Financial Details

"Improving education is not just a moral obligation of society. It's not just an economic imperative. It's the civil rights issue of our generation—the only sure path out of poverty and the only way to achieve the vision of equality spelled out by our founders."

—Secretary Duncan

Message From the Chief Financial Officer

The Department of Education continued its high standard of financial management and reporting during FY 2009. The Department's excellence in financial management has been a joint effort of its managers, employees and business partners. In FY 2009, we:

- Successfully implemented financial reporting requirements for the *Recovery Act*. The Department prepares detailed *Recovery Act* related financial information that is submitted and posted to Recovery.gov on a weekly basis;
- Continued to successfully implement new loan access initiatives to ensure accessibility of federal student loans to eligible students and parents;
- Received an unqualified opinion on the principal financial statements for the eighth consecutive year, continuing a clear pattern of financial accountability;
- Continued to have no material weaknesses identified by our auditors as part of our Report on Internal Control for the seventh consecutive year; and
- Continued to provide reasonable assurance of the Department's internal controls.

In FY 2009, the Department also took steps to address two significant deficiencies identified in the FY 2008 "Report on Internal Controls," credit reform and information system controls. Regarding credit reform, the Department improved student loan reporting and analysis by amending and expanding the analytical tools used for the loan estimation process to accommodate the *ECASLA* programs. Additionally, the Department examined deferment, forbearance and default rates as part of ongoing cohort analysis, and conducted sensitivity analysis to show the impact of variations in major assumptions on the loan estimation process.

Regarding information system controls, the Department continued to address security and control weaknesses. The Department established an Enterprise Corrective Action Process (ECAP) to assess security vulnerabilities, conduct root cause analysis and establish remediation efforts. Additionally, the Department standardized vulnerability scanning, security controls, testing criteria and server configuration procedures.

During FY 2009, the Department assessed the effectiveness of its internal controls over financial reporting. This review was based on the requirements of OMB Circular A-123 (Appendix A), *Management's Responsibility for Internal Control*. We are pleased to report that the Department can give an unqualified statement of assurance on its internal control over financial reporting. This examination provided a valuable opportunity to review and improve internal controls and ensure integrity in financial management and reporting.

/s/

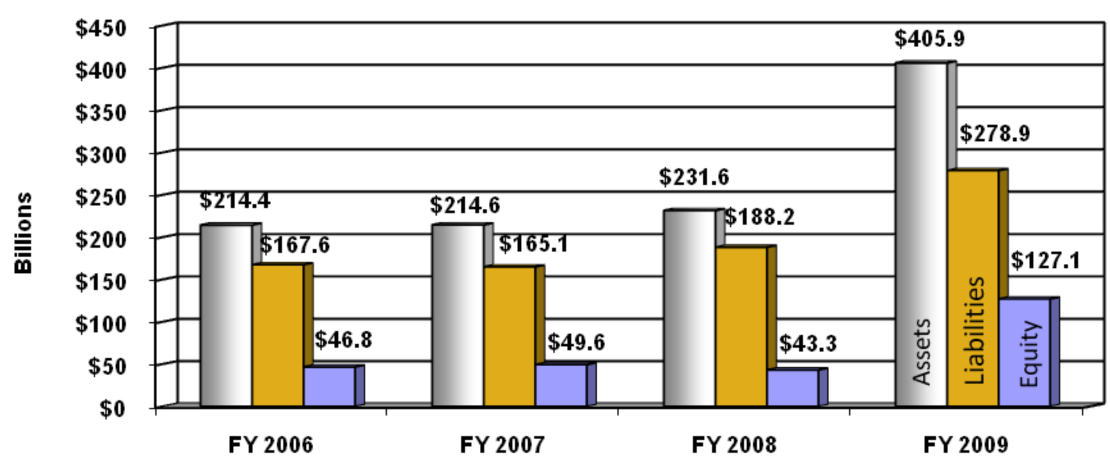
Thomas P. Skelly
Delegated to Perform Functions of Chief Financial Officer
November 16, 2009

Financial Summary

Dollars in Millions

Balance Sheet

	% Change 2009/2008	FY 2009	FY 2008	FY 2007	FY 2006
Fund Balance with Treasury	+77%	$ 168,032	$ 94,899	$ 97,532	$ 107,053
Credit Program Receivables	+74%	234,254	134,725	115,904	106,728
Other	+88%	3,659	1,949	1,202	640
Total Assets		**405,945**	**231,573**	**214,638**	**214,421**
Debt	+83%	235,385	128,668	104,287	105,677
Liabilities for Loan Guarantees	-53%	20,543	43,322	50,874	52,453
Other	+41%	22,957	16,247	9,896	9,481
Total Liabilities		**278,885**	**188,237**	**165,057**	**167,611**
Unexpended Appropriations	+157%	127,269	49,506	52,047	51,812
Cumulative Results of Operations	-97%	(209)	(6,170)	(2,466)	(5,002)
Total Net Position		**127,060**	**43,336**	**49,581**	**46,810**
Total Liabilities and Net Position		**$ 405,945**	**$ 231,573**	**$ 214,638**	**$ 214,421**



Statement of Net Cost

	% Change 2009/2008	FY 2009	FY 2008	FY 2007	FY 2006
Gross Cost	-25%	$ 55,412	$ 74,034	$ 72,316	$ 104,699
Earned Revenue	+22%	(11,251)	(9,217)	(8,032)	(7,870)
Total Net Cost of Operations		**$ 44,161**	**$ 64,817**	**$ 64,284**	**$ 96,829**

Net Cost Based on the *Department's Strategic Plan 2007-2012*		**FY 2009**	**FY 2008**
Goal 1	Improve student achievement, with a focus on bringing all students to grade level in reading and mathematics by 2014	$ 49,357	$ 37,045
Goal 2	Increase the academic achievement of all high school students	2,299	2,112
Goal 3	Ensure the accessibility, affordability, and accountability of higher education, and better prepare students and adults for employment and future learning	(8,060)	25,094
Cross-goal	Strategy on Management	565	566
Total Net Cost of Operations		**$ 44,161**	**$ 64,817**

United States Department of Education
Consolidated Balance Sheet
As of September 30, 2009 and 2008

(Dollars in Millions)

	FY 2009	FY 2008
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 168,032	$ 94,899
Accounts Receivable (Note 4)		2
Other Intragovernmental Assets (Note 8)	141	95
Total Intragovernmental	168,173	94,996
Cash and Other Monetary Assets (Note 5)	2,414	1,663
Accounts Receivable, Net (Note 4)	520	100
Credit Program Receivables, Net (Note 6)	234,254	134,725
General Property, Plant and Equipment, Net (Note 7)	38	52
Other Assets (Note 8)	546	37
Total Assets (Note 2)	**$ 405,945**	**$ 231,573**
Liabilities:		
Intragovernmental:		
Accounts Payable		$ 8
Debt (Note 9)	$ 235,385	128,668
Guaranty Agency Federal and Restricted Funds Due to Treasury (Note 5)	2,414	1,663
Payable to Treasury (Note 6)	3,569	3,766
Other Intragovernmental Liabilities (Note 10)	11,503	7,124
Total Intragovernmental	252,871	141,229
Accounts Payable	1,919	1,296
Accrued Grant Liability (Note 11)	2,962	2,245
Liabilities for Loan Guarantees (Note 6)	20,543	43,322
Other Liabilities (Note 10)	590	145
Total Liabilities	**$ 278,885**	**$ 188,237**
Commitments and Contingencies (Note 20)		
Net Position:		
Unexpended Appropriations		
Earmarked Funds (Note 19)		
Other Funds	$ 127,269	$ 49,506
Cumulative Results of Operations		
Earmarked Funds (Note 19)	8	17
Other Funds	(217)	(6,187)
Total Net Position (Note 12)	**$ 127,060**	**$ 43,336**
Total Liabilities and Net Position	**$ 405,945**	**$ 231,573**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Net Cost
For the Years Ended September 30, 2009 and 2008

(Dollars in Millions)

Program Costs		FY 2009		FY 2008
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement				
Gross Costs	$	(6,344)	$	33,090
Less: Earned Revenue		11,107		9,082
Net Program Costs		(17,451)		24,008
Total Program Costs	**$**	**(17,451)**	**$**	**24,008**
Promote Academic Achievement in Elementary and Secondary Schools				
Gross Costs	$	23,239	$	23,490
Less: Earned Revenue		89		86
Net Program Costs		23,150		23,404
Total Program Costs	**$**	**23,150**	**$**	**23,404**
Transformation of Education				
Gross Costs	$	1,667	$	1,569
Less: Earned Revenue		35		32
Net Program Costs		1,632		1,537
Total Program Costs	**$**	**1,632**	**$**	**1,537**
Special Education				
Gross Costs	$	15,232	$	15,885
Less: Earned Revenue		20		17
Net Program Costs		15,212		15,868
Total Program Costs	**$**	**15,212**	**$**	**15,868**
American Recovery and Reinvestment Act				
Gross Costs	$	21,618		
Less: Earned Revenue				
Net Program Costs		21,618		
Total Program Costs	**$**	**21,618**	**$**	**0**
Net Cost of Operations (Notes 13 & 16)	**$**	**44,161**	**$**	**64,817**

The accompanying notes are an integral part of these statements.

United States Department of Education
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2009 and 2008

(Dollars in Millions)

	FY 2009 Cumulative Results of Operations	FY 2009 Unexpended Appropriations	FY 2008 Cumulative Results of Operations	FY 2008 Unexpended Appropriations
Beginning Balances				
Earmarked Funds	$ 17		$ 39	
All Other Funds	$ (6,187)	$ 49,506	$ (2,505)	$ 52,047
Budgetary Financing Sources:				
Appropriations Received				
Earmarked Funds				
All Other Funds		$ 164,927		$ 72,991
Appropriations Transferred - in/out				
Earmarked Funds				
All Other Funds		1		
Other Adjustments (rescissions, etc)				
Earmarked Funds				
All Other Funds	$ 2	(302)	$ (6)	(2,202)
Appropriations Used				
Earmarked Funds				
All Other Funds	86,863	(86,863)	73,330	(73,330)
Nonexpenditure Financing Sources-Transfers-Out				
Earmarked Funds				
All Other Funds	(18)		(208)	
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others				
Earmarked Funds				
All Other Funds	32		29	
Others				
Earmarked Funds				
All Other Funds	(36,757)		(12,032)	
Total Financing Sources				
Earmarked Funds				
All Other Funds	$ 50,122	$ 77,763	$ 61,113	$ (2,541)
Net Cost of Operations				
Earmarked Funds	$ (9)		$ (22)	
All Other Funds	$ (44,152)		$ (64,795)	
Net Change				
Earmarked Funds	$ (9)		$ (22)	
All Other Funds	$ 5,970	$ 77,763	$ (3,682)	$ (2,541)
Ending Balances (Note 12)				
Earmarked Funds	**$ 8**		**$ 17**	
All Other Funds	**$ (217)**	**$ 127,269**	**$ (6,187)**	**$ 49,506**

The accompanying notes are an integral part of these statements.

United States Department of Education
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2009 and 2008

(Dollars in Millions)

	FY 2009 Budgetary	FY 2009 Non-Budgetary Credit Reform Financing Accounts	FY 2008 Budgetary	FY 2008 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1	$ 4,307	$ 26,847	$ 5,272	$ 37,111
Recoveries of prior year Unpaid Obligations	1,012	8,038	2,097	3,115
Budgetary Authority:				
Appropriations	164,934	132	73,002	153
Borrowing Authority (Note 15)		200,265		57,743
Spending authority from offsetting collections (gross):				
Earned				
Collected	1,701	45,536	1,751	33,570
Change in Receivables from Federal Sources	1	(3)	(1)	
Change in unfilled customer orders				
Advance Received	4		4	
Without advance from Federal Sources	1	10		
Subtotal	$ 166,641	$ 245,940	$ 74,756	$ 91,466
Temporarily not available pursuant to Public Law	(887)			
Permanently not available	(980)	(13,141)	(2,980)	(16,844)
Total Budgetary Resources (Note 15)	**$ 170,093**	**$ 267,684**	**$ 79,145**	**$ 114,848**
Status of Budgetary Resources:				
Obligations incurred: (Note 15)				
Direct	$ 133,398	$ 257,690	$ 74,742	$ 88,001
Reimbursable	94		96	
Subtotal	$ 133,492	$ 257,690	$ 74,838	$ 88,001
Unobligated Balances:				
Apportioned	$ 33,263	$ 474	$ 1,540	$ 396
Subtotal	$ 33,263	$ 474	$ 1,540	$ 396
Unobligated Balance not available	3,338	9,520	2,767	26,451
Total Status of Budgetary Resources	**$ 170,093**	**$ 267,684**	**$ 79,145**	**$ 114,848**
Change in Obligated Balance:				
Obligated balance, net:				
Unpaid obligations, brought forward, October 1	$ 49,875	$ 41,440	$ 50,712	$ 14,734
Uncollected customer payments from Federal Sources, brought forward, October 1	(2)		(3)	
Total, unpaid obligated balance, brought forward, net	$ 49,873	$ 41,440	$ 50,709	$ 14,734
Obligations Incurred, net (+/-)	133,492	257,690	74,838	88,001
Gross Outlays	(86,867)	(157,295)	(73,578)	(58,180)
Recoveries of prior year unpaid obligations, actual	(1,012)	(8,038)	(2,097)	(3,115)
Change in uncollected customer payments from Federal Sources (+/-)	(2)	(7)	1	
	$ 95,484	**$ 133,790**	**$ 49,873**	**$ 41,440**
Obligated Balance, net, end of period:				
Unpaid Obligations	$ 95,488	$ 133,797	$ 49,875	$ 41,440
Uncollected customer payments from Federal Sources	(4)	(7)	(2)	
Total, unpaid obligated balance, net, end of period	**$ 95,484**	**$ 133,790**	**$ 49,873**	**$ 41,440**
Net Outlays:				
Gross Outlays	$ 86,867	$ 157,295	$ 73,578	$ 58,180
Offsetting collections	(1,705)	(45,536)	(1,755)	(33,570)
Distributed Offsetting receipts	(31,763)		(103)	(5,750)
Net Outlays (Note 15)	**$ 53,399**	**$ 111,759**	**$ 71,720**	**$ 18,860**

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements For the Years Ended September 30, 2009 and 2008

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 purchase or enter into forward commitments to purchase FFEL loans. This temporary loan purchase authority was to expire on September 30, 2009; however, Public Law (P.L.) 110-350 extended the authority through September 30, 2010. The Department has implemented three activities under this temporary loan purchase authority. These activities are: (1) loan purchase commitments under which the Department purchases loans directly from FFEL lenders; (2) loan participation purchases in which the Department purchases participation interests in FFEL loans; and (3) an Asset-Backed Commercial Paper (ABCP) Conduit in which the Department enters into a forward commitment to purchase FFEL loans from a conduit, as needed, to allow the conduit to repay short-term liquidity loans used to re-finance maturing commercial paper.

The Teacher Education Assistance for College and Higher Education Grant (TEACH) 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 *American Recovery and Reinvestment Act of 2009* (*Recovery Act*), enacted on February 17, 2009 as P.L. 111-5, provides funding to the Department for improving schools, raising students' achievement, driving reform and producing better results for children and young people for the long term health of the nation. Approximately 55 percent of the Department's *Recovery Act* funding was appropriated for the creation of a new State Fiscal Stabilization Fund with the goal to stabilize state and local government budgets to avoid reductions in education and other essential public services while driving education reform. The Department was tasked with promptly disbursing these funds through a variety of existing and new grant programs, while ensuring the transparency and accountability of every dollar spent.

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 five 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
- American Recovery and Reinvestment Act (ARRA)
- Office of Special Education and Rehabilitative Services
- Other

The FSA, IES, OESE, OII and OSERS reporting organizations are responsible for the administration of *Recovery Act* funds; however, activities for *Recovery Act* funds are reported under the "American Recovery and Reinvestment Act" major reporting group. (See Notes 11, 13 and 18) The major reporting group "Other" includes the IES, OELA, OII, OM, OPE, OSDFS and OVAE reporting organizations and Hurricane Education Recovery (HR) activities. (See Notes 11, 13 and 19)

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 Department, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department, in accordance with 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 2009. 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 re-estimated annually.

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 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 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 2010 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. 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 financial 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, the TEACH Program and activities under the temporary loan purchase authority. 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, the TEACH Program and activities under the temporary loan purchase authority. 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 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, special 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 and receipt 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.

The Fund Balance with Treasury also includes funds received for grants during FY 2009, which are statutorily not available for obligation until FY 2010. Since this is a deferral made in law, it reduces total budgetary resources during FY 2009. (See Notes 3 and 12)

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 to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts. The estimate of an allowance for loss on uncollectible accounts is based on the Department's experience in the collection of receivables and an analysis of the outstanding balances. (See Note 4)

Cash and Other Monetary Assets

Cash and Other Monetary Assets 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.

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 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 activities under the temporary loan 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

Other Assets

Other assets include assets not reported separately on the balance sheet. The Department's other intragovernmental assets primarily consist of advance payments to federal agencies as part of interagency agreements for various goods and services. The Department's other assets (with the public) consist of payments made to grant recipients in advance of their expenditures and in-process disbursements for the FFEL Program. (See Note 8)

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 that an 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 10)

Debt

The Department borrows to provide funding for the Direct Loan Program, the TEACH Program and activities under the temporary loan purchase authority. 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 a designated bonding authority, on behalf of the Department, for the Historically Black Colleges and Universities Capital Financing Program. The Department reports the corresponding liability for full payment of principal and accrued interest on bonds as a payable to the FFB. (See Note 9)

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. (See Note 11)

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 12)

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 19)

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. (See Note 10) 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 as determined by DOL annually. (See Note 10)

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

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 child fund account as a subset of the parent fund account for cost accumulation 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.

The Department (the child entity) was a party to allocation transfers with the Appalachian Regional Commission (the parent entity). All financial activity related to these allocation transfers was reported in the financial statements of the Appalachian Regional Commission, from which the underlying legislative authority, appropriations and budget apportionments were derived. During FY 2008, the Department returned all unused funds to the Appalachian Regional Commission.

Note 2. Non-Entity Assets

As of September 30, 2009 and 2008, non-entity assets consisted of the following:

Non-Entity Assets

(Dollars in Millions)

	2009	2008
Non-Entity Assets		
Intragovernmental		
Fund Balance with Treasury	$ 45	$ 28
Total Intragovernmental	**45**	**28**
With the Public		
Cash and Other Monetary Assets	2,414	1,663
Accounts Receivable, Net	16	20
Credit Program Receivables, Net	184	186
Total With the Public	**2,614**	**1,869**
Total Non-Entity Assets	**2,659**	**1,897**
Entity Assets	403,286	229,676
Total Assets	$ 405,945	$ 231,573

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, 2009 and 2008, consisted of the following:

Fund Balances

(Dollars in Millions)

	2009	2008
General Funds	$ 130,533	$ 52,487
Revolving Funds	37,431	42,357
Trust Funds	9	18
Special Funds	14	9
Other Funds	45	28
Fund Balance with Treasury	**$ 168,032**	**$ 94,899**

The Status of Fund Balance with Treasury, as of September 30, 2009 and 2008, consisted of the following:

Status of Fund Balance with Treasury
(Dollars in Millions)

	2009	2008
Unobligated Balance		
Available	$ 33,737	$ 1,936
Unavailable	10,444	27,555
Obligated Balance, Not Yet Disbursed	122,919	65,380
Authority Temporarily Precluded from Obligation	887	-
Non-Budgetary Fund Balance with Treasury	45	28
Fund Balance with Treasury	**$ 168,032**	**$ 94,899**

Note 4. Accounts Receivable

Accounts Receivable, as of September 30, 2009 and 2008, consisted of the following:

Accounts Receivable
(Dollars in Millions)

	2009		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ -	$ -	$ -
With the Public	693	(173)	520
Accounts Receivable	**$ 693**	**$ (173)**	**$ 520**

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

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, 2009 and 2008.

Cash and Other Monetary Assets

(Dollars in Millions)

	2009	2008
Beginning Balance, Cash and Other Monetary Assets	**$ 1,663**	**$ 1,103**
Valuation Increase in Guaranty Agency Federal Funds	751	722
Less: Collections from Guaranty Agency Federal Funds		
Excess Collections	-	162
Collections Remitted to Treasury	-	162
Ending Balance, Cash and Other Monetary Assets	**$ 2,414**	**$ 1,663**

The $751 million net increase in the Federal Fund in FY 2009 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 $37.6 billion in Direct Loans to eligible borrowers in FY 2009 and approximately $21.1 billion in FY 2008. 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. 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 7 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 2009 cohort, an estimated $2.8 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. In FY 2008, the Department began administering activities under the temporary loan purchase authority by purchasing FFEL loans and participation interests in those directly from lenders. As a result, the FFEL Program also includes approximately $52 billion and $5.1 billion in direct federal assets as of September 30, 2009 and 2008, respectively.

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 their Federal Fund, which consists of Federal resources held in trust by the agency. 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.

ECASLA gave the Department temporary authority to purchase FFEL loans and interest in those loans. This authority was to expire on September 30, 2009; however, P.L. 110-350 extended the authority through September 30, 2010. The Department has implemented three activities under this authority: loan purchase commitments; purchases of loan participation interests; and a put, or forward purchase commitment, with an ABCP Conduit. A credit program receivable is established for loans and participation interests in loans purchased through these activities.

Under the loan purchase commitment activity, lenders have the option to sell directly to the Department fully disbursed loans originated for academic years 2007-08, 2008-09 or 2009-10. As of September 30, 2009, only loans originated for the 2009-10 academic year remain eligible for future purchase.

In loan participation transactions, lenders transfer to a custodian FFEL loans originated in academic years 2008-09 or 2009-10 on which at least one disbursement has been made. The custodian issues participation certificates to the lender that convey a participation interest in the loans. The lender sells the participation interest in the loans to the Department at the par value of these loans. The Department remits the proceeds through the custodian to the lenders. Participation interests earn a yield payable from the lender to the Department at the rate of the 91-day commercial paper rate plus 50 basis points and reset quarterly. Funds to redeem these loans from the Department's participation interest may be obtained by selling the underlying loans to the Department or by other means.

The terms of these two purchase activities permit lenders to sell loans and participation interests in loans to the Department and require them to redeem the participated loans. Lenders must commit to redeem the certificates and sell loans by September 30; the Department must finalize all related transactions by October 15. As of September 30, 2009, the Department had $26.6 billion in Notices of Intent to Sell from lenders in the purchase commitment and loan participation purchase activities.

During FY 2009, the Department, Treasury and OMB established the terms on which the Department would support an ABCP Conduit to provide liquidity to the student loan market. An ABCP Conduit under this activity issues short-term commercial paper to investors; this paper is backed by student loans pledged to the conduit. The conduit uses the proceeds of sales of its commercial paper to acquire from lenders interests in student loans. Lenders must use a portion of conduit payments to make new loans. Though the intent is for the conduit to meet demands on maturing paper by reissuing commercial paper, the Department, using its *ECASLA* authority, will purchase loans from the conduit as needed to ensure the conduit will be able to meet the demands on its paper if it is unable to refinance maturing commercial paper. The Department will purchase those pledged loans that become more than 210 days delinquent. The conduit has sold to the Department approximately $50 million of these delinquent loans as of September 30, 2009, recorded as credit program receivables. Under the terms of the Put Agreement with the conduit, the Department may also purchase pledged loans at the date that is 45 days prior to the Put Agreement expiration on January 19, 2014. As required by the *Credit Reform Act*, all cash flows to and from the Government resulting from its transactions with the ABCP Conduit are recorded in a non-budgetary credit financing account. Amounts in this account are a means of financing and are not included in the budget totals. Loans originated in academic years 2004-05 through 2007-08 are eligible to be purchased through the ABCP Conduit activity.

As of September 30, 2009, the Department has $70 billion in obligations to cover any buyer-of-last-resort activities and potential purchases of the underlying student loans under the ABCP Conduit authority. These obligations are covered by available borrowing authority. In addition, the Department has estimated approximately $4 billion in negative subsidy. The conduit, a separate legal entity, has approximately $30 billion in commercial paper outstanding.

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.

The Department guaranteed $80.4 billion and $67.9 billion in gross non-consolidation loans to FFEL recipients during FY 2009 and FY 2008, respectively. In 2009, lenders disbursed $62.7 billion in FFEL loans from the 2008 and 2009 cohorts; in 2008, $68.8 billion were disbursed from the 2007 and 2008 cohorts. As of September 30, 2009 and 2008, total principal balances outstanding of guaranteed loans held by lenders were approximately $457 billion and $415 billion, respectively. As of September 30, 2009 and 2008, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $445 billion and $405 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 15 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 2009 cohort, an estimated $12.5 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 Program. Beginning July 1, 2008, the Department 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* to 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 fees for 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. Based on these forecast assumptions and the expected cash flows for the new sub-program, the estimated subsidy rate for the sub-program is 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 new consolidated loan was obligated. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort 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.

Direct Loan Program consolidations increased from $5.8 billion to $12.5 billion reversing the previous declining consolidation trend. FFEL to FFEL Loan consolidations continue, but at a rate that did not significantly influence FFEL re-estimated subsidy cost; performing FFEL to FFEL consolidations would not affect the Department's actual costs. FFEL to Direct Loan consolidations are part of the $12.5 billion recorded. Direct loan consolidation activity into the FFEL Program is insignificant.

Modification of Subsidy Cost

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.

FY 2009 Modification. *ECASLA* and its subsequent extension contained provisions authorizing the Secretary to purchase certain categories of outstanding FFEL loans. Two programs were implemented under *ECASLA* during FY 2008 and FY 2009, both for loans from academic years 2008-09 and 2009-10: 1) a standard put program in which the Department purchases loans directly from lenders, and 2) a loan participation purchase program, under which the Department purchases participation interests in loans that holders must redeem and which they may do by sale to the Department of the underlying loans. In FY 2009, the standard put program was expanded to allow the sale of loans originated for the 2007-08 academic year. In FY 2009, the Department also implemented the ABCP Conduit program under which the Department issued a five-year commitment to purchase from the conduit loans it acquires from lenders. This program allows lenders to secure private financing from the conduit at favorable rates. The Department's purchase commitment to the ABCP Conduit applies to loans acquired by the conduit and made from October 2003 through academic year 2008-09. Additionally, in response to disruptions in the commercial paper market, the Secretary used authority to approve a temporary change in the basis for calculating special allowance payments to and from loan holders for the first quarter of FY 2009.

The net effect of changes related to loan modifications executed in FY 2009 was a downward cost of $2.6 billion in the FFEL Program with a corresponding effect on the Liability for Loan Guarantees. Of this amount, $526 million related to the standard loan put authority for award year 2007-08, $778 million related to the ABCP Conduit authority and $1.3 billion related to the temporary change in the special allowance payment basis. The FFEL Program also recognized a net modification adjustment transfer loss of $130 million.

FY 2008 Modification. 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 FFEL and Direct Loan borrowers, 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, 2009 and 2008, consisted of the following:

Credit Program Receivables
(Dollars in Millions)

	2009	2008
Direct Loan Program Loan Receivables, Net	$ 152,771	$ 109,850
FFEL Program		
FFEL Guaranteed Loan Program, Net (Pre-1992)	3,480	3,591
FFEL Program (Post-1991):		
FFEL Guaranteed Loan Program, Net	20,399	15,624
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	17,032	64
Loan Participation Purchase, Net	39,996	5,230
ABCP Conduit, Net	47	-
Federal Perkins Program Loan Receivables, Net	184	186
TEACH Program Receivables, Net	50	1
Facilities Loan Programs Loan Receivables, Net	295	179
Credit Program Receivables, Net	**$ 234,254**	**$ 134,725**

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)

	2009	2008
Principal Receivable	$ 149,437	$ 117,610
Interest Receivable	7,370	5,983
Receivables	**156,807**	**123,593**
Less: Allowance for Subsidy	4,036	13,743
Direct Loan Program Loan Receivables, Net	**$ 152,771**	**$ 109,850**

Of the $156.8 billion in receivables as of September 30, 2009, $11.5 billion in loan principal was in default, compared to $10.3 billion a year earlier. Defaulted Direct Loans are held in the Department's Business Operations Default Division.

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)

	2009	2008
FFEL Guaranteed Loan Program (Pre-1992)		
Principal Receivable	$ 7,100	$ 7,587
Interest Receivable	223	182
Receivables	**7,323**	**7,769**
Less: Allowance for Subsidy	3,843	4,178
FFEL Guaranteed Loan Program Receivables, Net (Pre-1992)	**3,480**	**3,591**
FFEL Program (Post-1991)		
Principal Receivable		
FFEL Guaranteed Loan Program	22,403	17,641
Temporary Loan Purchase Authority:		
Loan Purchase Commitment	14,293	59
Loan Participation Purchase	37,020	5,036
ABCP Conduit	50	-
Interest Receivable		
FFEL Guaranteed Loan Program	2,305	2,143
Temporary Loan Purchase Authority:		
Loan Purchase Commitment	379	-
Loan Participation Purchase	259	11
ABCP Conduit	2	-
Receivables	**76,711**	**24,890**
Less: Allowance for Subsidy		
FFEL Guaranteed Loan Program	4,309	4,160
Temporary Loan Purchase Authority:		
Loan Purchase Commitment	(2,360)	(5)
Loan Participation Purchase	(2,717)	(183)
ABCP Conduit	5	-
FFEL Guaranteed Loan Program, Net	20,399	15,624
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	17,032	64
Loan Participation Purchase, Net	39,996	5,230
ABCP Conduit, Net	47	-
FFEL Program Loan Receivables, Net	**$ 80,954**	**$ 24,509**

All loans and participation interests in loans purchased by the Department under the temporary loan purchase authority are federal assets; the loan receivable represents all outstanding loans and participation interests. Loan participation interests were first purchased by the Department in August 2008. Approximately $9 billion in participation interests were redeemed in FY 2009 by selling the underlying loans to the Department. No participation interests were redeemed in FY 2008.

Federal Perkins Loan Program. At September 30, 2009 and 2008, loans receivable, net of an allowance for loss, were $184 million and $186 million, respectively. These loans are valued at historical cost.

TEACH Program. At September 30, 2009 and 2008, loans receivable, net of an allowance for subsidy, were $50 million and $1 million, respectively.

Facilities Loan Programs

Facilities Loan Programs Loan Receivables

(Dollars in Millions)

	2009	2008
Principal Receivable	$ 651	$ 553
Interest Receivable	9	6
Receivables	**660**	**559**
Less: Allowance for Subsidy	365	380
Facilities Loan Programs Loan Receivables, Net	**$ 295**	**$ 179**

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)

	2009	2008
Beginning Balance, Allowance for Subsidy	**$ 13,743**	**$ 8,245**
Components of Subsidy Transfers		
Interest Rate Differential	(7,785)	(1,540)
Defaults, Net of Recoveries	1,070	454
Fees	(551)	(487)
Other	2,863	1,498
Current Year Subsidy Transfers	**(4,403)**	**(75)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates[1]	(322)	222
Technical and Default Re-estimates	(4,878)	946
Subsidy Re-estimates	**(5,200)**	**1,168**
Components of Loan Modifications		
Loan Modification Costs	-	4,143
Modification Adjustment Transfers	-	(9)
Loan Modifications	**-**	**4,134**
Activity		
Fee Collections	628	482
Loan Cancellations[2]	(432)	(240)
Subsidy Allowance Amortization	40	456
Other	(340)	(427)
Total Activity	**(104)**	**271**
Ending Balance, Allowance for Subsidy	**$ 4,036**	**$ 13,743**

[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)

	2009	2008
Beginning Balance, FFEL Financing Accounts Liability for Loan Guarantees	**$ 43,185**	**$ 50,731**
Components of Subsidy Transfers		
Interest Supplement Costs	(632)	1,212
Defaults, Net of Recoveries	494	43
Fees	(3,495)	(449)
Other[1]	2,108	436
Current Year Subsidy Transfers	**(1,525)**	**1,242**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(147)	(700)
Technical and Default Re-estimates	(21,542)	(760)
Subsidy Re-estimates	**(21,689)**	**(1,460)**
Components of Loan Modifications		
Loan Modification Costs	(2,641)	(2,464)
Modification Adjustment Transfers	130	(30)
Loan Modifications	**(2,511)**	**(2,494)**
Activity		
Interest Supplement Payments	(5,389)	(8,744)
Claim Payments	(8,634)	(8,029)
Fee Collections	4,115	4,107
Interest on Liability Balance	337	1,372
Other[2]	12,559	6,460
Total Activity	**2,988**	**(4,834)**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**20,448**	**43,185**
FFEL Liquidating Account Liability for Loan Guarantees	95	137
Liabilities for Loan Guarantees	**$ 20,543**	**$ 43,322**

[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; negative special allowance payments; and loan cancellations due to death, disability and bankruptcy.

Financing Account Interest Expense and Interest Revenue

The Department borrows from Treasury to fund the unsubsidized portion of lending activities. The Department calculates and pays Treasury interest on its borrowing 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, in accordance with Statement of Federal Financial Accounting Standards No. 2, *Accounting for Direct Loans and Loan Guarantees*, as the difference between interest revenue and interest expense. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense.

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

Direct Loan Program
(Dollars in Millions)

	2009	2008
Interest Expense on Treasury Borrowing	$ 7,094	$ 6,190
Interest Expense	**$ 7,094**	**$ 6,190**
Interest Revenue from the Public	$ 5,669	$ 5,277
Amortization of Subsidy	(40)	(456)
Interest Revenue on Uninvested Funds	1,465	1,369
Interest Revenue	**$ 7,094**	**$ 6,190**

Payable to Treasury

Payable to Treasury for the years ended September 30, 2009 and 2008, consisted of the following:

Payable to Treasury
(Dollars in Millions)

	2009	2008
Future Liquidating Account Collections, Beginning Balance	**$ 3,766**	**$ 4,108**
Valuation of Pre-1992 Loan Liability and Allowance	465	250
Capital Transfers to Treasury	(662)	(592)
Future Liquidating Account Collections, Ending Balance	**3,569**	**3,766**
Payable to Treasury	**$ 3,569**	**$ 3,766**

The liquidating account, based on available fund balance, periodically transfers Fund Balance to Treasury's account.

Subsidy Expense

William D. Ford Federal Direct Loan Program

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2009	2008
Components of Current Year Subsidy Transfers		
Interest Rate Differential	$ (7,785)	$ (1,540)
Defaults, Net of Recoveries	1,070	454
Fees	(551)	(487)
Other	2,863	1,498
Current Year Subsidy Transfers	**(4,403)**	**(75)**
Subsidy Re-estimates	(5,200)	1,168
Loan Modification Costs	-	4,143
Direct Loan Subsidy Expense	**$ (9,603)**	**$ 5,236**

For 2009 re-estimated subsidy cost, Direct Loan subsidy cost was decreased by $5.2 billion. Changes in the assumption for income-based repayments decreased subsidy cost by $3.7 billion. Rising default rates increased subsidy cost by $374 million, interest rate changes increased costs by $350 million, and changes in deferments and forbearance rates increased costs by $313 million. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. 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 cost by $455 million.

In the 2008 re-estimates, Direct Loan subsidy cost was increased by $1.2 billion. Changes in interest rates increased subsidy cost by $859 million, updated data on teacher loan forgiveness led to an additional increase of $481 million, and rising default rates increased subsidy cost 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 cost by $465 million.

Federal Family Education Loan Program

FFEL Program Subsidy Expense

(Dollars in Millions)

	2009	2008
<u>FFEL Guaranteed Loan Program</u>		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	$ (632)	$ 1,212
Defaults, Net of Recoveries	494	43
Fees	(3,495)	(449)
Other	2,108	436
Current Year Subsidy Transfers	**(1,525)**	**1,242**
Subsidy Re-estimates	(21,689)	(1,460)
Loan Modification Costs	(2,641)	(2,464)
FFEL Guaranteed Loan Program Subsidy Expense	**(25,855)**	**(2,682)**
<u>Temporary Loan Purchase Authority</u>		
Loan Purchase Commitment		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	(3,157)	(9)
Defaults, Net of Recoveries	102	-
Fees	268	2
Other	1,179	5
Current Year Subsidy Transfers	**(1,608)**	**(2)**
Subsidy Re-estimates	(245)	-
Loan Purchase Commitment Subsidy Expense	**(1,853)**	**(2)**
Loan Participation Purchase		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	(2,976)	(292)
Defaults, Net of Recoveries	(108)	5
Fees	(811)	(476)
Other	735	595
Current Year Subsidy Transfers	**(3,160)**	**(168)**
Subsidy Re-estimates	930	-
Loan Participation Purchase Subsidy Expense	**(2,230)**	**(168)**
ABCP Conduit		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	(6)	-
Defaults, Net of Recoveries	1	-
Fees	(3)	-
Other	6	-
ABCP Conduit Subsidy Expense	**(2)**	**-**
FFEL Program Subsidy Expense	**$ (29,940)**	**$ (2,852)**

For 2009 re-estimated subsidy cost, FFEL Guaranteed subsidy cost was decreased by $21.7 billion. Interest rate changes related to updated economic assumptions accounted for approximately $18 billion in decreased subsidy cost. A $1.5 billion increase in subsidy cost related to changes in deferment and forbearance rates was offset by other changes in assumptions such as $966 million decreased cost for changes in repayment rates; loan volume changes produced a decreased subsidy cost of $790 million. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. 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 $16.4 billion.

In the 2008 re-estimates, FFEL subsidy cost was decreased by $1.5 billion. Changes in interest rate forecasts decreased subsidy cost 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.

Subsidy Rates

The subsidy rates applicable to the 2009 loan cohort year follow:

Subsidy Rates—Cohort 2009

	Interest Differential/ Supplements	Defaults	Fees	Other	Total
Direct Loan Program	(24.82%)	2.90%	(1.42%)	8.38%	(14.96%)
TEACH Program	(15.44%)	0.56%	(0.00%)	11.24%	(3.64%)
FFEL Program (Post-1991):					
Guaranteed Loan Program	(2.47%)	0.24%	(2.12%)	1.36%	(2.99%)
Temporary Loan Purchase Authority:					
Loan Purchase Commitment	(28.35%)	0.98%	2.33%	10.01%	(15.03%)
Loan Participation Purchase	(23.98%)	0.97%	0.94%	10.34%	(11.73%)
ABCP Conduit	(6.92%)	0.00%	(5.30%)	6.78%	(5.44%)

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 2009 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, 2009 and 2008, consisted of the following:

Administrative Expense
(Dollars in Millions)

	2009		2008	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 458	$ 269	$ 343	$ 222
Other Expense	23	13	14	9
Administrative Expenses	**$ 481**	**$ 282**	**$ 357**	**$ 231**

Note 7. General Property, Plant and Equipment

General Property, Plant and Equipment, as of September 30, 2009 and 2008, consisted of the following:

General Property, Plant and Equipment
(Dollars in Millions)

	2009		
	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software and Telecommunications Equipment	$ 160	$ (122)	$ 38
Furniture and Fixtures	3	(3)	-
General Property, Plant and Equipment	**$ 163**	**$ (125)**	**$ 38**

	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**

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)

2009			2008		
Fiscal Year	**Lease Payment**		**Fiscal Year**	**Lease Payment**	
2010	$	44	2009	$	47
2011		48	2010		50
2012		53	2011		54
2013		55	2012		61
2014		58	2013		70
After 2014		60	After 2013		72
Total	**$**	**318**	**Total**	**$**	**354**

Note 8. Other Assets

Other Intragovernmental Assets primarily consist of advance payments to the Department of Interior's Bureau of Indian Education under terms of an interagency agreement. Other Intragovernmental Assets were $141 million and $95 million as of September 30, 2009 and 2008, respectively

Other Assets With the Public consist of payments made to grant recipients in advance of their expenditures and in-process invoices for interest benefits and special allowances for the FFEL Program. Other Assets With the Public were $546 million and $37 million as of September 30, 2009 and 2008, respectively.

Note 9. Debt

Debt as of September 30, 2009 and 2008, consisted of the following:

Debt
(Dollars in Millions)

	2009				
	Beginning Balance	**Accrued Interest**	**New Borrowing**	**Repayments**	**Ending Balance**
Treasury Debt					
Direct Loan Program	$ 117,419	$ -	$ 47,179	$ (10,380)	$ 154,218
FFEL Program					
Guaranteed Loan Program	-	12	1,462	-	1,474
Loan Purchase Commitment	69	-	24,811	(3)	24,877
Loan Participation Purchase	10,754	-	43,223	-	53,977
ABCP Conduit	-	-	250	(6)	244
TEACH Program	14	-	56	(2)	68
Facilities Loan Program	75	-	-	(4)	71
Total Treasury Debt	**128,331**	**12**	**116,981**	**(10,395)**	**234,929**
Debt to the FFB					
HBCU	337	4	120	(5)	456
Total Debt to the FFB	**337**	**4**	**120**	**(5)**	**456**
Total	**$ 128,668**	**$ 16**	**$ 117,101**	**$ (10,400)**	**$ 235,385**

Debt

(Dollars in Millions)

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

The amount available for 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 10. 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 negative subsidy transfers and downward subsidy re-estimates, which when executed will be paid to Treasury.

Other Liabilities as of September 30, 2009 and 2008 consisted of the following:

Other Liabilities

(Dollars in Millions)

	2009		2008	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Liabilities Covered by Budgetary Resources				
Current				
Advances From Others	$ 96	$ -	$ 91	$ -
Employer Contributions and Payroll Taxes	4	-	4	-
Liability for Deposit Funds	(5)	52	(7)	35
Accrued Payroll and Benefits	-	21	-	19
Deferred Revenue	-	467	-	42
Liabilities in Miscellaneous Receipt Accounts	11,221	-	6,847	-
Total Other Liabilities Covered by Budgetary Resources	**11,316**	**540**	**6,935**	**96**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	-	34	$ -	$ 33
Non-current				
Accrued Unfunded FECA Liability	3	-	3	-
Liabilities in Miscellaneous Receipt Accounts	184	-	186	-
Accrued FECA Actuarial Liability	-	16	-	16
Total Other Liabilities Not Covered by Budgetary Resources	**187**	**50**	**189**	**49**
Other Liabilities	**$ 11,503**	**$ 590**	**$ 7,124**	**$ 145**

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 $237 million and $238 million as of September 30, 2009 and 2008, respectively.

As of September 30, 2009 and 2008, liabilities on the Balance Sheet totaled $278.9 billion and $188.2 billion respectively. Of this amount, liabilities covered by budgetary resources totaled $278.7 billion as of September 30, 2009, and $188.0 billion as of September 30, 2008.

Note 11. Accrued Grant Liability

The accrued grant liability by major reporting groups as of September 30, 2009 and 2008 consisted of the following:

Accrued Grant Liability

(Dollars in Millions)

	2009	2008
FSA	$ 1,295	$ 862
OESE	265	557
OSERS	263	512
ARRA	860	-
Other	279	314
Accrued Grant Liability	**$ 2,962**	$ **2,245**

Note 12. Net Position

Unexpended appropriations as of September 30, 2009 and 2008, consisted of the following:

Unexpended Appropriations

(Dollars in Millions)

	2009	2008
Unobligated Balances		
Available	$ 33,243	$ 1,526
Not Available	770	815
Undelivered Orders, end of period	92,369	47,165
Authority Temporarily Precluded from Obligation	887	-
Unexpended Appropriations	**$ 127,269**	**$ 49,506**

The Cumulative Results of Operations - Earmarked Funds of $8 million as of September 30, 2009, and $17 million as of September 30, 2008, 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 19)

The Cumulative Results of Operations - Other Funds of $(217) million as of September 30, 2009, and $(6,187) million as of September 30, 2008, consists mostly of unfunded upward subsidy re-estimates, other unfunded expenses, and net investments of capitalized assets.

Note 13. 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/ Groups	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 HR	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
American Recovery and Reinvestment Act	ARRA	Cuts across Strategic Goals 1, 2 and 3

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 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.

The goals of the *Recovery Act* are consistent with the Department's current Strategic Goals and programs. For reporting purposes, a new American Recovery and Reinvestment Act net cost program has been created.

The following table presents the gross cost and exchange revenue by program for the Department for September 30, 2009 and 2008. 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, 2009 and 2008, consisted of the following:

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2009					
	FSA	**OESE**	**OSERS**	**ARRA**	**Other**	**Total**
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement						
Intragovernmental Gross Cost	$10,079	$ -	$ -	$ -	$ 80	$10,159
Public Gross Cost	(21,141)	-	-	-	4,638	(16,503)
Total Gross Program Costs	(11,062)	-	-	-	4,718	(6,344)
Intragovernmental Earned Revenue	4,644	-	-	-	3	4,647
Public Earned Revenue	6,435	-	-	-	25	6,460
Total Program Earned Revenue	11,079	-	-	-	28	11,107
Total Program Cost	**(22,141)**	**-**	**-**	**-**	**4,690**	**(17,451)**
Promote Academic Achievement in Elementary and Secondary Schools						
Intragovernmental Gross Cost	-	180	-	-	16	196
Public Gross Cost	-	21,472	-	-	1,571	23,043
Total Gross Program Costs	-	21,652	-	-	1,587	23,239
Intragovernmental Earned Revenue	-	-	-	-	70	70
Public Earned Revenue	-	15	-	-	4	19
Total Program Earned Revenue	-	15	-	-	74	89
Total Program Cost	**-**	**21,637**	**-**	**-**	**1,513**	**23,150**
Transformation of Education						
Intragovernmental Gross Cost	-	-	-	-	88	88
Public Gross Cost	-	-	-	-	1,579	1,579
Total Gross Program Costs	-	-	-	-	1,667	1,667
Intragovernmental Earned Revenue	-	-	-	-	1	1
Public Earned Revenue	-	-	-	-	34	34
Total Program Earned Revenue	-	-	-	-	35	35
Total Program Cost	**-**	**-**	**-**	**-**	**1,632**	**1,632**
Special Education						
Intragovernmental Gross Cost	-	-	44	-	-	44
Public Gross Cost	-	-	15,188	-	-	15,188
Total Gross Program Costs	-	-	15,232	-	-	15,232
Intragovernmental Earned Revenue	-	-	2	-	-	2
Public Earned Revenue	-	-	18	-	-	18
Total Program Earned Revenue	-	-	20	-	-	20
Total Program Cost	**-**	**-**	**15,212**	**-**	**-**	**15,212**
American Recovery and Reinvestment Act						
Intragovernmental Gross Cost	-	-	-	-	-	-
Public Gross Cost	-	-	-	21,618	-	21,618
Total Gross Program Costs	-	-	-	21,618	-	21,618
Intragovernmental Earned Revenue	-	-	-	-	-	-
Public Earned Revenue	-	-	-	-	-	-
Total Program Earned Revenue	-	-	-	-	-	-
Total Program Cost	**-**	**-**	**-**	**21,618**	-	**21,618**
Net Cost of Operations	**$(22,141)**	**$ 21,637**	**$ 15,212**	**$21,618**	**$7,835**	**$ 44,161**

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2008					
	FSA	**OESE**	**OSERS**	**ARRA**	**Other**	**Total**
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement						
Intragovernmental Gross Cost	$ 6,903	$ -	$ -	$ -	$ 82	$ 6,985
Public Gross Cost	21,885	-	-	-	4,220	26,105
Total Gross Program Costs	28,788	-	-	-	4,302	33,090
Intragovernmental Earned Revenue	4,128	-	-	-	19	4,147
Public Earned Revenue	4,901	-	-	-	34	4,935
Total Program Earned Revenue	9,029	-	-	-	53	9,082
Total Program Cost	**19,759**	**-**	**-**	**-**	**4,249**	**24,008**
Promote Academic Achievement in Elementary and Secondary Schools						
Intragovernmental Gross Cost	-	135	-	-	16	151
Public Gross Cost	-	21,659	-	-	1,680	23,339
Total Gross Program Costs	-	21,794	-	-	1,696	23,490
Intragovernmental Earned Revenue	-	-	-	-	70	70
Public Earned Revenue	-	12	-	-	4	16
Total Program Earned Revenue	-	12	-	-	74	86
Total Program Cost	**-**	**21,782**	**-**	**-**	**1,622**	**23,404**
Transformation of Education						
Intragovernmental Gross Cost	-	-	-	-	80	80
Public Gross Cost	-	-	-	-	1,489	1,489
Total Gross Program Costs	-	-	-	-	1,569	1,569
Intragovernmental Earned Revenue	-	-	-	-	2	2
Public Earned Revenue	-	-	-	-	30	30
Total Program Earned Revenue	-	-	-	-	32	32
Total Program Cost	**-**	**-**	**-**	**-**	**1,537**	**1,537**
Special Education						
Intragovernmental Gross Cost	-	-	42	-	-	42
Public Gross Cost	-	-	15,843	-	-	15,843
Total Gross Program Costs	-	-	15,885	-	-	15,885
Intragovernmental Earned Revenue	-	-	2	-	-	2
Public Earned Revenue	-	-	15	-	-	15
Total Program Earned Revenue	-	-	17	-	-	17
Total Program Cost	**-**	**-**	**15,868**	**-**	**-**	**15,868**
American Recovery and Reinvestment Act						
Intragovernmental Gross Cost	-	-	-	-	-	-
Public Gross Cost	-	-	-	-	-	-
Total Gross Program Costs	-	-	-	-	-	-
Intragovernmental Earned Revenue	-	-	-	-	-	-
Public Earned Revenue	-	-	-	-	-	-
Total Program Earned Revenue	-	-	-	-	-	-
Total Program Cost	**-**	**-**	**-**	**-**	**-**	**-**
Net Cost of Operations	**$ 19,759**	**$ 21,782**	**$15,868**	**$ -**	**$ 7,408**	**$ 64,817**

Note 14. Interest Expense and Interest Revenue

As of September 30, 2009 and 2008, interest expense and interest revenue by program consisted of the following:

Interest Expense and Interest Revenue

(Dollars in Millions)

	2009					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	$ 7,094	$ -	$ 7,094	$ 1,465	$ 5,629	$ 7,094
FFEL Program						
Guaranteed Loan Program	32	337	369	369	-	369
Loan Purchase Commitment	861	-	861	563	298	861
Loan Participation Purchase	1,876	-	1,876	1,410	466	1,876
ABCP Conduit	6	-	6	5	1	6
TEACH Program	2	-	2	1	1	2
Other Programs	17	-	17	2	36	38
Total	**$ 9,888**	**$ 337**	**$10,225**	**$ 3,815**	**$ 6,431**	**$10,246**

	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						
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
ABCP Conduit	-	-	-	-	-	-
TEACH 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**

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 15. Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. As of September 30, 2009, budgetary resources were $437,777 million and net outlays were $165,158 million. As of September 30, 2008, budgetary resources were $193,993 million and net outlays were $90,580 million.

Permanent Indefinite Budget Authority

The Direct Loan, FFEL and TEACH 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, 2009 and 2008, consisted of the following:

Obligations Incurred by Apportionment Type and Category

(Dollars in Millions)

	2009	2008
Direct:		
Category A	$ 1,385	$ 1,285
Category B	389,623	161,452
Exempt from Apportionment	80	6
	391,088	162,743
Reimbursable:		
Category A	-	-
Category B	-	-
Exempt from Apportionment	94	96
	94	96
Obligations Incurred	**$ 391,182**	**$ 162,839**

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, 2009 and 2008, consisted of the following:

Unused Borrowing Authority
(Dollars in Millions)

	2009	2008
Beginning Balance, Unused Borrowing Authority	**$ 25,930**	**$ 9,223**
Current Year Borrowing Authority	200,265	57,743
Funds Drawn From Treasury	(117,101)	(39,049)
Borrowing Authority Withdrawn	(2,739)	(1,987)
Ending Balance, Unused Borrowing Authority	**$ 106,355**	**$ 25,930**

The Department is given authority to draw funds from Treasury to finance the Direct Loan Program, the TEACH Program and activities under the temporary loan purchase authority. 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, 2009 and 2008, consisted of the following:

Undelivered Orders
(Dollars in Millions)

	2009	2008
Budgetary	$ 92,035	$ 47,211
Non-Budgetary	132,500	40,621
Undelivered Orders (Unpaid)	**$ 224,535**	**$ 87,832**

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 12)

Distributed Offsetting Receipts

The majority of the Distributed Offsetting Receipts line item on the SBR represents amounts paid from the Direct Loan Program and FFEL Program financing accounts to general fund receipt accounts for downward re-estimates and negative subsidies. In FY 2008 and prior, the Department reported these collections as non-budgetary on the SBR. Beginning FY 2009, the Department reclassified these collections as budgetary on the SBR. Although practice varies, this change was made to better align the Department's presentation of its credit activities with guidance provided by OMB and Treasury.

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

The FY *2011 Budget of the United States Government* (President's Budget) presenting the actual amounts for the year ended September 30, 2009, has not been published as of the issue date of these financial statements. The FY 2011 President's Budget is scheduled for release in February 2010. A reconciliation of the FY 2008 SBR to FY 2010 President's Budget (FY 2008 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	$ 193,993	$ 162,839	$ 5,853	$ 90,580
Expired Funds	(1,737)	(951)	-	-
Amounts included in the President's Budget	9,947	9,947	-	-
Funds excluded from President's Budget and Rounding	(2)	-	-	5
Distributed Offsetting Receipts	-	-	-	5,853
Budget of the United States Government	**$ 202,201**	**$ 171,835**	**$ 5,853**	**$ 96,438**

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 2008 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 16. 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 note 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, 2009 and 2008, are presented below:

Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

	2009	2008
Resources Used to Finance Activities		
Obligations Incurred	$ (391,182)	$ (162,839)
Spending Authority from Offsetting Collections and Recoveries	56,300	40,536
Offsetting Receipts	31,763	5,853
Imputed Financing from Costs Absorbed by Others	(32)	(29)
Total Resources Used to Finance Activities	**(303,151)**	**(116,479)**
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 (+/-)	(137,170)	(25,553)
Resources that Fund Expenses Recognized in Prior Period	1,091	(1,111)
Credit Program Collections which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	39,495	29,763
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	(147,800)	(51,742)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	**(244,384)**	**(48,643)**
Components Not Requiring or Generating Resources		
Depreciation and Amortization	325	(456)
Other (+/-)	448	290
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	**773**	**(166)**
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	-	(6)
Upward/Downward Re-estimates of Credit Subsidy Expense	10,883	513
Increase in Exchange Revenue Receivable from the Public	2,957	2,607
Other (+/-)	(7)	71
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	**13,833**	**3,185**
Net Cost of Operations	**$ (44,161)**	**$ (64,817)**

Note 17. 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 penalties on accounts receivable and are considered incidental to the primary mission of the Department. During FY 2009 and FY 2008, the Department collected $1.0 million and $1.4 million, respectively, in custodial revenues.

Note 18. American Recovery and Reinvestment Act of 2009

The *Recovery Act* included total funding of $98,238 million to the Department. For FY 2009, $97,407 million was provided in supplemental appropriations for job preservation and state and local fiscal stabilization. An additional $831 million will be made available in FY 2010. This one-time investment was made available for use in saving jobs, supporting states and local school districts, and advancing reforms and improvements in the education of our nation's early learning, K-12 and postsecondary students. As of September 30, 2009, there were $67,635 million in obligations and $21,003 million in outlays.

American Recovery and Reinvestment Act of 2009

(Dollars in Millions)

	Appropriations	Obligations	Outlays
State Fiscal Stabilization Fund	$ 53,600	$ 35,429	$ 12,433
Student Financial Assistance*	16,483	8,697	6,904
Education for the Disadvantaged	13,000	9,936	804
Special Education	12,200	12,200	791
School Improvement Programs	720	711	7
Rehabilitation Services and Disability Research	680	591	22
Institute of Education Sciences	250	-	-
Innovation & Improvement	200	1	-
Impact Aid	100	40	40
Higher Education	100	-	-
Student Aid Administration	60	29	1
Office of Inspector General	14	1	1
Total	**$ 97,407**	**$ 67,635**	**$ 21,003**

*$831 million will be made available in FY 2010, resulting in total *Recovery Act* funding of $98,238 million.

State Fiscal Stabilization Fund. The State Fiscal Stabilization Fund (SFSF) program is a new one-time appropriation of $53,600 million. Of this amount, the Department may award governors approximately $48,600 million by formula in exchange for a commitment to advance essential education reforms to benefit students from early learning through postsecondary education, increasing teacher effectiveness and ensuring an equitable distribution of qualified teachers, and turning around the lowest-performing schools. The Department may award the remaining $5,000 million competitively under the Race to the Top and Investing in Innovation programs. As of September 30, 2009, the SFSF consisted of the following:

State Fiscal Stabilization Fund

(Dollars in Millions)

	Appropriations	Obligations	Outlays
SFSF Formula Grants:	$ 48,600		
Education State Grants		$ 26,979	$ 9,961
Government Services Grants		8,447	2,469
Administration and Oversight		3	3
Total SFSF Formula Grants	48,600	35,429	12,433
Investing in Innovation and Race to the Top:	5,000		
Investing in Innovation Fund		-	-
Race to the Top Incentive Grants		-	-
Total Investing in Innovation and Race to the Top	5,000	-	-
Total	**$ 53,600**	**$ 35,429**	**$ 12,433**

Student Financial Assistance. The *Recovery Act* continues the Department's goal of making college affordable by providing $16,483 million for student financial assistance programs. This funding included $15,640 million in additional Pell Grant authority for low and middle-income undergraduate students and an additional $643 million to increase the per grant amount by $490 to $5,350 per year. Also, $200 million was made available in the federal work study program for grants to eligible students to help finance their education through part-time employment. As of September 30, 2009, *Recovery Act* funding for student financial assistance consisted of the following:

Student Financial Assistance

(Dollars in Millions)

	Appropriations	Obligations	Outlays
Federal Pell Grants	$ 15,640	$ 7,854	$ 6,300
Mandatory Add-on to Pell Grant	643	643	549
Federal Work Study Grants	200	200	55
Total	**$ 16,483**	**$ 8,697**	**$ 6,904**

Education for the Disadvantaged. The *Recovery Act* provided $10,000 million in additional funding for Title I, Part A of the *Elementary and Secondary Education Act of 1965* (Title I). This funding provides grants to local educational agencies for schools that have high concentrations of students from families that live in poverty in order to help improve teaching and learning. The *Recovery Act* also provided $3,000 million for Title I school improvement grants. As of September 30, 2009, *Recovery Act* funding for education for the disadvantaged consisted of the following:

Education for the Disadvantaged

(Dollars in Millions)

	Appropriations	Obligations	Outlays
Title I Targeted/ Finance Incentive Grants	$ 10,000	$ 9,936	$ 804
School Improvement Grants	3,000	-	-
Total	**$ 13,000**	**$ 9,936**	**$ 804**

Special Education. The *Recovery Act* appropriated additional funding for programs under Parts B and C of the *Individuals with Disabilities Education Act* (*IDEA*). This funding was provided under three authorities: $11,300 million for Part B grants to states; $400 million for Part B preschool grants; and $500 million for Part C grants for infants and families. This funding provides opportunities for states, local educational agencies and early intervention service providers to implement innovative strategies to improve outcomes for infants, toddlers, children and youths with disabilities while stimulating the economy. As of September 30, 2009, *Recovery Act* funding for special education consisted of the following:

Special Education

(Dollars in Millions)

	Appropriations	Obligations	Outlays
IDEA Part B Grants to States	$ 11,300	$ 11,300	$ 729
IDEA Part B Preschool Grants	400	400	18
IDEA Part C Grants for Infants and Families	500	500	44
Total	**$ 12,200**	**$ 12,200**	**$ 791**

School Improvement Programs. The *Recovery Act* provided additional funding for school improvement programs. The $650 million in Enhancing Education through Technology funding can be used for a range of technology-related activities, including hardware purchases and professional development for teachers. An additional $70 million was provided through the Education for Homeless Children and Youths program for services that help homeless children to enroll in, attend, and succeed in school. As of September 30, 2009, *Recovery Act* funding for school improvement programs consisted of the following:

School Improvement Programs

(Dollars in Millions)

	Appropriations	Obligations	Outlays
Enhancing Education through Technology	$ 650	$ 641	$ 1
Education for Homeless Children and Youths	70	70	6
Total	**$ 720**	**$ 711**	**$ 7**

Rehabilitation Services and Disability Research. The *Recovery Act* appropriated $680 million for the support of rehabilitation services and disability research. Of this amount, $540 million in funding was made available to assist states in operating comprehensive, coordinated, effective and efficient programs of vocational rehabilitation. The remaining amount provides support to states to improve and expand independent living services to individuals with significant disabilities, including $88 million for independent living centers, $34 million for services for older blind individuals, and $18 million for state grants. As of September 30, 2009, *Recovery Act* funding for rehabilitation services and disability research consisted of the following:

Rehabilitation Services and Disability Research

(Dollars in Millions)

	Appropriations		Obligations		Outlays	
Vocational Rehabilitation	$	540	$	539	$	21
Independent Living Centers		88		-		-
Services for Older Blind Individuals		34		34		-
State Grants		18		18		1
Total	**$**	**680**	**$**	**591**	**$**	**22**

Institute of Education Sciences. The *Recovery Act* provided $250 million in funding to enable state educational agencies to design, develop and implement statewide, longitudinal data systems. Of this amount, up to $5 million may be used for state data coordinators and awards to public or private organizations to improve data coordination. As of September 30, 2009, there were $0 in obligations and outlays.

Innovation and Improvement. The *Recovery Act* provided $200 million in additional funding to innovation and improvement programs for competitive grants to develop and implement performance-based teacher and principal compensation systems in high-need schools. As of September 30, 2009, there were $1 million in obligations and $0 in outlays.

Impact Aid. The *Recovery Act* provided new funding for impact aid under section 8007 of Title VIII of the *Elementary and Secondary Education Act of 1965*. As of September 30, 2009, *Recovery Act* funding for impact aid consisted of the following:

Impact Aid

(Dollars in Millions)

	Appropriations		Obligations		Outlays	
Section 8007(a) Formula Grants	$	40	$	40	$	40
Section 8007(b) Competitive Grants		60		-		-
Total	**$**	**100**	**$**	**40**	**$**	**40**

Higher Education. The *Recovery Act* appropriated $100 million to the Teacher Quality Partnership program. This program aims to improve student achievement and teacher quality in high-need schools and early childhood education programs by improving teacher preparation and professional development activities, holding teacher preparation programs accountable for preparing effective teachers, and recruiting highly qualified individuals into the teaching workforce. As of September 30, 2009, there were $0 in obligations and outlays.

Student Aid Administration. The *Recovery Act* funding provided $60 million towards increasing the number of Title IV student loan servicing vehicles and improving operational performance to collect and deliver loan and grant data between program participants and the system. As of September 30, 2009, there were $29 million in obligations and $1 million in outlays.

Office of Inspector General. The *Recovery Act* appropriated $14 million for salaries and expenses necessary for Office of Inspector General oversight and audit of *Recovery Act* programs, grants and projects. As of September 30, 2009, there were $1 million in obligations and $1 million in outlays.

Note 19. 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, 2009, $1,945 million has been appropriated to the Department, of which $1,941 million has been obligated to assist local educational agencies and non-public schools, and $1,818 million has been expended. 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.

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, 2009, $61 million has been obligated from the earmarked funds to assist in the relief and recovery efforts and $53 million has been expended. 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.

Note 20. 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 2009, the Department provided funding of 82.4 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.6 percent of program funding. For the latest academic year ended June 30, 2009, approximately 494 thousand loans were made, totaling approximately $954.8 million at 1,607 institutions, averaging $1,934 per loan. The Department's share of the Federal Perkins Loan Program was approximately $6.5 billion as of June 30, 2009.

In FY 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 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.

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.

United States Department of Education
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2009

Dollars in Millions

	Combined		Federal Student Aid		Office of Elementary and Secondary Education		Office of Special Education & Rehabilitive Services		American Recovery and Reinvestment Act		Other	
	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	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:												
Unobligated balance, brought forward, October 1	$ 4,307	$ 26,847	$ 3,620	$ 26,517	$ 366		$ 56				$ 265	$ 330
Recoveries of prior year Unpaid Obligations	1,012	8,038	398	8,035	455		28				131	3
Budgetary Authority:												
Appropriations	164,934	132	25,417	130	19,357		14,442		$ 97,407		8,311	2
Borrowing Authority (Note 15)		200,265		200,214								51
Spending authority from offsetting collections (gross):												
Earned												
Collected	1,701	45,536	1,569	45,512	9		2				121	24
Change in Receivables from Federal Sources	1	(3)		(3)							1	
Change in unfilled customer orders												
Advance Received	4										4	
Without advance from Federal Sources	1	10									1	10
Subtotal	$ 166,641	$ 245,940	$ 26,986	$ 245,853	$ 19,366		$ 14,444		$ 97,407		$ 8,438	$ 87
Temporarily not available pursuant to Public Law	(887)		(887)									
Permanently not available	(980)	(13,141)	(688)	(13,130)	(160)		(22)				(110)	(11)
Total Budgetary Resources (Note 15)	**$ 170,093**	**$ 267,684**	**$ 29,429**	**$ 267,275**	**$ 20,027**	**$ 0**	**$ 14,506**	**$ 0**	**$ 97,407**	**$ 0**	**$ 8,724**	**$ 409**
Status of Budgetary Resources:												
Obligations incurred: (Note 15)												
Direct	$ 133,398	$ 257,690	$ 23,770	$ 257,585	$ 19,237		$ 14,444		$ 67,635		$ 8,312	$ 105
Reimbursable	94						2				92	
Subtotal	$ 133,492	$ 257,690	$ 23,770	$ 257,585	$ 19,237		$ 14,446		$ 67,635		$ 8,404	$ 105
Unobligated Balances:												
Apportioned	$ 33,263	$ 474	2,559	$ 474	$ 736		$ 14		$ 29,759		$ 195	
Subtotal	$ 33,263	$ 474	2,559	$ 474	$ 736		$ 14		$ 29,759		$ 195	
Unobligated Balance not available	3,338	9,520	3,100	9,216	54		46		13		125	$ 304
Total Status of Budgetary Resources	**$ 170,093**	**$ 267,684**	**$ 29,429**	**$ 267,275**	**$ 20,027**	**$ (0)**	**$ 14,506**	**$ (0)**	**$ 97,407**	**$ (0)**	**$ 8,724**	**$ 409**
Change in Obligated Balance:												
Obligated balance, net:												
Unpaid obligations, brought forward, October 1	$ 49,875	$ 41,440	$ 12,927	$ 41,157	$ 17,779		$ 9,095				$ 10,074	$ 283
Uncollected customer payments from Federal Sources, brought forward, October 1	(2)						(1)				(1)	
Total, unpaid obligated balance, brought forward, net	$ 49,873	$ 41,440	$ 12,927	$ 41,157	$ 17,779		$ 9,094				$ 10,073	$ 283
Obligation Incurred, net (+/-)	133,492	257,690	23,770	257,585	19,237		14,446		$ 67,635		8,404	105
Gross Outlays	(86,867)	(157,295)	(20,390)	(157,132)	(21,856)		(15,345)		(21,003)		(8,273)	(163)
Recoveries of prior year unpaid obligations, actual	(1,012)	(8,038)	(398)	(8,035)	(455)		(28)				(131)	(3)
Change in uncollected customer payments from Federal Sources (+/-)	(2)	(7)		3							(2)	(10)
	$ 95,484	**$ 133,790**	**$ 15,909**	**133,578**	**$ 14,705**	**$ (0)**	**$ 8,167**	**$ (0)**	**$ 46,632**	**$ (0)**	**$ 10,071**	**$ 212**
Obligated Balance, net, end of period:												
Unpaid Obligations	$ 95,488	$ 133,797	$ 15,909	$ 133,575	$ 14,705		$ 8,168		$ 46,632		$ 10,074	$ 222
Uncollected customer payments from Federal Sources	(4)	(7)		3			(1)				(3)	(10)
Total, unpaid obligated balance, net, end of period	**$ 95,484**	**$ 133,790**	**$ 15,909**	**$ 133,578**	**$ 14,705**	**$ (0)**	**$ 8,167**	**$ (0)**	**$ 46,632**	**$ (0)**	**$ 10,071**	**$ 212**
Net Outlays:												
Gross Outlays	$ 86,867	$ 157,295	$ 20,390	$ 157,132	$ 21,856		$ 15,345		$ 21,003		$ 8,273	$ 163
Offsetting collections	(1,705)	(45,536)	(1,569)	(45,512)	(9)		(2)				(125)	(24)
Distributed Offsetting receipts	(31,763)		(31,646)								(117)	
Net Outlays (Note 15)	**$ 53,399**	**$ 111,759**	**$ (12,825)**	**$ 111,620**	**$ 21,847**	**$ (0)**	**$ 15,343**	**$ (0)**	**$ 21,003**	**$ (0)**	**$ 8,031**	**$ 139**

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Stewardship Expenses

In the Department of Education, discretionary spending constitutes the majority of the budget and includes nearly all programs, the notable exceptions being student loans and rehabilitative services. Although 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.

Education in the United States is primarily a state and local responsibility. States, communities and 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. It is estimated that roughly $1.125 trillion will be spent nationwide on education at all levels for the school year 2009-2010, with Department of Education expenditures, as well as loans and other aid made available as a result of the Department's student financial aid programs. The Department's FY 2009 appropriations of more than $140.5 billion represent about 4 percent of the federal government's $4.0 trillion FY 2009 budget. The significant increase over the Department's FY 2008 appropriations reported last year is due to the *American Recovery and Reinvestment Act of 2009 (Recovery Act)*.

The *American Recovery and Reinvestment Act of 2009*

The *Recovery Act*, enacted on February 17, 2009, provided $98.2 billion to the Department for improving schools, raising students' achievement, driving reform and producing better results for children and young people for the long term health of the nation. Approximately 55 percent of the Department's *Recovery Act* funding was appropriated for the creation of a new State Fiscal Stabilization Fund with the goal to stabilize state and local government budgets to avoid reductions in education and other essential public services while driving education reform. The Department was tasked with promptly disbursing these funds through a variety of existing and new grant programs, while ensuring the transparency and accountability of every dollar spent.

Investment in Human Capital

Office of Federal Student Aid. The Office of Federal Student Aid administers need-based financial assistance programs for students pursuing postsecondary education and makes available federal grants, direct loans, guaranteed loans and work-study funding to eligible undergraduate and graduate students. See more detail at: http://www.ed.gov/about/offices/list/fsa/index.html?src=oc

Office of 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 the reform, strategic investment and innovation in preschool, elementary and secondary education. Financial assistance programs support services for children in high-poverty schools, institutions for neglected and delinquent children, homeless children, certain Native American children, children of migrant families and children who live on or whose parents work on federal property. Funding is also provided to increase the academic achievement of students by ensuring that all teachers are highly qualified. See more detail at: http://www.ed.gov/about/offices/list/oese/index.html?src=oc

Office of Special Education and Rehabilitative Services. The Office of Special Education and Rehabilitative Services supports state and local programs that assist in educating children, youth and adults with special needs to increase their level of employment, productivity, independence and integration into the community. Funding is also provided for research to improve the quality of their lives. See more detail at: http://www.ed.gov/about/offices/list/osers/index.html?src=oc

Office of Safe and Drug-Free Schools. The Office of Safe and Drug-Free Schools supports efforts to create safe and violence-free schools, respond to crises, prevent drug and alcohol abuse, ensure the health and well-being of students and teach students good citizenship and character. Grants emphasize coordinated, collaborative responses to develop and maintain safe, disciplined and drug-free learning environments. See more detail at: http://www.ed.gov/about/offices/list/osdfs/index.html?src=oc

Office of Innovation and Improvement. The Office of Innovation and Improvement makes strategic investments in educational practices through grants to states, schools and community and nonprofit organizations. The office leads the movement for greater parental options such as charter schools. The office also supports special grants designed to raise student achievement by improving teachers' knowledge and understanding of and appreciation for traditional U.S. history. See more detail at: http://www.ed.gov/about/offices/list/oii/index.html?src=oc

Institute of Education Sciences. Established by the *Education Sciences Reform Act of 2002,* the Institute of Education Sciences is the research arm of the Department of Education. Its mission is to expand knowledge and provide information on the condition of education, practices that improve academic achievement and the effectiveness of federal and other education programs. Its goal is the transformation of education into an evidence-based field in which decision makers routinely seek out the best available research and data before adopting programs or practices that will affect significant numbers of students. See more detail at: http://www.ed.gov/about/offices/list/ies/index.html?src=oc

Office of English Language Acquisition. The Office of English Language Acquisition directs programs designed to enable students with limited English proficiency to become proficient in English and meet state academic content and student achievement standards. Enhanced instructional opportunities are provided to children and youths of Native American, Alaska Native, Native Hawaiian, Pacific Islander and immigrant backgrounds who are limited English proficient. Grants pay the federal share of the cost of model programs for the establishment, improvement or expansion of foreign language study in elementary and secondary schools. See more detail at: http://www.ed.gov/about/offices/list/oela/index.html?src=oc

Office of Vocational and Adult Education. The Office of Vocational and Adult Education provides leadership, technical assistance and funding for adult education and career and technical education to state and local agencies to help students improve their literacy skills and prepare them for postsecondary education and careers through strong high school programs and career and technical education. The office ensures the equal access of minorities, women, individuals with disabilities and disadvantaged persons to career and technical education and adult education and ensures that career and technical education students are held to the same challenging academic content and academic achievement standards established by the state under the *Elementary and Secondary Education Act of 1965*. Funding is also provided to promote identification and dissemination of effective practices in raising student achievement in high schools, community colleges and adult education programs and support targeted research investments. See more detail at: http://www.ed.gov/about/offices/list/ovae/index.html?src=oc

Office of Postsecondary Education. The Office of Postsecondary Education provides grants to colleges and universities, as well as to non-profit organizations to: promote reform, innovation and improvement in postsecondary education; increase access to and completion of postsecondary education by disadvantaged students; strengthen the capacity of colleges and universities that serve a high percentage of minority and disadvantaged students; and improve teacher and student development resources. The international programs promote international education and foreign language studies and research. The office administers the accrediting agency recognition process and coordinates activities with states that affect institutional participation in federal financial assistance programs.
See more detail at: http://www.ed.gov/about/offices/list/ope/index.html?src=oc

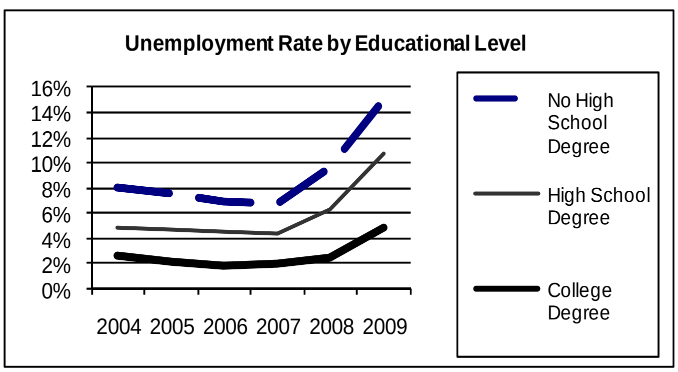
Summary of Human Capital Expenses

(Dollars in Millions)	2009	2008	2007	2006	2005
Federal Student Aid Expense					
Direct Loan Subsidy[1]	$ (9,603)	$ 5,236	$ (499)	$ 6,655	$ 5,211
FFEL Program Subsidy[1]	(29,940)	(2,852)	4,884	28,062	9,863
Grant Programs	17,302	17,464	15,092	15,447	15,070
Salaries and Administrative	186	189	173	172	164
Subtotal	**(22,055)**	**20,037**	**19,650**	**50,336**	**30,308**
Other Departmental					
Elementary and Secondary Education	21,443	21,583	21,199	21,710	22,940
Special Education and Rehabilitative Services	15,075	15,730	15,402	15,215	13,995
American Recovery and Reinvestment	21,616				
Other Departmental Programs	7,150	4,911	5,109	5,353	6,067
Salaries and Administrative	472	491	467	467	486
Subtotal	**65,756**	**42,715**	**42,177**	**42,745**	**43,488**
Grand Total	**$ 43,701**	**$ 62,752**	**$ 61,827**	**$ 93,081**	**$ 73,796**

[1] A reduction of 30 percent in human capital costs from FY 2008 to FY 2009 is due to downward re-estimates and negative subsidies in the Direct Loan and FFEL programs.

Program Outcomes

Education is the stepping stone to higher living standards for American citizens, and it is vital to national economic growth. However, 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. 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 include 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.

Unemployment Rate. Individuals with lower levels of educational attainment are more likely to be unemployed than those who had higher levels of educational attainment. The August 2009 unemployment rate for adults (25 years old and over) who had not completed high school was 15.0 percent, compared with 10.8 percent for those with four years of high school and 4.9 percent for those with a bachelor’s degree or higher. Younger people with only high school diplomas tended to have higher unemployment rates than adults 25 and over with similar levels of education.

Annual Income. As of July 2009, the annualized median income for adults (25 years old and over) varied considerably by education level. Men with a high school diploma earned $37,128, compared with $69,524 for men with a college degree. Women with a high school diploma earned $28,600, compared with $50,596 for women with a college degree. Men and women with college degrees earned 81 percent more than men and women with high school diplomas. These returns of investing in education directly translate into the advancement of the American economy as a whole.