804

The accompanying notes are an integral part of these statements.

**United States Department of Education
Federal Student Aid
Consolidating Balance Sheet
As of September 30, 2002**

(Dollars In Thousands)

	Consolidated	Federal Family Education Loan Program	Direct Student Loan Program	Grant Programs
Assets:				
Intragovernmental:				
Fund Balance with Treasury	\$21,938,736	\$11,119,858	\$1,285,477	\$9,533,401
Accounts Receivable	4,488	4,488		
Total Intragovernmental	21,943,224	11,124,346	1,285,477	9,533,401
Cash and Other Monetary Assets	1,204,527	1,169,123	35,272	132
Accounts Receivable, Net	176,080	159,217	14,559	2,304
Credit Program Receivables, Net	91,326,667	6,287,762	84,846,534	192,371
General Property, Plant and Equipment, Net	16,028	155	15,873	
Other Assets	38,737	38,737		
Total Assets	\$114,705,263	\$18,779,340	\$86,197,715	\$9,728,208
Liabilities:				
Intragovernmental:				
Accounts Payable	\$11,474	\$1,174	\$10,300	
Treasury Debt	89,497,870		89,497,870	
Guaranty Agency Federal and Restricted Funds Due to Treasury	1,169,107	1,169,107		
Payable to Treasury	4,713,206	4,713,206		
Other Intragovernmental Liabilities	4,539	247	457	3,835
Total Intragovernmental	95,396,196	5,883,734	89,508,627	3,835
Accounts Payable	238,102	13,752	101,819	122,531
Accrued Grant Liability	749,376			749,376
Liabilities for Loan Guarantees	11,679,393	11,679,393		
Federal Employee and Veterans' Benefits	4,277	1,502	2,775	
Other Liabilities	322,887	14,326	119,895	188,666
Total Liabilities	\$108,390,231	\$17,592,707	\$89,733,116	\$1,064,408
Commitments and Contingencies				
Net Position:				
Unexpended Appropriations	\$10,225,861	\$1,388,597	\$175,769	\$8,661,495
Cumulative Results of Operations	(3,910,829)	(201,964)	(3,711,170)	2,305
Total Net Position	\$6,315,032	\$1,186,633	\$(3,535,401)	\$8,663,800
Total Liabilities and Net Position	\$114,705,263	\$18,779,340	\$86,197,715	\$9,728,208

**United States Department of Education
Federal Student Aid
Consolidating Statement of Net Cost
For the Year Ended September 30, 2002**

(Dollars in Thousands)

	Consolidated	Federal Family Education Loan Program	Direct Student Loan Program	Grant Programs
<i>Program Costs</i>				
Program A (Enhancement of Post Secondary and Adult Education)				
Intragovernmental Gross Costs	\$6,276,055	\$468,583	\$5,760,684	\$46,788
Less: Intragovernmental Earned Revenue	1,387,782	415,719	972,063	
<i>Intragovernmental Net Costs</i>	4,888,273	52,864	4,788,621	46,788
Gross Costs with the Public	18,286,566	4,606,497	1,234,660	12,445,409
Less: Earned Revenues from the Public	4,744,213		4,743,677	536
<i>Net Costs with the Public</i>	13,542,353	4,606,497	(3,509,017)	12,444,873
Program A Total Net Cost	\$18,430,626	\$4,659,361	\$1,279,604	\$12,491,661
Net Cost of Operations	\$18,430,626	\$4,659,361	\$1,279,604	\$12,491,661

**United States Department of Education
Federal Student Aid
Consolidating Statement of Changes in Net Position
For the Year Ended September 30, 2002**

(Dollars in Thousands)

	Consolidated		Federal Family Education Loan Program		Direct Student Loan Program		Grant Programs	
	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations	Cumulative Results	Unexpended Appropriations
Beginning Balance	\$ (2,114,625)	\$ 8,738,795	\$ (4,454)	\$ 860,732	\$ (2,110,171)	\$ 226,106	\$ (2,110,171)	\$ 226,106
Beginning Balance, As Adjusted	\$ (2,114,625)	\$ 8,738,795	\$ (4,454)	\$ 860,732	\$ (2,110,171)	\$ 226,106	\$ (2,110,171)	\$ 226,106
Budgetary Financing Sources								
Appropriations Received		\$ 18,426,874		\$ 4,361,374		\$ 780,000		\$ 13,285,500
Other Adjustments (+/-)		(21,203)		(1,640)				(19,563)
Appropriations Used	\$ 16,918,605	(16,918,605)	\$ 3,831,869	(3,831,869)	\$ 830,337	(830,337)	\$ 12,256,399	(12,256,399)
Other Financing Sources								
Imputed Financing	229,139		421,375		(429,803)		237,567	
Other (+/-)	(513,322)		208,607		(721,929)			
Total Financing Sources	\$ 16,634,422	\$ 1,487,066	\$ 4,461,851	\$ 527,865	\$ (321,395)	\$ (50,337)	\$ 12,493,966	\$ 1,009,538
Net Cost of Operations (+/-)	\$ (18,430,626)		\$ (4,659,361)		\$ (1,279,604)		\$ (12,491,661)	
Ending Balances	\$ (3,910,829)	\$ 10,225,861	\$ (201,964)	\$ 1,388,597	\$ (3,711,170)	\$ 175,769	\$ 2,305	\$ 8,661,495

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2002
(Dollars in Thousands)

	Combined		Federal Family Education Loan Program		Direct Student Loan Program		Grant Programs	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:								
Budget Authority :								
Appropriations Received	\$18,426,674		\$4,361,374		\$780,000		\$13,285,500	
Borrowing Authority		\$21,995,839				\$21,995,839		
Unobligated Balance:								
Beginning of Period	1,646,189	5,094,963	147,541	\$5,092,411	14,644	2,552	1,484,004	
Beginning of Period Adjustments	2,462,445		2,462,445					
Spending Authority From Offsetting Collections:								
Earned								
Collected	2,527,286	22,612,536	1,805,295	8,110,070	721,991	14,502,466		
Subtotal	\$2,527,286	\$22,612,536	\$1,805,295	\$8,110,070	\$721,991	\$14,502,466		
Recoveries of Prior Year Obligations	441,210	7,867	938		18,812	7,867	421,460	
Permanently Not Available	(2,501,484)	(8,296,136)	(1,760,002)		(721,928)	(8,296,136)	(19,564)	
Total Budgetary Resources	\$23,002,510	\$41,415,069	\$7,017,591	\$13,202,481	\$813,519	\$28,212,588	\$15,171,400	
Status of Budgetary Resources:								
Obligations Incurred:								
Direct	\$19,477,889	\$33,610,770	\$4,814,275	\$5,897,180	\$799,518	\$27,713,590	\$13,864,096	
Unobligated Balance:								
Apportioned	2,045,230	1,119,600	1,013,552	833,859	4,406	285,741	1,027,272	
Unobligated Balance Not Available	1,479,391	6,684,699	1,189,764	6,471,442	9,595	213,257	280,032	
Total Status of Budgetary Resources	\$23,002,510	\$41,415,069	\$7,017,591	\$13,202,481	\$813,519	\$28,212,588	\$15,171,400	
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period	\$8,408,634	\$5,577,090	\$915,415	\$1,439,021	\$340,429	\$4,138,069	\$7,152,790	
Obligated Balance, Net, End of Period:								
Undelivered Orders	8,885,651	6,776,923	1,399,693	1,381,908	161,769	5,386,015	7,354,189	
Accounts Payable	1,033,183	9,370	21,204	(19)	140,071	9,389	871,908	
Outlays								
Disbursements	17,526,479	32,393,899	4,337,855	5,954,311	819,295	26,439,388	12,369,329	
Collections	(2,527,286)	(22,612,536)	(1,805,295)	(8,110,070)	(721,991)	(14,502,466)		
Subtotal	\$14,999,193	\$9,781,163	\$2,532,560	\$(2,155,759)	\$97,304	\$11,936,922	\$12,369,329	
Less: Offsetting Receipts	39,041						39,041	
Net Outlays	\$14,960,152	\$9,781,163	\$2,532,560	\$(2,155,758)	\$97,304	\$11,936,922	\$12,330,288	

**United States Department of Education
Federal Student Aid
Consolidating Statement of Financing
For the Year Ended September 30, 2002**

(Dollars in Thousands)

	Federal Student Aid	Federal Family Education Loan Program	Direct Student Loan Program	Grant Programs
Resources Used to Finance Activities				
Budgetary Resources Obligated	\$5,088,659	\$10,711,455	\$28,513,108	\$(13,664,086)
Obligations Incurred	25,588,699	9,816,303	16,251,136	421,460
Less: Spending Authority from Offsetting Collections & Recoveries	(21,499,763)	(795,152)	(13,281,972)	(13,442,636)
Obligations, Net of Offsetting Collections and Recoveries	(39,041)			(39,041)
Less: Offsetting Receipts	\$27,536,801	\$795,152	\$(13,281,972)	\$(13,481,677)
Net Obligations	(29,136)	(421,375)	429,803	(237,567)
Imputed Financing From Costs Absorbed by Others	(229,139)	(421,375)	429,803	(237,567)
Net Other Resources Used to Finance Activities	\$27,767,940	\$(1,216,527)	\$(12,632,169)	\$(13,719,244)
Total Resources Used to Finance Activities				
Resources Used to Finance Items Not Part of Net Cost of Operations				
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/-)	\$(3,100,854)	\$536,609	\$(1,378,007)	\$(1,186,236)
Resources that Fund Expenses Recognized in Prior Period	(4,454)			
Credit Program Collections Which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net Including Allowances for Subsidy	21,202,251	9,751,875	11,450,376	
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net	(25,538,217)	(5,970,131)	(20,568,086)	
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$(6,441,274)	\$3,240,681	\$(10,495,717)	\$(1,186,236)
Total Resources Used to Finance the Net Cost of Operations				
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period				
Components Requiring or Generating Resources in Future Periods				
Increase in Annual Leave Liability	\$(2,714)	\$2,412		\$(302)
Upward/Downward Reestimates of Credit Subsidy Expense	(1,736,889)	(197,959)	(1,588,930)	
Increase in Exchange Revenue Receivable from the Public	1,127,116		1,127,116	
Other (+/-)	36,959	(1,748)	(334)	39,041
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	\$(635,528)	\$(202,119)	\$(472,450)	\$39,041
Components Not Requiring or Generating Resources				
Depreciation and Amortization	\$1,529,264	\$(34)	\$1,529,288	
Other (+/-)	2,304			2,304
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	\$1,531,568	\$(34)	\$1,529,288	\$2,304
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period				
Net Cost of Operations	\$(895,040)	\$(202,153)	\$1,056,848	\$41,345
	\$(18,430,676)	\$(4,659,361)	\$(1,279,604)	\$(12,491,661)

Other Statutorily Required Reports

REPORT ON AUDIT FOLLOW-UP

The Inspector General Act, as amended, requires that the secretary report to Congress on the final action taken for the Inspector General audits. With this Performance and Accountability Report, the Department of Education is reporting on audit follow-up activities for the period October 1, 2001, through September 30, 2002.

The Department is continuing to improve our ability to track and monitor audit resolution efforts. Currently the Department continues to use the Common Audit Resolution System (CARS) to track single audits. Internal audits are tracked by the Internal Audit Electronic Corrective Action Plan System (IAeCAPS), which was designated a “Best Practice” in FY 2001 by the Association of Government Accountants (AGA). This year, the Department began an effort to build a single database system that will track postaudit activity for all audits, external and internal. This database will be the Department’s tool to track, monitor and report on the postaudit status of single audits, General Accounting Office audits and ED-OIG-issued audits. This development is a continuation of our efforts to fully automate and streamline the Department’s audit-related processing with a focus on enhancing financial integrity and strengthening management and internal controls. The new combined system is expected to be finalized in FY 2003.

REPORT SUMMARY AND HIGHLIGHTS

At the start of this reporting period, the balance for OIG reports with disallowed costs totaled 144, representing \$154.4 million. (Disallowed costs are questioned costs that management has sustained or agreed should not be charged to the government.) The information in the table below represents audit reports for which receivables were established.

Final Actions on Audits with Disallowed Costs for Fiscal Year Ended September 30, 2002

	Reports	Disallowed Costs
Beginning Balance As of 10/01/01	144	\$154,448,680
+ Management Decision	215	32,221,936
Pending Final Action	359	\$186,670,616
– Final Action	236	88,267,964
Ending Balance as of 9/31/02	123	\$ 98,402,652

Reports pending final action one year or more after issuance of a management decision

On September 30, 2002, the Department has a total of 10 OIG internal and nationwide audits reports on which final action was not taken within one year after the issuance of a management

decision. Of the 10 reports, 50 percent were one to two years old and 50 percent were more than two years old. Many corrective actions depend on major system changes that are currently being implemented. For detailed information on these audits, refer to the previously issued Semiannual Report to Congress on Audit Follow-up Number 27.

CREDIT MANAGEMENT AND DEBT COLLECTION IMPROVEMENT ACT

The Department of Education has designed and implemented a comprehensive credit management and debt collection program that enables us to effectively administer our multibillion-dollar student loan and other programs. The credit management and debt collection program covers each phase of the credit cycle—including prescreening of loan applicants, account servicing, collection and close-out—and it conforms to the government-wide policies in the Federal Claims Collection Standards, OMB Circular A-129, and the Debt Collection Improvement Act (DCIA).

The Department has made significant strides in the area of student loan default management and prevention. The Department has been working diligently with schools and the lending community to reduce the cohort default rate. The FY 2000 cohort default of 5.9 percent is well below our target rate of 8.0 percent. The low default rate is a function of the Department's improved borrower counseling and the steps we have taken in the gatekeeping area to remove schools with high rates from participating in the federal student loan programs.

Borrowers who default on student loans face serious repercussions, such as the withholding of federal income tax refunds and other federal payments, wage garnishment, adverse credit bureau reports, denial of further student aid and prosecution. To avoid these sanctions, defaulters now have the option to consolidate their loans and establish an income-based repayment plan that more realistically matches their ability to pay.

The Department also continues to conduct computer matches with other federal agencies as part of our effort to strengthen the management and oversight of Federal Student Aid programs. The computer matches are designed to ensure that students meet various eligibility criteria and to increase the collections from students who have defaulted on their loans. In FY 2002, we collected over \$269 million as a result of locating defaulted borrowers by matching with the Department of Health and Human Services National Directory of New Hires (NDNH) database. In fact, including the NDNH collections, the Department has collected more than \$966 million in non-consolidated loans, exceeding the FY 2002 collection goals by over 5 percent.

The Department of Education categorizes our debt into two basic categories: student loan debt, which accounts for approximately 99 percent of all of the Department's outstanding debts, and institutional and other administrative debt. The Department of Treasury granted the Department a permanent exemption from the cross servicing requirements of the DCIA for defaulted student loans and approval to continue to service our own internal student loan debts because of our successful track record. However, we have been referring eligible student loan debts—those we previously tried to collect using all other available tools—to the Department of Treasury for tax refund offset since 1986.

The Department handles our institutional and administrative debts outside of the systems established for student loans. The Department was one of the first to participate in the Treasury Cross Servicing Program and has been referring delinquent debts since October 1996. As of September 30, 2002, we have forwarded approximately 98 percent of all institutional and administrative debts eligible for cross servicing to Treasury.