Notes to the Principal Financial Statements For the Years Ended September 30, 2008 and 2007

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The U.S. Department of Education (the Department), a Cabinet-level agency of the Executive Branch of the U.S. Government, was established by the Congress under the *Department of Education Organization Act* (Public Law 96-88), which became effective on May 4, 1980. The Department is responsible, through the execution of its congressionally enacted budget, for administering direct loans, guaranteed loans, and grant programs.

The Department administers the William D. Ford Federal Direct Loan (Direct Loan) Program, the Federal Family Education Loan (FFEL) Program, the Federal Pell Grant (Pell Grant) Program, and the campus-based student aid programs to help students finance the costs of higher education. The Direct Loan Program, added to the Higher Education Act of 1965 (HEA) in 1993 by the *Student Loan Reform Act of 1993,* enables the Department to make loans directly to eligible undergraduate and graduate students and their parents through participating schools. The FFEL Program, initially authorized by the HEA, operates through state and private nonprofit guaranty agencies to provide loan guarantees and interest subsidies on loans made by private lenders to eligible students. Under these programs, the loans are made to individuals who meet statutorily set eligibility criteria and attend eligible institutions of higher education—public or private two- and four-year institutions, graduate schools, and vocational training schools. Students and their parents, based on eligibility criteria, receive loans regardless of income or credit rating. Student borrowers who demonstrate financial need also receive federal interest subsidies.

The *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) amended the FFEL Program to authorize the Secretary to buy FFEL loans for the 2008-2009 academic year. Within the existing FFEL Program, the Department has implemented two activities under this temporary loan purchase authority to purchase FFEL loans generally originated between July 1, 2008 and June 30, 2009. These two activities include: loan purchase commitments where the Department purchases loans directly from FFEL lenders, and loan participation purchases where the Department purchases participation interests in FFEL loans.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program was implemented beginning July 1, 2008. This program, added to the HEA by the *College Cost Reduction and Access Act* (CCRAA), awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students.

The Federal Pell Grant Program provides need-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education. Additionally, the Department administers numerous other grant programs and facilities loan programs. Grant programs include grants to state and local entities for elementary and secondary education; special education and rehabilitative services; educational research and improvement; and grants for needs of the disadvantaged. Through the facilities loan programs, the Department administers low-interest loans to institutions of higher education for the construction and renovation of facilities.

The Department is organized into 10 reporting organizations that administer the loan and grant programs. The financial reporting structure of the Department presents operations based on four major reporting groups. The reporting organizations and the major reporting groups are shown below.

Reporting Organizations

- 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)
- Institute of Education Sciences (IES)
- Office of English Language Acquisition (OELA)
- Office of Safe and Drug-Free Schools (OSDFS)
- Office of Innovation and Improvement (OII)
- Office of Management (OM)

Major Reporting Groups

- Federal Student Aid
- Office of Elementary and Secondary Education
- Office of Special Education and Rehabilitative Services
- Other

The major reporting group "Other" includes the OVAE, OPE, IES, OELA, OSDFS, OII, and OM reporting organizations and Hurricane Education Recovery (HR) activities. (See Notes 10, 12, and 17)

Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the U.S. Department of Education, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department, in accordance with accounting principles generally accepted in the United States of America for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as revised June 2008. 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 Department's financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation providing resources and legal authority to do so.

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

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

Use of Estimates

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

The *Federal Credit Reform Act of 1990* (Credit Reform 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 Credit Reform Act, subsidy costs for loans obligated beginning in FY 1992 are estimated at the net present value of projected lifetime costs in the year the loan is obligated. Subsidy costs are revalued annually through the re-estimate process.

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 (including loan consolidations), 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 are prepared. Minor adjustments to any of these components may create significant changes to the estimate.

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

The Department uses a computerized cash flow projection Student Loan Model to calculate subsidy estimates for the Direct Loan, FFEL, and TEACH Grant Programs. Each year, the Department re-evaluates the estimation methods related to changing conditions. The Department uses a probabilistic technique to forecast interest rates based on different methods to establish the relationship between an event's occurrence and the magnitude of its probability. The Department's approach estimates interest rates under numerous scenarios and then bases interest rates on the average interest rates weighted by the assumed probability of each scenario occurring. Probabilistic methodology facilitates the modeling of the Department's unique loan programs.

For each program, cash flows are projected over the life of the loans, 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.

Estimates reflected in these statements were prepared using assumptions developed for the FY 2009 Mid-Session Review, a government-wide exercise required annually by OMB. These estimates are based on the most current information available to the Department at the time the financial statements were prepared. Assumptions and their impact are updated after the Mid-Session Review to account for significant subsequent changes in activity. Department management has a process to review these estimates in the context of subsequent changes in activity and assumptions, and to reflect the impact of changes, as appropriate.

The Department recognizes that cash flow projections and the sensitivity of changes in assumptions can have a significant impact on estimates. Management has attempted to mitigate fluctuations in the estimates by using trend analysis to project future cash flows. Changes in assumptions could significantly affect the amounts reflected in these statements. For example, a minimal change in the projected long-term interest rate charged to borrowers could change the current subsidy re-estimate by a significant amount. (See Note 6)

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 include (1) unobligated balances of resources from prior years, (2) recoveries of prior-year obligations, and (3) new resources, which include appropriations, authority to borrow from the U.S. Department of the Treasury (Treasury), and spending authority from collections.

Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for 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 are available for new obligations placed against them, as well as upward adjustments of prior year obligations.

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan Program, Loan Purchase Commitment Authority, Loan Participation Purchase Authority, and TEACH Grant Program. Subsidy and administrative costs of the programs are funded by appropriations. Budgetary resources from collections are used primarily to repay the Department's debt to Treasury. Major sources of collections include (1) principal and interest collections from borrowers, (2) related fees, and (3) interest from Treasury on balances in certain credit financing accounts that make and administer loans and loan guarantees.

Borrowing authority is an indefinite budgetary resource authorized under the Credit Reform Act. This resource, when realized, finances the unsubsidized portion of the Direct Loan Program, Loan Purchase Commitment Authority, Loan Participation Purchase Authority, and TEACH Grant Program. In addition, borrowing authority is requested in advance of expected collections to cover negative subsidy cost. Treasury prescribes the terms and conditions of borrowing authority and lends to the credit financing account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. The Department may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that the Department has authority to use for its operations. Non-entity assets are those held by the Department but not available for use in its operations. The Department combines its entity and non-entity assets on the face of the Balance Sheet and discloses its non-entity assets in the notes. (See Note 2)

Fund Balance with Treasury

The Fund Balance with Treasury includes general, revolving, trust, and other funds available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes cash receipts and cash disbursements for the Department. The Department's records are reconciled with those of Treasury.

A portion of the general funds is funded in advance by multi-year appropriations for obligations anticipated during the current and future fiscal years. Revolving funds conduct continuing cycles of business-like activity and do not require annual appropriations. Their fund balance is derived from borrowings, as well as collections from the public and other federal agencies. Trust funds generally consist of donations for the hurricane relief activities. Other funds, which are non-budgetary, primarily consist of deposit funds and clearing accounts.

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include undelivered orders and unpaid expended authority. (See Note 3)

Accounts Receivable

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

Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of guaranty agency reserves that represent the federal government's interest in the net assets of state and nonprofit FFEL Program guaranty agencies. Guaranty agency reserves are classified as non-entity assets with the public (See Notes 2 and 5) and are offset by a corresponding liability due to Treasury. Guaranty agency reserves include initial federal start-up funds, receipts of federal reinsurance payments, insurance premiums, guaranty agency share of collections on defaulted loans, investment income, administrative cost allowances, and other assets.

Section 422A of the HEA required FFEL guaranty agencies to establish a Federal Student Loan Reserve Fund (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, in whole or in part with federal funds, are the property of the United States and reflected in the *Budget of the United States Government*. However, such ownership by the federal government is independent of the actual control of the assets. Payments to the Department from guaranty agency Federal Funds, which increase Fund Balance with Treasury, are remitted to Treasury at fiscal year-end.

The Department disburses funds to a guaranty agency; a guaranty agency, through its Federal Fund, pays lender claims and default aversion fees. The Operating Fund is the property of the guaranty agency except for amounts an agency borrows from the Federal Fund (as authorized under Section 422A of the HEA). The Operating Fund is used by the guaranty agency to fulfill responsibilities that include repaying money borrowed from the Federal Fund, and performing default aversion and collection activities.

Credit Program Receivables, Net and Liabilities for Loan Guarantees

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

Credit program receivables for the Loan Purchase Commitment Authority and Loan Participation Purchase Authority include the present value of future cash flows related to the participation agreements or purchased loans. Subsidy is transferred, which may be prior to purchasing loans, and is recognized as subsidy expense in the Statement of Net Cost. The cash flows of these authorities also include inflows and outflows associated with the underlying or purchased loans and other related activities including any positive or negative subsidy transfers.

Components of subsidy costs for loans and guarantees include defaults (net of recoveries), contractual payments to third-party private loan collectors who receive a set percentage of amounts collected, and, as an offset, origination and other fees collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from Treasury and interest rates charged to target groups is also subsidized (or may provide an offset to subsidy if the Department's rate is less). The corresponding interest subsidy in loan guarantee programs is the payment of interest supplements to third-party lenders in order to pay 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 re-estimated each year. (See Note 6)

General Property, Plant and Equipment

The Department capitalizes single items of property and equipment with a 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. Property and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation. Internal Use Software meeting the above cost and useful life criteria is also capitalized. Internal Use Software is either purchased off the shelf, internally developed, or contractor developed solely to meet the Department's needs. (See Note 7)

The Department adopted the following useful lives for its major classes of depreciable property and equipment:

Depreciable Property and Equipment

(In Years)

Major Class	Useful Life
Information Technology, Internal Use Software and Telecommunications Equipment	3
Furniture and Fixtures	5

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by the Department without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty the appropriation will be enacted. The government acting in its sovereign capacity can abrogate liabilities that arise from activities other than contracts. FFEL Program and Direct Loan Program liabilities are entitlements covered by permanent indefinite budget authority. (See Note 9)

Debt

The Department borrows to provide funding for the Direct Loan Program, Loan Purchase Commitment Authority, Loan Participation Purchase Authority, and TEACH Grant Program. The liability to Treasury from borrowings represents unpaid principal at year-end. The Department repays the principal based on available fund balances. Interest on the debt is calculated at fiscal year-end using rates set by Treasury, with such rates generally fixed based on the rate for 10-year Treasury securities. In addition, the Federal Financing Bank (FFB) holds bonds issued by the Department on behalf of the Historically Black Colleges and Universities Capital Financing Program. The Department reports the corresponding liability for full payment of principal and accrued interest as a payable to the FFB. (See Note 8)

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 their receiving grant funds to cover the expenditures. The amount is estimated using statistical sampling techniques. (See Note 10)

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for federal credit financing and liquidating funds, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. (See Note 11)

Earmarked Funds

Earmarked funds are recorded as specially identified resources, often supplemented by other financing sources, which remain available over time. These funds are required by statute to be used for designated recipients. The Department's earmarked funds are primarily related to the 2005 Hurricane Relief efforts. (See Note 17)

Personnel Compensation and Other Employee Benefits

Annual, Sick and Other Leave. The liability for annual leave, compensatory time off, and other vested leave is accrued when earned and reduced when taken. Each year, the accrued annual leave account balance is adjusted to reflect current pay rates. 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.

Retirement Plans and Other Retirement Benefits. Employees participate in either 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.

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

Contributions for CSRS, FERS and other retirement benefits are insufficient to fully fund the programs, and are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees.

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 (DOL), 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 and recognized by the Department as a liability. Generally the Department reimburses DOL within two to three years once funds are appropriated. The second component is the estimated liability for future benefit payments based on unforeseen events such as death, disability, medical and miscellaneous costs. DOL 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.

The estimated projections are evaluated by DOL to ensure that the resulting projections are reliable. The analysis is based on four tests: (1) a sensitivity analysis of the model to economic assumptions, (2) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual incremental payments, (3) a comparison of the incremental paid losses per case (a measure of case-severity) in charge-back year 2008 to the average pattern observed during the most recent three charge-back years, and (4) a comparison of the estimated liability per case in the 2008 projection to the average pattern for the projections of the most recent three years.

Intragovernmental Transactions

The Department's financial activities interact with and are dependent upon the financial activities of the centralized management functions of the federal government. Due to financial regulation and management control by OMB and Treasury, operations may not be conducted and financial positions may not be reported as they would if the Department were a separate, unrelated entity.

Allocation Transfers

The Department is a party to allocation transfers with the Appalachian Regional Commission as a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. Treasury provides a separate fund account as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child are charged to this allocation account as the child executes the delegated activity on behalf of the parent entity. All financial activity related to these allocation transfers is reported in the financial statements of the Appalachian Regional Commission, from which the underlying legislative authority, appropriations, and budget apportionments are derived. During FY 2008, the Department returned all unused funds to the Appalachian Regional Commission.

Note 2. Non-Entity Assets

As of September 30, 2008 and 2007, non-entity assets consisted of the following:

Non-Entity Assets
(Dollars in Millions)

	2008	2007
Non-Entity Assets		
Intragovernmental		
Fund Balance with Treasury	$ 28	$ 33
Total Intragovernmental	**28**	**33**
With the Public		
Cash and Other Monetary Assets	1,663	1,103
Accounts Receivable, Net	20	12
Credit Program Receivables, Net	186	188
Total With the Public	**1,869**	**1,303**
Total Non-Entity Assets	**1,897**	**1,336**
Entity Assets	229,676	213,302
Total Assets	$ 231,573	$ 214,638

Non-entity intragovernmental assets primarily consist of deposit fund balances. Non-entity assets with the public primarily consist of guaranty agency reserves and Perkins Program Loan Receivables. (See Notes 5 and 6)

Note 3. Fund Balance with Treasury

The Fund Balance with Treasury, by fund type, as of September 30, 2008 and 2007, consisted of the following:

Fund Balances
(Dollars in Millions)

	2008	2007
General Funds	$ 52,487	$ 54,836
Revolving Funds	42,357	42,625
Trust Funds	18	40
Special Funds	9	-
Other Funds	28	31
Fund Balance with Treasury	**$ 94,899**	**$ 97,532**

The Status of Fund Balance with Treasury, as of September 30, 2008 and 2007, consisted of the following:

Status of Fund Balance with Treasury
(Dollars in Millions)

	2008	2007
Unobligated Balance		
Available	$ 1,936	$ 3,414
Unavailable	27,555	37,866
Obligated Balance, Not Yet Disbursed	65,380	56,221
Non-Budgetary Fund Balance with Treasury	28	31
Fund Balance with Treasury	**$ 94,899**	**$ 97,532**

Note 4. Accounts Receivable

Accounts Receivable, as of September 30, 2008 and 2007, consisted of the following:

Accounts Receivable
(Dollars in Millions)

	2008		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 2	$ -	$ 2
With the Public	278	(178)	100
Accounts Receivable	**$ 280**	**$ (178)**	**$ 102**

	2007		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 4	$ -	$ 4
With the Public	215	(166)	49
Accounts Receivable	**$ 219**	**$ (166)**	**$ 53**

Note 5. Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of reserves held in the FFEL Guaranty Agency Federal Funds. Changes in the valuation of the Federal Fund increase or decrease the Department's Cash and Other Monetary Assets with a corresponding change in the Payable to Treasury. The table below presents Cash and Other Monetary Assets for the years ended September 30, 2008 and 2007.

Cash and Other Monetary Assets

(Dollars in Millions)

	2008	2007
Beginning Balance, Cash and Other Monetary Assets	**$ 1,103**	**$ 566**
Valuation Increase in Guaranty Agency Federal Funds	722	793
Less: Collections from Guaranty Agency Federal Funds		
Statutory Recall Amounts Collected from GAs	-	82
Excess Collections	162	174
Collections Remitted to Treasury	162	256
Ending Balance, Cash and Other Monetary Assets	**$ 1,663**	**$ 1,103**

The $560 million net increase in the Federal Fund from FY 2007 to FY 2008 reflects the impact of guaranty agencies' ongoing operations. During FY 2008, $162 million was remitted to the Department by a guaranty agency whose agreement with the Department requires the agency to remit funds in excess of agreed-upon working capital levels. Remitted funds were returned to Treasury.

Note 6. Credit Programs for Higher Education

William D. Ford Federal Direct Loan Program. The federal government makes loans directly to students and parents through participating institutions of higher education under the William D. Ford Federal Direct Loan program, referred to as the Direct Loan Program. Direct loans are originated and serviced through contracts with private vendors.

The Department disbursed approximately $21.1 billion in Direct Loans to eligible borrowers in FY 2008 and approximately $15.7 billion in FY 2007. Loans typically are disbursed in multiple installments over an academic period; as a result, loan disbursements for an origination cohort year often cross fiscal years. Half of all loan volume is obligated in the fourth quarter of a fiscal year. Loan cohorts disburse over two years. Regardless of the fiscal year in which they occur, disbursements are tracked by cohort as determined by the date of obligation rather than disbursement.

Approximately 10 percent of Direct Loan obligations made in an individual fiscal year are never disbursed. Loan obligations are established at a summary level based on estimates of schools' receipt of aid applications. The loan obligation may occur before a student has been accepted by a school or begins classes. For Direct Loans obligated in the 2008 cohort, an estimated $3.2 billion will never be disbursed. Eligible schools may originate direct loans through a cash advance from the Department or by advancing their own funds in anticipation of reimbursement from the Department.

The Department accrues interest receivable and records interest revenue on performing Direct Loans and, given the Department's substantial collection rates, on defaulted Direct Loans.

Federal Family Education Loan Program. Prior to FY 2008, the FFEL Program included only private lender loans to students and parents insured against default by the federal government. Nonprofit guaranty agencies act as intermediaries in administering the guarantees. In FY 2008, the FFEL Program also includes approximately $5.1 billion in direct federal assets.

Beginning with FFEL loans first disbursed on or after October 1, 1993, FFEL lender 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 reserves they hold in trust. FFEL lenders 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 Direct Loan and FFEL programs are identical.

The temporary loan purchase authority was added to the FFEL Program by ECASLA, effective July 1, 2008 through September 30, 2009. The Department has implemented two activities under this authority for loans originated in academic year 2008-2009: loan purchase commitments where the Department purchases loans directly from FFEL lenders, and loan participations where the Department purchases participation interests in FFEL loans. A credit program receivable is established for loans purchased directly or through a participation interest.

In loan participation transactions, lenders transfer to a custodian title of FFEL loans on which at least one disbursement has been made. The custodian sells financial certificates to the Department at the par value of these loans and remits the proceeds to lenders. Certificates bear an interest rate of the 91-day commercial paper rate plus 50 basis points, reset quarterly, and must be redeemed by September 30, 2009. Funds to redeem certificates may be obtained by selling the underlying loans to the Department.

The estimated FFEL 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 loan cancellations. The same methodology is used to estimate the allowance on Direct Loan receivables.

As of September 30, 2008 and 2007, total principal balances outstanding of guaranteed loans held by lenders were approximately $415 billion and $363 billion, respectively. As of September 30, 2008 and 2007, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $405 billion and $359 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 Fund. Payments by guaranty agencies do not reduce government exposure because they are made from the Federal Fund administered by the agencies but owned by the federal government.

Approximately 13 percent of guaranteed loan commitments made in an individual fiscal year are never disbursed due to the nature of the loan commitment process. For guaranteed loans committed in the 2008 cohort, an estimated $9.5 billion will never be disbursed.

Guaranteed loans that default are initially turned over to guaranty agencies for collection, and interest receivable is accrued and recorded on the 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. Accrued interest on the subrogated loan is calculated, but only realized upon collection.

Federal Perkins Loan Program. The Federal Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In some statutorily defined cases, funds are provided to reimburse schools for loan cancellations. For defaulted loans assigned to the Department, collections of principal, interest, and fees, net of amounts paid by the Department to cover contract collection costs, are transferred to Treasury annually.

TEACH Grant Program. Beginning July 1, 2008, the TEACH Grant Program awards annual grants up to $4,000 to eligible undergraduate and graduate students agreeing to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. For students failing to fulfill the service requirement, grants are converted to Direct Unsubsidized Stafford Loans. Because grants could be converted to loans, for budget and accounting purposes the program is operated under the requirements of the Credit Reform Act.

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

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.

In FY 2006, Congress passed the *Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery* (P.L. 109-234). Section 2601 of this Act created a new sub-program within the HBCU Capital Financing Program under the HEA that would provide loans on advantageous terms to HBCUs affected by Hurricanes Rita and Katrina. Under this sub-program, the interest rate charged on loans is capped at 1 percent, fees associated with the program are less than those associated with the rest of the program, and institutions are not required to participate in the program's pooled escrow account. In addition, principal and interest payments on loans already made to affected HBCUs can be deferred for up to 3 years, with the Department making any payments that come due during this period. The statute gives the Department authority to make loans under the new sub-program in excess of the overall program loan caps. The Department has made four loans under the new sub-program and has assumed one default and no recoveries in making initial subsidy estimates. In light of these forecast assumptions and the expected cash flows for the new sub-program, OMB's Credit Subsidy Calculator estimates the subsidy rate for the sub-program to be 76 percent. The current subsidy estimate for the sub-program is $304 million on a loan volume of $400 million.

Loan Consolidations

Borrowers may prepay existing loans without penalty through a new consolidation loan. Under the Credit Reform Act and requirements provided by OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, the retirement of Direct 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. Underlying direct or guaranteed loans, performing or nonperforming, are paid off in their original cohort; new consolidation loans are originated in the cohort in which the activity occurs. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort costs. The loan liability and net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect costs associated with anticipated future consolidation loans.

Student loan consolidation disbursements for FY 2008 were $15 billion ($9 billion in FFEL and $6 billion in Direct Loans), a 70% reduction from FY 2007. This lower rate of consolidations is a continuation of the trend identified in FY 2007, which was 45% lower than FY 2006. This trend exists due to a number of technical, legislative and economic factors. In the student loan programs a borrower is generally limited to a one-time consolidation; the high level of consolidations between FY 2002 and FY 2006, $280 billion, significantly reduced the existing pool of loans eligible for consolidation to generally those students currently in school. Recent legislative changes, particularly the establishment of fixed interest rates on new loans and the reduction of guaranteed lender returns, have significantly reduced both borrowers' financial benefits from consolidations and lenders' willingness to market consolidations through lower interest rates or other financial incentives. In FY 2008, economic conditions restricted the availability of capital, further reducing consolidation activity.

FY 2008 Modification

The recorded subsidy cost of a loan is based on a set of assumed future cash flows. Government actions that change these assumed future cash flows change subsidy cost and are recorded as loan modifications. Loan modifications are recognized under the same accounting principle as subsidy re-estimates. Modification adjustment transfers are required to adjust for the difference between current discount rates used to calculate modification costs and the discount rates used to calculate cohort interest expense and revenue. Separate amounts are calculated for modification costs and modification adjustment transfers.

The CCRAA included a number of provisions affecting the cost of existing loans. New income-based repayment and public service loan forgiveness programs were created; income-based repayment is available to existing borrowers in both FFEL and Direct Loans, while public service loan forgiveness is available to existing Direct Loan borrowers. (Existing FFEL borrowers may consolidate into Direct Loans to obtain the benefit.) The Act also made retroactive changes to loan deferment provisions for certain military personnel.

The Act also eliminated the provision under which FFEL lenders designated as "exceptional performers" received a higher insurance rate on defaulted loans, reduced FFEL guaranty agencies' account maintenance fees, and lowered the percentage guaranty agencies may retain on collections of certain defaulted loans.

Loan modification savings of $2.5 billion were recorded in the FFEL Program and $4.1 billion in modification costs were recorded in the Direct Loan Program. The FFEL Program also recognized a net modification adjustment transfer saving of $30 million and the Direct Loan Program recognized a net savings of $9 million.

Credit Program Receivables

Credit Program Receivables as of September 30, 2008 and 2007, consisted of the following:

Credit Program Receivables
(Dollars in Millions)

	2008	2007
Direct Loan Program Loan Receivables, Net	$ 109,850	$ 99,002
FFEL Program		
FFEL Guaranteed Loan Program, Net (Pre-1992)	3,591	4,036
FFEL Program (Post-1991):		
FFEL Guaranteed Loan Program, Net	15,624	12,526
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	64	-
Loan Participation Purchase, Net	5,230	-
Federal Perkins Program Loan Receivables, Net	186	188
TEACH Grant Program Receivables, Net	1	-
Facilities Loan Programs Loan Receivables, Net	179	152
Credit Program Receivables, Net	**$ 134,725**	**$ 115,904**

William D. Ford Federal Direct Loan Program. The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy.

Direct Loan Program Loan Receivables, Net
(Dollars in Millions)

	2008	2007
Principal Receivable	$ 117,610	$ 102,440
Interest Receivable	5,983	4,807
Receivables	**123,593**	**107,247**
Less: Allowance for Subsidy	13,743	8,245
Direct Loan Program Loan Receivables, Net	**$ 109,850**	**$ 99,002**

Of the $123.6 billion in receivables as of September 30, 2008, $10.3 billion in loan principal were in default, compared to $9.3 billion a year earlier. Defaulted Direct Loans are held in the Department's Borrower Services Collections Group.

Federal Family Education Loan Program. The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy.

FFEL Program Loan Receivables, Net

(Dollars in Millions)

	2008	2007
FFEL Guaranteed Loan Program (Pre-1992)		
Principal Receivable	$ 7,587	$ 8,208
Interest Receivable	182	224
Receivables	**7,769**	**8,432**
Less: Allowance for Subsidy	4,178	4,396
FFEL Guaranteed Loan Program Receivables, Net (Pre-1992)	**$ 3,591**	**$ 4,036**
FFEL Program (Post-1991)		
Principal Receivable		
FFEL Guaranteed Loan Program	$ 17,641	$ 13,324
Temporary Loan Purchase Authority:		
Loan Purchase Commitment	59	-
Loan Participation Purchase	5,036	-
Interest Receivable		
FFEL Guaranteed Loan Program	2,143	1,957
Temporary Loan Purchase Authority:		
Loan Purchase Commitment	-	-
Loan Participation Purchase	11	-
Receivables	**24,890**	**15,281**
Less: Allowance for Subsidy		
FFEL Guaranteed Loan Program	4,160	2,755
Temporary Loan Purchase Authority:		
Loan Purchase Commitment	(5)	-
Loan Participation Purchase	(183)	-
FFEL Guaranteed Loan Program, Net	15,624	12,526
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	64	-
Loan Participation Purchase, Net	5,230	-
FFEL Program Loan Receivables, Net	**$ 24,509**	**$ 16,562**

All loans under the temporary loan purchase authority are federal assets; the loan receivable represents all outstanding loans. Loan participation interests were first purchased by the Department in August 2008. No participation interests were redeemed in FY 2008.

Federal Perkins Loan Program. At September 30, 2008 and 2007, loans receivable, net of an allowance for loss, were $186 million and $188 million, respectively. These loans are valued at historical cost.

TEACH Grant Program. At September 30, 2008, loans receivable, net of an allowance for loss, was $1 million. The TEACH Grant Program was established in FY 2008.

Facilities Loan Programs

Facilities Loan Programs Loan Receivables

(Dollars in Millions)

	2008	2007
Principal Receivable	$ 553	$ 553
Interest Receivable	6	6
Receivables	**559**	**559**
Less: Allowance for Subsidy	380	407
Facilities Loan Programs Loan Receivables, Net	**$ 179**	**$ 152**

Reconciliation of Allowance for Subsidy and Liability for Loan Guarantees

William D. Ford Federal Direct Loan Program. The following schedule provides a reconciliation between the beginning and ending balances of the allowance for subsidy for the Direct Loan Program:

Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2008	2007
Beginning Balance, Allowance for Subsidy	**$ 8,245**	**$ 8,405**
Components of Subsidy Transfers		
Interest Rate Differential	(1,540)	(846)
Defaults, Net of Recoveries	454	422
Fees	(487)	(398)
Other	1,498	1,117
Current Year Subsidy Transfers	**(75)**	**295**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates[1]	222	(311)
Technical and Default Re-estimates	946	(483)
Subsidy Re-estimates	**1,168**	**(794)**
Components of Loan Modifications		
Loan Modification Costs	4,143	-
Modification Adjustment Transfers	(9)	-
Loan Modifications	**4,134**	**-**
Activity		
Fee Collections	482	448
Loan Cancellations[2]	(240)	(154)
Subsidy Allowance Amortization	456	435
Other	(427)	(390)
Total Activity	**271**	**339**
Ending Balance, Allowance for Subsidy	**$ 13,743**	**$ 8,245**

[1] The interest rate re-estimate relates to subsidy associated with establishing a fixed rate for the Department's borrowing from Treasury.

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

Federal Family Education Loan Program. The following schedule provides a reconciliation between the beginning and ending balances of the liability for loan guarantee for the insurance portion of the FFEL Program:

FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2008	2007
Beginning Balance, FFEL Financing Accounts Liability for Loan Guarantees	**$ 50,731**	**$ 52,350**
Components of Subsidy Transfers		
Interest Supplement Costs	1,212	7,580
Defaults, Net of Recoveries	43	885
Fees	(449)	(5,052)
Other[1]	436	2,967
Current Year Subsidy Transfers	**1,242**	**6,380**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(700)	1,286
Technical and Default Re-estimates	(760)	(2,782)
Subsidy Re-estimates	**(1,460)**	**(1,496)**
Components of Loan Modifications		
Loan Modification Costs	(2,464)	-
Modification Adjustment Transfers	(30)	-
Loan Modifications	**(2,494)**	**-**
Activity		
Interest Supplement Payments	(8,744)	(10,991)
Claim Payments	(8,029)	(5,924)
Fee Collections	4,107	4,036
Interest on Liability Balance	1,372	1,616
Other[2]	6,460	4,760
Total Activity	**(4,834)**	**(6,503)**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 43,185**	**$ 50,731**
FFEL Liquidating Account Liability for Loan Guarantees	137	143
Liabilities for Loan Guarantees	**$ 43,322**	**$ 50,874**

[1] Subsidy primarily associated with debt collections and loan cancellations due to death, disability, and bankruptcy.

[2] Activity primarily associated with the transfer of subsidy for defaults; loan consolidation activity; and loan cancellations due to death, disability, and bankruptcy.

Financing Account Interest Expense and Interest Revenue

Financing accounts borrow from Treasury to fund the unsubsidized portion of lending activities. The Department calculates and pays Treasury interest at the end of each year. During the year, interest is earned on outstanding direct loans, outstanding FFEL loans purchased by the Department, participation interests, and the Fund Balance with Treasury.

Subsidy amortization is calculated, as required in Statement of Federal Financial Accounting Standards No. 2, *Accounting for Direct Loans and Loan Guarantees*, as the difference between interest revenue and interest expense. The allowance for subsidy is adjusted with the offset to interest revenue.

William D. Ford Federal Direct Loan Program. The following schedule summarize the Direct Loan financing account interest expense and interest revenue:

Direct Loan Program
(Dollars in Millions)

	2008	2007
Interest Expense on Treasury Borrowing	$ 6,190	$ 5,675
Interest Expense	**$ 6,190**	**$ 5,675**
Interest Revenue from the Public	$ 5,277	$ 4,859
Amortization of Subsidy	(456)	(435)
Interest Revenue on Uninvested Funds	1,369	1,251
Interest Revenue	**$ 6,190**	**$ 5,675**

Payable to Treasury

Payable to Treasury for the years ended September 30, 2008 and 2007, consisted of the following:

Payable to Treasury
(Dollars in Millions)

	2008	2007
Future Liquidating Account Collections, Beginning Balance	**$ 4,108**	**$ 4,555**
Valuation of Pre-1992 Loan Liability and Allowance	250	288
Capital Transfers to Treasury	(592)	(735)
Future Liquidating Account Collections, Ending Balance	**$ 3,766**	**$ 4,108**
Collections on Guaranty Agency Federal Funds	-	2
Direct Loan Program Downward Subsidy Re-estimate	-	498
FFEL Program Downward Subsidy Re-estimate	-	743
Payable to Treasury	**$ 3,766**	**$ 5,351**

The liquidating account, based on available fund balance, periodically transfers Fund Balance to Treasury's account. The FFEL and Direct Loan financing accounts pay the liability related to downward subsidy re-estimates upon budget execution. Effective FY 2008, Treasury guidance requires that the liability resulting from downward subsidy re-estimates be included in Other Intragovernmental Liabilities on the Balance Sheet (see Note 9).

Subsidy Expense

William D. Ford Federal Direct Loan Program

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2008	2007
Components of Current Year Subsidy Transfers		
Interest Rate Differential	$ (1,540)	$ (846)
Defaults, Net of Recoveries	454	422
Fees	(487)	(398)
Other	1,498	1,117
Current Year Subsidy Transfers	**(75)**	**295**
Subsidy Re-estimates	1,168	(794)
Loan Modification Costs	4,143	-
Direct Loan Subsidy Expense	**$ 5,236**	**$ (499)**

In the 2008 re-estimates, Direct Loan subsidy expense was increased by $1.2 billion. Changes in interest rates increased subsidy expense by $859 million, updated data on teacher loan forgiveness led to an additional increase of $481 million, and rising default rates increased subsidy expense by $194 million. These increases were partially offset by decreases due to reduced prepayments of $(606) million and changes in the rate at which loans enter repayment of $(261) million. The subsidy rate is sensitive to interest rate fluctuations. For example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan subsidy expense by $465 million.

In the 2007 re-estimates, Direct Loan subsidy expense was decreased by $794 million. Changes in the income-contingent repayment assumption increased subsidy expense by $1 billion. This increase was more than offset by decreases in subsidy cost related to loan volume of $(924) million, statutory loan discharges of $(544) million, interest rates of $(348) million and other factors. The subsidy rate is sensitive to interest rate fluctuations. For example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan costs by $955 million.

Federal Family Education Loan Program

FFEL Program Subsidy Expense

(Dollars in Millions)

	2008	2007
FFEL Guaranteed Loan Program		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	$ 1,212	$ 7,580
Defaults, Net of Recoveries	43	885
Fees	(449)	(5,052)
Other	436	2,967
Current Year Subsidy Transfers	**1,242**	**6,380**
Subsidy Re-estimates	(1,460)	(1,496)
Loan Modification Costs	(2,464)	-
FFEL Guaranteed Loan Program Subsidy Expense	**$ (2,682)**	**$ 4,884**
Temporary Loan Purchase Authority		
Loan Purchase Commitment		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	$ (9)	$ -
Defaults, Net of Recoveries	-	-
Fees	2	-
Other	5	-
Loan Purchase Commitment Subsidy Expense	**$ (2)**	**$ -**
Loan Participation Purchase		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	$ (292)	$ -
Defaults, Net of Recoveries	5	-
Fees	(476)	-
Other	595	-
Loan Participation Purchase Subsidy Expense	**$ (168)**	$ -
FFEL Program Subsidy Expense	**$ (2,852)**	**$ 4,884**

In the 2008 re-estimates, FFEL subsidy expense was decreased by $1.5 billion. Changes in interest rate forecasts decreased subsidy expense by $8.7 billion. This decrease was partially offset by increases of $4.4 billion due to reduced prepayments, $2.5 billion due to changes in projected guaranty agency retention of collections on defaulted loans, and $1.3 billion due to greater use of teacher loan forgiveness benefits. The subsidy rate is sensitive to interest rate fluctuations. For example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL costs by $16.3 billion.

In the 2007 re-estimates, FFEL subsidy expense was decreased by $1.5 billion. Changes in the federal cost of loan deferments and forbearance increased subsidy expense by $2.3 billion. This increase was more than offset by changes in subsidy cost related to statutory loan discharges of $(1.4) billion, loan maturity and repayment rates of $(1.5) billion, loan volume of $(890) million and other factors. The subsidy rate is sensitive to interest rate fluctuations. For example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL costs by $11.1 billion.

In FY 2007 the Department restated the eligibility requirements specified by the HEA for lenders to receive special allowance payments at the 9.5 percent minimum return rate on loans made or purchased with funds derived from tax-exempt obligations issued before October 1993, and implemented certain processes to validate eligibility. As a result of lenders' business decisions and audits performed in FYs 2007 and 2008, nearly two-thirds of lenders previously requesting this special allowance payment have ceased requesting the payment in 2008. The Department decreased the FFEL subsidy by $269 million as a result.

Subsidy Rates

The subsidy rates applicable to the 2008 loan cohort year follow:

Subsidy Rates—Cohort 2008

	Interest Differential/ Supplements	Defaults	Fees	Other	Total
Direct Loan Program	(7.28%)	1.58%	(1.95%)	5.68%	(1.97%)
FFEL Program (Post-1991):					
FFEL Guaranteed Loan Program	0.88%	0.53%	(3.57%)	2.15%	(0.01%)
Temporary Loan Purchase Authority:					
Loan Purchase Commitment	(14.78%)	0.07%	2.66%	8.19%	(3.86%)
Loan Participation Purchase	(3.53%)	0.06%	(5.80%)	7.26%	(2.01%)

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year. 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 the Department disburses direct loans or third-party lenders disburse guaranteed loans. The subsidy expense reported in the current year also includes modifications and re-estimates. The subsidy rates shown above, which reflect aggregate negative subsidy in the FY 2008 cohort, cannot be applied to direct or guaranteed loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole.

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

Administrative Expenses

Administrative Expense for the years ended September 30, 2008 and 2007, consisted of the following:

Administrative Expense
(Dollars in Millions)

	2008		2007	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 343	$ 222	$ 397	$ 232
Other Expense	14	9	16	9
Administrative Expenses	**$ 357**	**$ 231**	**$ 413**	**$ 241**

Note 7. General Property, Plant and Equipment

General Property, Plant and Equipment, as of September 30, 2008 and 2007, consisted of the following:

General Property, Plant and Equipment
(Dollars in Millions)

	2008		
	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software and Telecommunications Equipment	$ 152	$ (100)	$ 52
Furniture and Fixtures	3	(3)	-
General Property, Plant and Equipment	**$ 155**	**$ (103)**	**$ 52**

	2007		
	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software and Telecommunications Equipment	$ 129	$ (84)	$ 45
Furniture and Fixtures	3	(2)	1
General Property, Plant and Equipment	**$ 132**	**$ (86)**	**$ 46**

The majority of the asset costs relate to financial management systems and other information technology and communications improvements.

Leases

The Department leases information technology and telecommunications equipment as part of a contractor-owned contractor-operated services contract. Lease payments associated with the equipment are classified as operating leases and as such are expensed as incurred. The non-cancelable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options.

The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are operating leases. Future lease payments are not accrued as liabilities, but expensed as incurred. Estimated future minimum lease payments for the privately owned buildings are presented below.

Leases

(Dollars in Millions)

2008			2007		
Fiscal Year	**Lease Payment**		**Fiscal Year**	**Lease Payment**	
2009	$	47	2008	$	47
2010		50	2009		48
2011		54	2010		52
2012		61	2011		56
2013		70	2012		63
After 2013		72	After 2012		65
Total	**$**	**354**	**Total**	**$**	**331**

Note 8. Debt

Debt as of September 30, 2008 and 2007, consisted of the following:

Debt
(Dollars in Millions)

	2008			
	Beginning Balance	**New Borrowing**	**Repayments**	**Ending Balance**
Treasury Debt				
Direct Loan Program	$ 103,893	$ 28,172	$ (14,646)	$ 117,419
FFEL Program				
Loan Purchase Commitment	-	69	-	69
Loan Participation Purchase	-	10,754	-	10,754
TEACH Grant Program	-	26	(12)	14
Facilities Loan Program	81	-	(6)	75
Total Treasury Debt	**$ 103,974**	**$ 39,021**	**$ (14,664)**	**$ 128,331**
Other Debt				
FFB	313	28	(4)	337
Total	**$ 104,287**	**$ 39,049**	**$ (14,668)**	**$ 128,668**

	2007			
	Beginning Balance	**New Borrowing**	**Repayments**	**Ending Balance**
Treasury Debt				
Direct Loan Program	$ 105,430	$ 17,892	$ (19,429)	$ 103,893
FFEL Program				
Loan Purchase Commitment	-	-	-	-
Loan Participation Purchase	-	-	-	-
TEACH Grant Program	-	-	-	-
Facilities Loan Program	93	-	(12)	81
Total Treasury Debt	**$ 105,523**	**$ 17,892**	**$ (19,441)**	**$ 103,974**
Other Debt				
FFB	154	170	(11)	313
Total	**$ 105,677**	**$ 18,062**	**$ (19,452)**	**$ 104,287**

The level of repayments on borrowings to Treasury is derived from many factors. For instance, beginning of the year cash balances, collections, and new borrowings have an impact on the cash available to repay Treasury. Cash is also held to cover future liabilities, such as contract collection costs and disbursements in transit.

Note 9. Other Liabilities

Other liabilities include current and non-current liabilities. The non-current liabilities primarily relate to the student loan receivables of the Federal Perkins Loan Program, which when collected will be returned to the General Fund of Treasury.

The current liabilities covered by budgetary resources primarily consist of downward subsidy re-estimates, which when executed will be paid to Treasury. Effective FY 2008, Treasury guidance requires that the liability resulting from downward subsidy re-estimates be included in Other Intragovernmental Liabilities. In FY 2007 and prior, these amounts were included in Payable to Treasury. (See Note 6)

Other Liabilities as of September 30, 2008 and 2007 consisted of the following:

Other Liabilities
(Dollars in Millions)

	2008		2007	
	Intragovern-mental	**With the Public**	**Intragovern-mental**	**With the Public**
Liabilities Covered by Budgetary Resources				
Current				
Advances From Others	$ 91	$ -	$ 87	$ -
Employer Contributions and Payroll Taxes	4	-	3	-
Liability for Deposit Funds	(7)	35	(1)	35
Accrued Payroll and Benefits	-	19	-	15
Deferred Revenue	-	42	-	-
Liabilities in Miscellaneous Receipt Accounts	6,847	-	-	-
Contractual Services	-	-	-	46
Total Other Liabilities Covered by Budgetary Resources	**$ 6,935**	**$ 96**	**$ 89**	**$ 96**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	$ -	$ 33	$ -	$ 31
Non-current				
Accrued Unfunded FECA Liability	3	-	3	-
Liabilities in Miscellaneous Receipt Accounts	186	-	200	-
Accrued FECA Actuarial Liability	-	16	-	16
Total Other Liabilities Not Covered by Budgetary Resources	**$ 189**	**$ 49**	**$ 203**	**$ 47**
Other Liabilities	**$ 7,124**	**$ 145**	**$ 292**	**$ 143**

Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources totaled $238 million and $250 million as of September 30, 2008 and 2007, respectively.

As of September 30, 2008 and 2007, liabilities on the Balance Sheet totaled $188.2 billion and $165.1 billion respectively. Of this amount, liabilities covered by budgetary resources totaled $188.0 billion as of September 30, 2008, and $164.8 billion as of September 30, 2007.

Note 10. Accrued Grant Liability

The accrued grant liability by major reporting groups as of September 30, 2008 and 2007, consisted of the following:

Accrued Grant Liability

(Dollars in Millions)

	2008	2007
FSA	$ 862	$ 1,030
OESE	557	348
OSERS	512	478
Other	314	238
Accrued Grant Liability	**$ 2,245**	**$ 2,094**

Note 11. Net Position

Unexpended appropriations as of September 30, 2008 and 2007, consisted of the following:

Unexpended Appropriations

(Dollars in Millions)

	2008	2007
Unobligated Balances		
Available	$ 1,526	$ 3,084
Not Available	815	892
Undelivered Orders, end of period	47,165	48,071
Unexpended Appropriations	**$ 49,506**	**$ 52,047**

The Cumulative Results of Operations - Earmarked Funds of $17 million as of September 30, 2008, and $39 million as of September 30, 2007, represent donations from foreign governments, international entities and individuals to support Hurricane Katrina relief and recovery efforts that have not yet been used. (See Note 17)

The Cumulative Results of Operations - Other Funds of $(6,187) million as of September 30, 2008, and $(2,505) million as of September 30, 2007, consists mostly of unfunded upward subsidy re-estimates, other unfunded expenses, and net investments of capitalized assets.

Note 12. Intragovernmental Cost and Exchange Revenue by Program

As required by the *Government Performance and Results Act of 1993*, each of the Department's Reporting Organizations has been aligned with the major goals presented in the Department's *Strategic Plan 2007—2012*.

Net Cost Program	Reporting Organizations	Strategic Goal
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement	FSA OPE OVAE	3. Ensure the accessibility, affordability, and accountability of higher education, and better prepare students and adults for employment and future learning
Promote Academic Achievement in Elementary and Secondary Schools	OESE OELA OSDFS	1. Improve Student Achievement, with the focus on bringing all students to grade level in reading and mathematics by 2014 2. Increase the academic achievement of all high school students
Transformation of Education	IES OII	1. Improve Student Achievement, with the focus on bringing all students to grade level in reading and mathematics by 2014
Special Education	OSERS	Cuts across Strategic Goals 1, 2, and 3

In FY 2007, the Department streamlined its strategic goals to better serve its mission to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access to education. The Department has a Cross-Goal Strategy on Management, which is considered a high-level premise on which the Department establishes its foundation for the three goals. As a result, we do not assign specific programs to the Cross-Goal Strategy for presentation in the Statement of Net Cost. Strategic Goals 1, 2, and 3 are sharply defined directives that guide the Department's reporting organizations to carry out the vision and programmatic mission, and the Net Cost programs can be specifically associated with these three strategic goals.

The following table presents the gross cost and exchange revenue by program for the Department for FYs 2008 and 2007. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between the Department and other entities within the federal government) or with the public (exchange transactions between the Department and non-federal entities).

Gross Cost and Exchange Revenue by Program

Gross Cost and Exchange Revenue by Program, as of September 30, 2008 and 2007, consisted of the following:

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2008				
	FSA	**OESE**	**OSERS**	**Other**	**Total**
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement					
Intragovernmental Gross Cost	$ 6,903	$ -	$ -	$ 82	$ 6,985
Gross Costs with the Public	21,885	-	-	4,220	26,105
Total Program Costs	28,788	-	-	4,302	33,090
Less: Intragovernmental Earned Revenue	4,128	-	-	19	4,147
Earned Revenue from the Public	4,901	-	-	34	4,935
Total Program Revenue	9,029	-	-	53	9,082
Promote Academic Achievement in Elementary and Secondary Schools					
Intragovernmental Gross Cost	-	135	-	16	151
Gross Costs with the Public	-	21,659	-	1,680	23,339
Total Program Costs	-	21,794	-	1,696	23,490
Less: Intragovernmental Earned Revenue	-	-	-	70	70
Earned Revenue from the Public	-	12	-	4	16
Total Program Revenue	-	12	-	74	86
Transformation of Education					
Intragovernmental Gross Cost	-	-	-	80	80
Gross Costs with the Public	-	-	-	1,489	1,489
Total Program Costs	-	-	-	1,569	1,569
Less: Intragovernmental Earned Revenue	-	-	-	2	2
Earned Revenue from the Public	-	-	-	30	30
Total Program Revenue	-	-	-	32	32
Special Education					
Intragovernmental Gross Cost	-	-	42	-	42
Gross Costs with the Public	-	-	15,843	-	15,843
Total Program Costs	-	-	15,885	-	15,885
Less: Intragovernmental Earned Revenue	-	-	2	-	2
Earned Revenue from the Public	-	-	15	-	15
Total Program Revenue	-	-	17	-	17
Net Cost of Operations	**$19,759**	**$21,782**	**$15,868**	**$7,408**	**$64,817**

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2007				
	FSA	**OESE**	**OSERS**	**Other**	**Total**
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement					
Intragovernmental Gross Cost	$ 5,561	$ -	$ -	$ 82	$ 5,643
Gross Costs with the Public	21,858	-	-	4,423	26,281
Total Program Costs	27,419	-	-	4,505	31,924
Less: Intragovernmental Earned Revenue	3,452	-	-	-	3,452
Earned Revenue from the Public	4,459	-	-	22	4,481
Total Program Revenue	7,911	-	-	22	7,933
Promote Academic Achievement in Elementary and Secondary Schools					
Intragovernmental Gross Cost	-	142	-	17	159
Gross Costs with the Public	-	21,279	-	1,930	23,209
Total Program Costs	-	21,421	-	1,947	23,368
Less: Intragovernmental Earned Revenue	-	-	-	78	78
Earned Revenue from the Public	-	-	-	-	-
Total Program Revenue	-	-	-	78	78
Transformation of Education					
Intragovernmental Gross Cost	-	-	-	76	76
Gross Costs with the Public	-	-	-	1,392	1,392
Total Program Costs	-	-	-	1,468	1,468
Less: Intragovernmental Earned Revenue	-	-	-	4	4
Earned Revenue from the Public	-	-	-	14	14
Total Program Revenue	-	-	-	18	18
Special Education					
Intragovernmental Gross Cost	-	-	82	-	82
Gross Costs with the Public	-	-	15,474	-	15,474
Total Program Costs	-	-	15,556	-	15,556
Less: Intragovernmental Earned Revenue	-	-	3	-	3
Earned Revenue from the Public	-	-	-	-	-
Total Program Revenue	-	-	3	-	3
Net Cost of Operations	**$19,508**	**$21,421**	**$15,553**	**$7,802**	**$64,284**

Note 13. Interest Expense and Interest Revenue

For FY 2008 and FY 2007, interest expense and interest revenue by program consisted of the following:

Interest Expense and Interest Revenue
(Dollars in Millions)

	2008					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	$ 6,190	$ -	$ 6,190	$ 1,369	$ 4,821	$ 6,190
FFEL Program						
FFEL Guaranteed Loan Program	-	1,372	1,372	1,372	-	1,372
Loan Purchase Commitment	3	-	3	3	-	3
Loan Participation Purchase	492	-	492	465	27	492
TEACH Grant Program	1	-	1	1	-	1
Other Programs	23	-	23	17	57	74
Total	**$ 6,709**	**$ 1,372**	**$ 8,081**	**$ 3,227**	**$ 4,905**	**$ 8,132**

	2007					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	$ 5,675	$ -	$ 5,675	$ 1,251	$ 4,424	$ 5,675
FFEL Program						
FFEL Guaranteed Loan Program	-	1,616	1,616	1,616	-	1,616
Loan Purchase Commitment	-	-	-	-	-	-
Loan Participation Purchase	-	-	-	-	-	-
TEACH Grant Program	-	-	-	-	-	-
Other Programs	15	-	15	-	24	24
Total	**$ 5,690**	**$ 1,616**	**$ 7,306**	**$ 2,867**	**$ 4,448**	**$ 7,315**

Federal interest expense is recognized on the Department's outstanding debt. Non-federal interest revenue is earned on the individual loans and participation interests in FFEL loans. Federal interest revenue is earned on the uninvested fund balance with Treasury.

Note 14. Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. As of September 30, 2008, budgetary resources were $193,993 million and net outlays were $90,580 million. As of September 30, 2007, budgetary resources were $168,264 million and net outlays were $74,530 million.

Permanent Indefinite Budget Authority

The Direct Loan, FFEL, and TEACH Grant Programs have permanent indefinite 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, pertain to the existence, purpose, and availability of this permanent indefinite budget authority.

Reauthorization of Legislation

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

Obligations Incurred by Apportionment Type and Category

Obligations incurred by apportionment type and category, as of September 30, 2008 and 2007, consisted of the following:

Obligations Incurred by Apportionment Type and Category
(Dollars in Millions)

		2008		2007
Direct:				
Category A	$	1,285	$	1,303
Category B		161,452		124,472
Exempt from Apportionment		6		13
	$	162,743	$	125,788
Reimbursable:				
Category A	$	-	$	-
Category B		-		-
Exempt from Apportionment		96		93
	$	96	$	93
Obligations Incurred	**$**	**162,839**	**$**	**125,881**

Obligations incurred can be either direct or reimbursable. Reimbursable obligations are those financed by offsetting collections received in return for goods and services provided, while all other obligations are direct. Category A apportionments are those resources that 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.

Unused Borrowing Authority

Unused borrowing authority, as of September 30, 2008 and 2007, consisted of the following:

Unused Borrowing Authority
(Dollars in Millions)

		2008		2007
Beginning Balance, Unused Borrowing Authority	**$**	**9,223**	**$**	**7,248**
Current Year Borrowing Authority		57,743		20,037
Funds Drawn From Treasury		(39,049)		(18,062)
Borrowing Authority Withdrawn		(1,987)		-
Ending Balance, Unused Borrowing Authority	**$**	**25,930**	**$**	**9,223**

The Department is given authority to draw funds from Treasury to finance the Direct Loan, Loan Purchase Commitment Authority, Loan Participation Purchase Authority, and TEACH Grant Program. Unused Borrowing Authority is a budgetary resource and is available to support obligations. The Department periodically reviews its borrowing authority balances in relation to its obligations and may cancel unused amounts.

Undelivered Orders at the End of the Period

Undelivered orders, as of September 30, 2008 and 2007, consisted of the following:

Undelivered Orders

(Dollars in Millions)

	2008	2007
Budgetary	$ 47,211	$ 48,235
Non-Budgetary	40,621	14,217
Undelivered Orders (Unpaid)	**$ 87,832**	**$ 62,452**

Undelivered orders at the end of the period, as presented above, will differ from the undelivered orders included in the Net Position, Unexpended Appropriations. Undelivered orders for trust funds, reimbursable agreements, and federal credit financing and liquidating funds are not funded through appropriations and are not included in Net Position. (See Note 11)

Explanation of Differences Between the Statement of Budgetary Resources and the *Budget of the United States Government*

The *FY 2010 Budget of the United States Government* (President's Budget) presenting the actual amounts for the year ended September 30, 2008, has not been published as of the issue date of these financial statements. The FY 2010 President's Budget is scheduled for release in February 2009. A reconciliation of the FY 2007 SBR to FY 2009 President's Budget (FY 2007 actual amounts) for budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays is presented below.

SBR to Budget of the United States Government

(Dollars in Millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 168,264	$ 125,881	$ 4,873	$ 74,530
Expired Funds	(732)	(354)	-	-
Amounts included in the President's Budget	7,967	7,967	-	-
Funds excluded from President's Budget and Rounding	(4)	(3)	(2)	(2)
Distributed Offsetting Receipts	-	-	-	4,873
Budget of the United States Government	**$ 175,495**	**$ 133,491**	**$ 4,871**	**$ 79,401**

The President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL Program for the estimated activity of the consolidated Federal Funds of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the Federal Fund is independent from the Department's direct control, budgetary resources and obligations are estimated and disclosed in the President's Budget to approximate the gross activities of the combined Federal Funds. Amounts reported on the FY 2007 SBR for the Federal Fund are compiled through combining all guaranty agencies' annual reports to determine a net valuation amount for the Federal Fund.

Note 15. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations (proprietary) to Budget provides information on how budgetary resources obligated during the period relate to the net cost of operations. The schedule presented in this footnote reconciles budgetary resources with the net cost of operations by (1) removing resources that 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.

Components Requiring or Generating Resources in Future Periods primarily result from subsidy re-estimates that will be executed in future periods. The Reconciliation of Net Cost of Operations to Budget as of September 30, 2008 and 2007, are presented below:

Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

	2008	2007
Resources Used to Finance Activities		
Obligations Incurred	$ (162,839)	$ (125,881)
Spending Authority from Offsetting Collections and Recoveries	40,536	44,165
Offsetting Receipts	5,853	4,873
Imputed Financing from Costs Absorbed by Others	(29)	(32)
Total Resources Used to Finance Activities	**(116,479)**	**(76,875)**
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 (+/-)	(25,553)	(2,343)
Resources that Fund Expenses Recognized in Prior Period	(1,111)	(3,345)
Credit Program Collections which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	29,763	34,261
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net in the Current or Prior Period	(51,742)	(39,979)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**(48,643)**	**(11,406)**
Components Not Requiring or Generating Resources		
Depreciation and Amortization	(456)	(445)
Other (+/-)	290	907
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	**(166)**	**462**
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	(6)	(31)
Upward/Downward Re-estimates of Credit Subsidy Expense	513	(1,354)
Increase in Exchange Revenue Receivable from the Public	2,607	2,302
Other (+/-)	71	(194)
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	**3,185**	**723**
Net Cost of Operations	**$ (64,817)**	**$ (64,284)**

Note 16. Incidental Custodial Collections

The Department administers certain activities associated with the collection of non-exchange revenues. The Department collects these amounts in a custodial capacity and transfers the amounts collected to the General Fund of the Treasury at the end of each fiscal year. These collections primarily consist of interest and penalties on accounts receivable and are considered incidental to the primary mission of the Department. During FYs 2008 and 2007, the Department collected $1.4 million and $5.4 million, respectively, in custodial revenues.

Note 17. 2005 Hurricane Relief

The *Hurricane Education Recovery Act* (P.L. 109-148, Division B, Title IV), enacted on December 30, 2005, and the *U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007,* appropriated funds to the Department to provide needed assistance to reopen schools and help educate the 370,000 students affected by Hurricanes Katrina and Rita. As of September 30, 2008, $1,945 million has been appropriated to the Department, of which $1,942 million has been obligated to assist local educational agencies and non-public schools, and $1,748 million has been expended. As of September 30, 2007, $1,945 million has been appropriated to the Department, of which $1,943 million has been obligated to assist local educational agencies and non-public schools, and $1,557 million has been expended.

Earmarked Funds Donated for Hurricane Relief

In the aftermath of Hurricane Katrina, a number of foreign governments, international entities and individuals made donations of financial assistance to the U.S. Government to support Katrina relief and recovery efforts. These donations were received by the U.S. Department of State as an intermediary. Subsequently, $61 million was transferred to the Department to finance educational initiatives in Louisiana and Mississippi under a Memorandum of Understanding issued in March 2006. As of September 30, 2008, $61 million has been obligated from the earmarked funds to assist in the relief and recovery efforts and $44 million has been expended. As of September 30, 2007, $61 million has been obligated from the earmarked funds to assist in the relief and recovery efforts and $22 million has been expended.

Note 18. Contingencies

Guaranty Agencies

The Department can assist guaranty agencies experiencing financial difficulties by various 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 cannot be estimated with sufficient reliability.

Federal Perkins Loan Program Reserve Funds

The Federal Perkins Loan Program is a campus-based program providing financial assistance to eligible postsecondary school students. In fiscal year 2008, the Department provided funding of 83.01 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 16.99 percent of program funding. For the latest academic year ended June 30, 2008, approximately 648 thousand loans were made, totaling approximately $1.4 billion at 1,625 institutions, averaging $2,121 per loan. The Department's share of the Federal Perkins Loan Program was approximately $6.5 billion as of June 30, 2008.

In FY 2007, the Department provided funding of 84.3 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 15.7 percent of program funding. For the academic year ended June 30, 2007, approximately 722 thousand loans were made, totaling approximately $1.6 billion at 1,636 institutions, averaging $2,230 per loan. The Department's share of the Federal Perkins Loan Program was approximately $6.5 billion as of June 30, 2007.

Federal Perkins Loan Program 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, in nursing, or in 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 Federal Perkins Loan Program institutions for the cost of the partial loan forgiveness.

Litigation and Other Claims

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

Other Matters

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

Note 19. Subsequent Events

On October 7, 2008, President Bush signed P.L. 110-350, which extended the Secretary of Education's authority to purchase FFEL loans. This authority, originally enacted in the ECASLA, would have otherwise expired on September 30, 2009; P.L. 110-350 extended the authority through September 30, 2010. The Administration recently announced plans to replicate the 2008-2009 loan purchase and participation options for the 2009-2010 award year. Other approaches to purchase outstanding FFEL loans are also under consideration, but specific terms and conditions have yet to be determined.