Notes to the Principal Financial Statements
For the Years Ended September 30, 2011 and 2010

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 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,* authorizes the Department to make loans directly to eligible undergraduate and graduate students and their parents through participating schools. Under this program, 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 while the students are in school or in a deferment period.

The FFEL Program, 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. The *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010* and became effective July 1, 2010, provided that no new FFEL loans would be made after June 30, 2010.

The *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) authorized 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 implemented three activities under this temporary loan purchase authority. These activities are: (1) loan purchase commitments; (2) loan participation purchases; and (3) an Asset-Backed Commercial Paper (ABCP) Conduit.

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 grants; grants to support institutions of higher education; educational research and improvement grants; grants to assist low-income and first-generation college students prepare for and transition into college; grants to improve our global awareness and competitiveness; and fellowships for college and graduate students. Through the facilities loan programs, the Department administers low-interest loans to institutions of higher education for the construction and renovation of facilities.

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*, 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 *American Recovery and Reinvestment Act of 2009* (Recovery Act), enacted on February 17, 2009 as Public Law 111-5, provided 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 of stabilizing 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.

Public Law 111-226, enacted on August 10, 2010, created the Education Jobs Fund, which provided funding to the Department to assist in saving and creating jobs for the 2010-11 school year. The Department was authorized to disburse these funds promptly to states through formula grants, while ensuring transparency and accountability overall.

Reporting Groups

The financial reporting structure of the Department presents operations based on five reporting groups that administer the loan and grant programs. The reporting groups are shown below.

- Federal Student Aid (FSA)
- Office of Elementary and Secondary Education (OESE)
- American Recovery and Reinvestment Act and Education Jobs Fund (RA/JF)
- Office of Special Education and Rehabilitative Services (OSERS)
- Other

The "Other" reporting group consists of the 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, Office for Civil Rights (OCR), and Hurricane Education Recovery (HR) activities. (See Notes 11, 13, and 20)

FSA, IES, OESE, OII, and OSERS are responsible for the administration of Recovery Act funds. OESE is responsible for administration of the Education Jobs Fund. Recovery Act and Education Jobs Fund activities are reported under the RA/JF reporting group. (See Notes 11, 13, 18, 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, and the Office of Management and Budget (OMB) Circular No. A-136, *Financial*

Reporting Requirements, as revised October 2011. 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 fiscal year (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 and the amounts recorded.

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 for 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 loan was obligated or 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 financial statements were prepared using assumptions developed for the FY 2012 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 unobligated balances of resources from prior years; recoveries of prior-year obligations; and 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, the Historically Black Colleges and Universities (HBCU) Capital Financing 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 principal and interest collections from borrowers, related fees, and interest from Treasury on balances in 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, activities under the temporary loan purchase authority, and the HBCU Capital Financing Program. In addition, borrowing authority is requested in advance of expected collections to cover negative subsidy cost. Treasury prescribes the terms and conditions of borrowing authority and lends to the credit financing account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. The Department may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

Assets

Assets are classified as either entity or non-entity assets. Entity assets are those that the Department has authority to use for its operations. Non-entity assets are those held by the Department but not available for use in its operations. The Department combines its entity and non-entity assets on the 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 the 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 2010, which were statutorily not available for obligation until the following fiscal year. Because this is a deferral made in law, it reduces total budgetary resources. (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 Federal Fund assets of state and nonprofit FFEL Program guaranty agencies. Guaranty agency Federal Fund 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.

Sections 422A and 422B 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 the 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 and 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 between the gross amount and the allowance for subsidy is the present value of the cash flows to and from the Department that are expected from 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 of interest benefits and special allowance payments 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)

Accounts Payable

Accounts Payable include amounts owed by the Department for goods and services received from other entities and scheduled payments transmitted but not yet processed. The Department's accounts payable primarily consist of in-process grant and loan disbursements to the public.

Debt

The Department borrows to provide funding for the Direct Loan, FFEL, and TEACH Programs. 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 HBCU 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 20)

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 the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, the Department contributes a fixed percentage of pay.

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

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

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, employees who have incurred work-related occupational diseases, and 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.

Reclassifications

Certain reclassifications were made to the FY 2010 financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities, net position, net cost of operations, or budgetary resources. The FY 2010 Statement of Net Cost and related note were reclassified to align with the strategic goals presented in the Department's draft *Strategic Plan 2011-2014*. (See Note 13) Additional reclassifications were made within the FFEL Program Receivables, Net section of Note 6, Credit Programs for Higher Education, and within Note 16, Reconciliation of Budgetary Obligations to Net Cost of Operations.

Additional Comparative Information

In FY 2011, the Department's notes to the financial statements include disclosure of the components of Distributed Offsetting Receipts. FY 2010 information is presented for comparative purposes. (See Note 15)

Note 2. Non-Entity Assets

As of September 30, 2011 and 2010, non-entity assets consisted of the following:

Non-Entity Assets

(Dollars in Millions)

	2011	2010
Non-Entity Assets		
Intragovernmental:		
Fund Balance with Treasury	$ 70	$ 93
Total Intragovernmental	**70**	**93**
With the Public:		
Cash and Other Monetary Assets	1,664	2,965
Accounts Receivable, Net	34	21
Credit Program Receivables, Net	215	183
Total With the Public	**1,913**	**3,169**
Total Non-Entity Assets	**1,983**	**3,262**
Entity Assets	644,559	500,402
Total Assets	$ 646,542	$ 503,664

Non-entity intragovernmental assets primarily consist of deposit fund and clearing account balances. Non-entity assets with the public primarily consist of guaranty agency reserves and Federal 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, 2011 and 2010, consisted of the following:

Fund Balances

(Dollars in Millions)

	2011	2010
General Funds	$ 76,432	$ 98,792
Revolving Funds	37,562	33,351
Trust Funds	4	5
Special Funds	17	18
Other Funds	70	93
Fund Balance with Treasury	**$ 114,085**	**$ 132,259**

The Status of Fund Balance with Treasury, as of September 30, 2011 and 2010, consisted of the following:

Status of Fund Balance with Treasury
(Dollars in Millions)

	2011	2010
Unobligated Balance:		
Available	$ 3,670	$ 3,784
Unavailable	15,502	15,431
Obligated Balance, Not Yet Disbursed	94,843	112,390
Authority Temporarily Precluded from Obligation	-	561
Non-Budgetary Fund Balance with Treasury	70	93
Fund Balance with Treasury	**$ 114,085**	**$ 132,259**

Note 4. Accounts Receivable

Accounts Receivable, as of September 30, 2011 and 2010, consisted of the following:

Accounts Receivable
(Dollars in Millions)

	2011		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ -	$ -	$ -
With the Public	322	(184)	138
Accounts Receivable	**$ 322**	**$ (184)**	**$ 138**

	2010		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 1	$ -	$ 1
With the Public	416	(177)	239
Accounts Receivable	**$ 417**	**$ (177)**	**$ 240**

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 Guaranty Agency Federal and Restricted Funds Due to Treasury. The table below presents Cash and Other Monetary Assets for the years ended September 30, 2011 and 2010.

Cash and Other Monetary Assets

(Dollars in Millions)

	2011		2010	
Beginning Balance, Cash and Other Monetary Assets	**$**	**2,965**	**$**	**2,414**
Increase/(Decrease) in Guaranty Agency Federal Funds, net		(1,301)		989
Less: Excess Collections Remitted by Guaranty Agencies		-		438
Ending Balance, Cash and Other Monetary Assets	**$**	**1,664**	**$**	**2,965**

The $1.3 billion net decrease in the Federal Fund in FY 2011 represents the change in the estimated value of net assets held in the FFEL guaranty agency Federal Funds. This decrease reflects the impact of guaranty agencies' operations and a refinement the Department made to the process for estimating the valuation of the Federal Fund.

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 $133 billion in Direct Loans to eligible borrowers in FY 2011 and approximately $75 billion in FY 2010. 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. The substantial increase in Direct Loan Program disbursements during FY 2011 resulted from the increased use of the Direct Loan Program in accordance with the changes made by the *SAFRA Act*.

Approximately 9 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 before the student begins classes. For Direct Loans obligated in the 2011 cohort, an estimated $14.5 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.

Federal Family Education Loan Program. In FY 2008, the Department began administering activities under temporary loan purchase authority. ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. This authority was to expire on September 30, 2009; however, Public Law 110-350 extended the authority through September 30, 2010. The Department implemented three activities under this authority: loan purchase commitments; purchases of loan participation interests; and a put, or forward purchase commitment, with an ABCP Conduit. Credit Program Receivables are established for loans and participation interests in loans acquired through these activities.

Under the loan purchase commitment activity, lenders had the option to sell directly to the Department fully disbursed loans originated for academic years 2007-08, 2008-09, or 2009-10. In loan participation transactions, lenders transferred to a custodian FFEL loans originated in academic years 2008-09 or 2009-10 on which at least one disbursement had been made. The custodian issued participation certificates to the lenders, which conveyed a participation interest in the loans. The lenders sold the participation interest in the loans to the Department at the par value of these loans. The Department remitted the proceeds through the custodian to the lenders. Participation interests earned a yield payable from the lenders 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 were obtained by selling the underlying loans to the Department or by other means. Lenders committed to redeem the participation certificates and sell loans by September 30, 2010; the Department finalized these transactions by October 15, 2010.

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 issues short-term commercial paper to investors; this paper is backed by student loans pledged to the conduit. The conduit used the proceeds of sales of its commercial paper to acquire from lenders interests in student loans. Lenders must have used 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 purchases those pledged loans that become more than 210 days delinquent. The conduit has sold to the Department approximately $1.2 billion of these delinquent loans as of September 30, 2011. Under the terms of the Put Agreement with the conduit, the Department may purchase pledged loans 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 budget totals. Loans originated in academic years 2004-05 through 2007-08, and pledged to the conduit prior to July 1, 2010, are eligible to be purchased through the ABCP Conduit.

As of September 30, 2011, the Department has $72.6 billion in obligations to cover any buyer-of-last-resort activities and potential purchases of underlying student loans under the ABCP Conduit. These obligations are supported by available borrowing authority. The conduit, a separate legal entity, has approximately $41.5 billion in commercial paper outstanding.

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.

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.

Under the provisions of the *SAFRA Act*, no new loans were made under the FFEL Program after June 30, 2010. This legislation effectively required a transition for new loans from guaranteed student loans to full direct lending through the Department under the Direct Loan Program. Federal guarantees on FFEL Program loans and commitments remain in effect for loans made before July 1, 2010 until the loan is sold to the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled.

As a result of the *SAFRA Act*, the Department did not guarantee any loans in FY 2011. The Department guaranteed $24 billion in gross non-consolidation loans to FFEL recipients during FY 2010. As of September 30, 2011 and 2010, total principal balances outstanding of guaranteed loans held by lenders were approximately $328 billion and $390 billion, respectively. As of September 30, 2011 and 2010, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $321 billion and $382 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.

Guaranteed loans that default are initially turned over to guaranty agencies for collection. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection.

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

TEACH Program. The Department awards annual grants up to $4,000 to eligible undergraduate and graduate students who agree to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. For students failing to fulfill the service requirement, grants are converted to Direct Unsubsidized Stafford Loans. Because grants can be converted to direct loans, for budget and accounting purposes the program is operated under 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* (Public Law 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 82.19 percent. The current subsidy estimate for the sub-program is $327 million on a loan volume of $398 million.

Loan Consolidations

Student and parent 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, consolidation loan was obligated. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort 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 $17 billion during FY 2010 to $24 billion during FY 2011. Under credit reform accounting, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows of the past cohort year in which the loans were originated. FFEL to Direct Loan consolidations are part of the $24 billion.

Credit Program Receivables

Credit Program Receivables, as of September 30, 2011 and 2010, consisted of the following:

Credit Program Receivables, Net
(Dollars in Millions)

	2011	2010
Direct Loan Program Loan Receivables, Net	$ 381,454	$ 228,208
FFEL Program		
FFEL Guaranteed Loan Program, Net (Pre-1992)	3,675	2,419
FFEL Program (Post-1991):		
FFEL Guaranteed Loan Program, Net	28,627	24,030
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	42,116	42,279
Loan Participation Purchase, Net	72,682	69,686
ABCP Conduit, Net	943	468
Federal Perkins Program Loan Receivables, Net	215	183
TEACH Program Receivables, Net	253	137
Facilities Loan Programs Loan Receivables, Net	526	494
Credit Program Receivables, Net	**$ 530,491**	**$ 367,904**

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

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

	2011	2010
Principal Receivable	$ 341,822	$ 220,522
Interest Receivable	14,286	9,655
Receivables	356,108	230,177
Less: Allowance for Subsidy	(25,346)	1,969
Direct Loan Program Loan Receivables, Net	**$ 381,454**	**$ 228,208**

Of the $356.1 billion in receivables, as of September 30, 2011, $16.1 billion in loan principal was in default, compared to $14.0 billion a year earlier.

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

FFEL Program Receivables, Net

(Dollars in Millions)

	2011	2010
FFEL Guaranteed Loan Program (Pre-1992)		
Principal Receivable	$ 6,228	$ 6,681
Interest Receivable	4,034	3,849
Receivables	10,262	10,530
Less: Allowance for Subsidy	6,587	8,111
FFEL Guaranteed Loan Program, Net (Pre-1992)	**3,675**	**2,419**
FFEL Program (Post-1991)		
FFEL Guaranteed Loan Program:		
Principal Receivable	29,790	26,358
Interest Receivable	4,236	4,049
Receivables	34,026	30,407
Less: Allowance for Subsidy	5,399	6,377
FFEL Guaranteed Loan Program, Net	**28,627**	**24,030**
Temporary Loan Purchase Authority:		
Loan Purchase Commitment:		
Principal Receivable	35,822	36,623
Interest Receivable	1,879	1,400
Receivables	37,701	38,023
Less: Allowance for Subsidy	(4,415)	(4,256)
Loan Purchase Commitment, Net	**42,116**	**42,279**
Loan Participation Purchase:		
Principal Receivable	61,125	62,931
Interest Receivable	2,993	1,665
Receivables	64,118	64,596
Less: Allowance for Subsidy	(8,564)	(5,090)
Loan Participation Purchase, Net	**72,682**	**69,686**
ABCP Conduit:		
Principal Receivable	1,121	544
Interest Receivable	55	26
Receivables	1,176	570
Less: Allowance for Subsidy	233	102
ABCP Conduit, Net	**943**	**468**
FFEL Program Receivables, Net	**$ 148,043**	**$ 138,882**

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.

Federal Perkins Loan Program. As of September 30, 2011 and 2010, loan receivables, net of an allowance for loss, were $215 million and $183 million, respectively. These loans are valued at historical cost.

TEACH Program. As of September 30, 2011 and 2010, loan receivables, net of an allowance for subsidy, were $253 million and $137 million, respectively.

Facilities Loan Programs

Facilities Loan Programs Loan Receivables

(Dollars in Millions)

	2011	2010
Principal Receivable	$ 932	$ 785
Interest Receivable	7	9
Receivables	939	794
Less: Allowance for Subsidy/Loss	413	300
Facilities Loan Programs Loan Receivables, Net	**$ 526**	**$ 494**

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)

	2011	2010
Beginning Balance, Allowance for Subsidy	**$ 1,969**	**$ 4,036**
Components of Subsidy Transfers		
Interest Rate Differential	(26,898)	(11,708)
Defaults, Net of Recoveries	2,342	1,307
Fees	(1,739)	(1,067)
Other	9,264	5,158
Current Year Subsidy Transfers	**(17,031)**	**(6,310)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates[1]	(8,084)	3,547
Technical and Default Re-estimates	(3,515)	1,196
Subsidy Re-estimates	**(11,599)**	**4,743**
Activity		
Fee Collections	1,623	1,056
Loan Cancellations[2]	(964)	(388)
Subsidy Allowance Amortization	1,638	(500)
Other	(982)	(668)
Total Activity	**1,315**	**(500)**
Ending Balance, Allowance for Subsidy	**$ (25,346)**	**$ 1,969**

[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 guarantees for the insurance portion of the FFEL Program:

FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2011	2010
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 14,407**	**$ 20,448**
Components of Subsidy Transfers		
Interest Supplement Costs	-	(733)
Defaults, Net of Recoveries	-	212
Fees	-	(960)
Other[1]	-	878
Current Year Subsidy Transfers	**-**	**(603)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(1)	59
Technical and Default Re-estimates	(11,220)	(12,727)
Subsidy Re-estimates	**(11,221)**	**(12,668)**
Activity		
Interest Supplement Payments	(2,453)	(3,881)
Claim Payments	(9,707)	(8,987)
Fee Collections	2,600	3,736
Interest on Liability Balance	(867)	(152)
Other[2]	17,225	16,514
Total Activity	**6,798**	**7,230**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**9,984**	**14,407**
FFEL Liquidating Account Liability for Loan Guarantees	41	72
Liabilities for Loan Guarantees	**$ 10,025**	**$ 14,479**

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

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

The following schedules provide reconciliations between the beginning and ending balances of the allowance for subsidy for the Loan Purchase Commitment component and the Loan Participation Purchase component of the FFEL Program. These FFEL components are accounted for using credit reform accounting methodology and affect credit program receivables accordingly.

Loan Purchase Commitment Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2011	2010
Beginning Balance, Allowance for Subsidy	**$ (4,256)**	**$ (2,360)**
Components of Subsidy Transfers		
Interest Costs	-	(4,548)
Defaults, Net of Recoveries	-	178
Fees	-	520
Other	-	1,647
Current Year Subsidy Transfers	**-**	**(2,203)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(518)	1,299
Technical and Default Re-estimates	(323)	438
Subsidy Re-estimates	**(841)**	**1,737**
Activity		
Fee Disbursements	(31)	(644)
Subsidy Allowance Amortization	381	(314)
Direct Asset Activities and Other	332	(472)
Total Activity	**682**	**(1,430)**
Ending Balance, Allowance for Subsidy	**$ (4,415)**	**$ (4,256)**

Loan Participation Purchase Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2011	2010
Beginning Balance, Allowance for Subsidy	**$ (5,090)**	**$ (2,717)**
Components of Subsidy Transfers		
Interest Costs	-	(3,662)
Defaults, Net of Recoveries	-	254
Fees	-	(693)
Other	-	2,194
Current Year Subsidy Transfers	**-**	**(1,907)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(1,495)	2,621
Technical and Default Re-estimates	(2,569)	(1,321)
Subsidy Re-estimates	**(4,064)**	**1,300**
Activity		
Fee Disbursements	(655)	(837)
Subsidy Allowance Amortization	635	(673)
Direct Asset Activities and Other	610	(256)
Total Activity	**590**	**(1,766)**
Ending Balance, Allowance for Subsidy	**$ (8,564)**	**$ (5,090)**

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, and Fund Balance with Treasury.

The Department accrues interest receivable and records interest revenue on performing Direct Loans and FFEL loans purchased by the Department. Interest receivable is accrued on defaulted guaranteed loans, with an offset to the allowance for subsidy. The Department does not record interest revenue on defaulted guaranteed loans.

Subsidy amortization is calculated 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 for the years ended September 30, 2011 and 2010:

Direct Loan Program

(Dollars in Millions)

	2011	2010
Interest Expense on Treasury Borrowing	$ 14,321	$ 10,514
Interest Expense	**$ 14,321**	**$ 10,514**
Interest Revenue from the Public	$ 12,466	$ 7,352
Amortization of Subsidy	(1,638)	500
Interest Revenue on Uninvested Funds	3,493	2,662
Interest Revenue	**$ 14,321**	**$ 10,514**

Payable to Treasury

Payable to Treasury, for the years ended September 30, 2011 and 2010, consisted of the following:

Payable to Treasury

(Dollars in Millions)

	2011	2010
Future Liquidating Account Collections, Beginning Balance	**$ 2,424**	**$ 3,569**
Valuation of Pre-1992 Loan Liability and Allowance	1,787	(717)
Capital Transfers to Treasury	(325)	(428)
Future Liquidating Account Collections, Ending Balance	**3,886**	**2,424**
Other	4	-
Payable to Treasury	**$ 3,890**	**$ 2,424**

Subsidy Expense

William D. Ford Federal Direct Loan Program

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2011	2010
Components of Current Year Subsidy Transfers		
Interest Rate Differential	$ (26,898)	$ (11,708)
Defaults, Net of Recoveries	2,342	1,307
Fees	(1,739)	(1,067)
Other	9,264	5,158
Current Year Subsidy Transfers	**(17,031)**	**(6,310)**
Subsidy Re-estimates	(11,599)	4,743
Direct Loan Subsidy Expense	**$ (28,630)**	**$ (1,567)**

William D. Ford Federal Direct Loan re-estimated subsidy cost was adjusted downward by $11.6 billion in FY 2011. Costs decreased $5.7 billion due to updated economic assumptions, including probabilistic estimating, discount rates, and weighted consolidation loan interest rates. The availability of new information allowed Direct Loan death, disability, and bankruptcy rates to be estimated directly rather than having to use the FFEL rates, reducing cost by $1.5 billion. The decrease in costs is due to lower bankruptcy rates used in formulating the estimate for Direct Loans. Court action usually prevents discharges of Direct student loans. Costs decreased by $1.0 billion due to updated actual activity indicating slightly lower rates of prepayments, resulting in higher interest earnings from borrowers. 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 $1.1 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1994-2010.

William D. Ford Federal Direct Loan re-estimated subsidy cost increased $4.7 billion in FY 2010. The majority of this increase was related to discount rate changes increasing costs by $2.2 billion. Changes in assumptions for income-based repayments and public service loan forgiveness increased subsidy cost by $611 million. Rising default rates increased subsidy cost $226 million. Changes in other interest components, probabilistic methodology for estimating, and an uptick in consolidated weighted rates increased costs by $887 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 $662 million. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1994–2009.

Federal Family Education Loan Program

FFEL Program Subsidy Expense

(Dollars in Millions)

	2011	2010
FFEL Guaranteed Loan Program		
Components of Current Year Subsidy Transfers		
Interest Supplement Costs	$ -	$ (733)
Defaults, Net of Recoveries	-	212
Fees	-	(960)
Other	-	878
Current Year Subsidy Transfers	**-**	**(603)**
Subsidy Re-estimates	(11,221)	(12,668)
FFEL Guaranteed Loan Program Subsidy Expense	**(11,221)**	**(13,271)**
Temporary Loan Purchase Authority		
Loan Purchase Commitment		
Components of Current Year Subsidy Transfers		
Interest Costs	-	(4,548)
Defaults, Net of Recoveries	-	178
Fees	-	520
Other	-	1,647
Current Year Subsidy Transfers	**-**	**(2,203)**
Subsidy Re-estimates	(841)	1,737
Loan Purchase Commitment Subsidy Expense	**(841)**	**(466)**
Loan Participation Purchase		
Components of Current Year Subsidy Transfers		
Interest Costs	-	(3,662)
Defaults, Net of Recoveries	-	254
Fees	-	(693)
Other	-	2,194
Current Year Subsidy Transfers	**-**	**(1,907)**
Subsidy Re-estimates	(4,064)	1,300
Loan Participation Purchase Subsidy Expense	**(4,064)**	**(607)**
FFEL Program Subsidy Expense	**$ (16,126)**	**$ (14,344)**

FFEL Guaranteed subsidy cost was adjusted downward $11.2 billion in FY 2011. Costs decreased $5.5 billion due to updated economic assumptions, including probabilistic deterministic rates, which reflected historically low commercial paper rates, resulting in substantially higher negative special allowance payments than were previously projected. Costs decreased $2.0 billion due to multiple assumption changes affecting the Guaranteed ECASLA cash flows. 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 $13.4 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1992-2010.

FFEL Guaranteed re-estimated subsidy cost decreased $12.7 billion in FY 2010. The change in consolidated weighted rates decreased subsidy cost $6.6 billion. Interest rates and probabilistic methodology for estimating decreased subsidy costs $3.7 billion. ECASLA and other volume adjustments decreased subsidy cost $1.7 billion. Loan deferment increases produced an increase in subsidy cost of $1 billion. 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 $17 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1992–2009.

Subsidy Rates

The subsidy rates applicable to the 2011 loan cohort year follow:

Subsidy Rates—Cohort 2011

	Interest Differential/ Supplements	Defaults	Fees	Other	Total
Direct Loan Program	(20.55%)	1.69%	(1.22%)	6.18%	(13.90%)
TEACH Program	4.29%	0.52%	0.00%	7.92%	12.73%

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 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. The subsidy expense reported in the current year includes re-estimates. The subsidy rates shown above, which reflect aggregate negative subsidy in the FY 2011 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole.

The 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 Expenses, for the years ended September 30, 2011 and 2010, consisted of the following:

Administrative Expenses

(Dollars in Millions)

	2011		2010	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 661	$ 388	$ 536	$ 314
Other Expense	30	18	22	13
Administrative Expenses	**$ 691**	**$ 406**	**$ 558**	**$ 327**

Note 7. General Property, Plant, and Equipment

General Property, Plant, and Equipment, as of September 30, 2011 and 2010, consisted of the following:

General Property, Plant, and Equipment

(Dollars in Millions)

	2011		
	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 176	$ (160)	$ 16
Furniture and Fixtures	3	(3)	-
General Property, Plant, and Equipment	**$ 179**	**$ (163)**	**$ 16**

	2010		
	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 172	$ (144)	$ 28
Furniture and Fixtures	3	(3)	-
General Property, Plant, and Equipment	**$ 175**	**$ (147)**	**$ 28**

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)

2011 FY	2011 Lease Payment	2010 FY	2010 Lease Payment
2012	$ 38	2011	$ 48
2013	44	2012	48
2014	45	2013	45
2015	53	2014	47
2016	55	2015	54
After 2016	57	After 2015	56
Total	**$ 292**	**Total**	**$ 298**

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 $50 million and $102 million as of September 30, 2011 and 2010, 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 $98 million and $166 million as of September 30, 2011 and 2010, respectively.

Note 9. Debt

Debt, as of September 30, 2011 and 2010, consisted of the following:

Debt

(Dollars in Millions)

2011	Beginning Balance	Accrued Interest	New Borrowing	Repayments	Ending Balance
Treasury Debt					
Direct Loan Program	$ 237,190	$ -	$ 167,071	$ (11,887)	$ 392,374
FFEL Program					
Guaranteed Loan Program	10,730	-	18,754	-	29,484
Loan Purchase Commitment	45,205	-	1,394	(2,740)	43,859
Loan Participation Purchase	79,577	-	5,352	(5,627)	79,302
ABCP Conduit	804	-	250	(90)	964
TEACH Program	150	-	133	(2)	281
Facilities Loan Program	61	-	-	(3)	58
Total Treasury Debt	**373,717**	**-**	**192,954**	**(20,349)**	**546,322**
Debt to the FFB					
HBCU	618	1	176	(9)	786
Total Debt to the FFB	**618**	**1**	**176**	**(9)**	**786**
Total	**$ 374,335**	**$ 1**	**$ 193,130**	**$ (20,358)**	**$ 547,108**

2010	Beginning Balance	Accrued Interest	New Borrowing	Repayments	Ending Balance
Treasury Debt					
Direct Loan Program	$ 154,218	$ -	$ 91,192	$ (8,220)	$ 237,190
FFEL Program					
Guaranteed Loan Program	1,474	-	9,285	(29)	10,730
Loan Purchase Commitment	24,877	-	21,744	(1,416)	45,205
Loan Participation Purchase	53,977	-	32,206	(6,606)	79,577
ABCP Conduit	244	-	650	(90)	804
TEACH Program	68	-	98	(16)	150
Facilities Loan Program	71	-	-	(10)	61
Total Treasury Debt	**234,929**	**-**	**155,175**	**(16,387)**	**373,717**
Debt to the FFB					
HBCU	456	2	171	(11)	618
Total Debt to the FFB	**456**	**2**	**171**	**(11)**	**618**
Total	**$ 235,385**	**$ 2**	**$ 155,346**	**$ (16,398)**	**$ 374,335**

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 downward subsidy re-estimates, which when executed will be paid to Treasury.

Other Liabilities, as of September 30, 2011 and 2010, consisted of the following:

Other Liabilities

(Dollars in Millions)

	2011		2010	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Liabilities Covered by Budgetary Resources				
Current				
Advances From Others	$ 89	$ -	$ 96	$ -
Employer Contributions and Payroll Taxes	6	-	5	-
Liability for Deposit Funds and Clearing Accounts	(4)	71	8	86
Accrued Payroll and Benefits	-	28	-	25
Deferred Revenue	-	62	-	182
Liabilities in Miscellaneous Receipt Accounts	6,533	-	12,663	-
Total Other Liabilities Covered by Budgetary Resources	**6,624**	**161**	**12,772**	**293**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	-	38	-	37
Non-Current				
Accrued Unfunded FECA Liability	4	-	3	-
Liabilities in Miscellaneous Receipt Accounts	215	-	183	-
Accrued FECA Actuarial Liability	-	18	-	16
Total Other Liabilities Not Covered by Budgetary Resources	**219**	**56**	**186**	**53**
Other Liabilities	**$ 6,843**	**$ 217**	**$ 12,958**	**$ 346**

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 $275 million and $239 million as of September 30, 2011 and 2010, respectively.

As of September 30, 2011 and 2010, liabilities on the Balance Sheet totaled $578.0 billion and $416.1 billion, respectively. Of this amount, liabilities covered by budgetary resources totaled $577.7 billion as of September 30, 2011, and $415.9 billion as of September 30, 2010.

Note 11. Accrued Grant Liability

The accrued grant liability by major reporting groups, as of September 30, 2011 and 2010, consisted of the following:

Accrued Grant Liability

(Dollars in Millions)

	2011	2010
FSA	$ 3,036	$ 2,016
OESE	124	281
OSERS	259	182
RA/JF	235	1,070
Other	274	195
Accrued Grant Liability	**$ 3,928**	**$ 3,744**

Note 12. Net Position

Unexpended appropriations, as of September 30, 2011 and 2010, consisted of the following:

Unexpended Appropriations

(Dollars in Millions)

	2011	2010
Unobligated Balances		
Available	$ 2,936	$ 2,323
Not Available	594	1,181
Undelivered Orders	68,199	90,306
Authority Temporarily Precluded from Obligation	-	561
Unexpended Appropriations	**$ 71,729**	**$ 94,371**

The Cumulative Results of Operations - Earmarked Funds of $4 million, as of September 30, 2011 and 2010, 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 20)

The Cumulative Results of Operations - Other Funds of $(3,148) million as of September 30, 2011, and $(6,773) million as of September 30, 2010, 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 *GPRA Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the goals presented in the Department's draft *Strategic Plan 2011–2014*.

Net Cost Program	Reporting Group/ Program Office	Draft Strategic Goal
Increase College Access, Quality, and Completion	FSA OPE OVAE	1. Increase college access, quality, and completion by improving higher education and lifelong learning opportunities for youth and adults.
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	OESE OSDFS HR	2. Prepare all students for college and career by improving the elementary and secondary education system's ability to consistently deliver excellent classroom instruction and supportive services. 3. Improve the health, social-emotional, and cognitive outcomes for all children from birth through third grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.
Ensure Equitable Educational Opportunities for All Students	OELA OCR OSERS	4. Ensure equitable educational opportunities for all students regardless of race, ethnicity, national origin, age, sex, disability, language, and socioeconomic status.
Enhance the Education System's Ability to Continuously Improve	IES OII	5. Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, transparency, innovation, and technology.
American Recovery and Reinvestment Act and Education Jobs Fund	RA/JF	Cuts across draft Strategic Goals 1-5

Draft *Strategic Plan* Goals 1–5 are sharply defined directives that guide the Department's program offices to carry out the vision and programmatic mission, and the net cost programs can be specifically associated with these five draft strategic goals. The Department also has a cross-cutting draft *Strategic Plan* Goal 6, U.S. Department of Education Capacity, which focuses on improving the organizational capacities of the Department to implement the draft *Strategic Plan*. As a result, the Department does not assign specific programs to draft *Strategic Plan* Goal 6 for presentation in the Statement of Net Cost.

The goals of the *Recovery Act* and Education Jobs Fund are consistent with the Department's current draft strategic goals and programs. For reporting purposes, a net cost program called American Recovery and Reinvestment Act and Education Jobs Fund has been created.

The following tables present the gross cost and exchange revenue by program for the Department for September 30, 2011 and 2010. 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

(Dollars in Millions)

	2011					
	FSA	**OESE**	**OSERS**	**RA/JF**	**Other**	**Total**
Increase College Access, Quality, and Completion						
Intragovernmental Gross Cost	$ 20,247	$ -	$ -	$ -	$ 77	$ 20,324
Public Gross Cost	(3,435)	-	-	-	4,896	1,461
Total Gross Program Costs	16,812	-	-	-	4,973	21,785
Intragovernmental Earned Revenue	5,304	-	-	-	17	5,321
Public Earned Revenue	14,908	-	-	-	23	14,931
Total Program Earned Revenue	20,212	-	-	-	40	20,252
Total Program Cost	**(3,400)**	**-**	**-**	**-**	**4,933**	**1,533**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs						
Intragovernmental Gross Cost	-	201	-	-	9	210
Public Gross Cost	-	21,172	-	-	528	21,700
Total Gross Program Costs	-	21,373	-	-	537	21,910
Intragovernmental Earned Revenue	-	-	-	-	64	64
Public Earned Revenue	-	16	-	-	3	19
Total Program Earned Revenue	-	16	-	-	67	83
Total Program Cost	**-**	**21,357**	**-**	**-**	**470**	**21,827**
Ensure Equitable Educational Opportunities for All Students						
Intragovernmental Gross Cost	-	-	43	-	32	75
Public Gross Cost	-	-	15,463	-	871	16,334
Total Gross Program Costs	-	-	15,506	-	903	16,409
Intragovernmental Earned Revenue	-	-	2	-	-	2
Public Earned Revenue	-	-	19	-	2	21
Total Program Earned Revenue	-	-	21	-	2	23
Total Program Cost	**-**	**-**	**15,485**	**-**	**901**	**16,386**
Enhance the Education System's Ability to Continuously Improve						
Intragovernmental Gross Cost	-	-	-	-	68	68
Public Gross Cost	-	-	-	-	1,773	1,773
Total Gross Program Costs	-	-	-	-	1,841	1,841
Intragovernmental Earned Revenue	-	-	-	-	2	2
Public Earned Revenue	-	-	-	-	37	37
Total Program Earned Revenue	-	-	-	-	39	39
Total Program Cost	**-**	**-**	**-**	**-**	**1,802**	**1,802**
American Recovery and Reinvestment Act and Education Jobs Fund						
Intragovernmental Gross Cost	-	-	-	60	-	60
Public Gross Cost	-	-	-	27,905	-	27,905
Total Gross Program Costs	-	-	-	27,965	-	27,965
Intragovernmental Earned Revenue	-	-	-	-	-	-
Public Earned Revenue	-	-	-	-	-	-
Total Program Earned Revenue	-	-	-	-	-	-
Total Program Cost	**-**	**-**	**-**	**27,965**	**-**	**27,965**
Net Cost of Operations	**$ (3,400)**	**$ 21,357**	**$ 15,485**	**$27,965**	**$ 8,106**	**$ 69,513**

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2010					
	FSA	**OESE**	**OSERS**	**RA/JF**	**Other**	**Total**
Increase College Access, Quality, and Completion						
Intragovernmental Gross Cost	$ 16,286	$ -	$ -	$ -	$ 73	$ 16,359
Public Gross Cost	11,542	-	-	-	4,603	16,145
Total Gross Program Costs	27,828	-	-	-	4,676	32,504
Intragovernmental Earned Revenue	5,862	-	-	-	12	5,874
Public Earned Revenue	11,209	-	-	-	33	11,242
Total Program Earned Revenue	17,071	-	-	-	45	17,116
Total Program Cost	**10,757**	**-**	**-**	**-**	**4,631**	**15,388**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs						
Intragovernmental Gross Cost	-	136	-	-	12	148
Public Gross Cost	-	21,649	-	-	725	22,374
Total Gross Program Costs	-	21,785	-	-	737	22,522
Intragovernmental Earned Revenue	-	-	-	-	72	72
Public Earned Revenue	-	20	-	-	4	24
Total Program Earned Revenue	-	20	-	-	76	96
Total Program Cost	**-**	**21,765**	**-**	**-**	**661**	**22,426**
Ensure Equitable Educational Opportunities for All Students						
Intragovernmental Gross Cost	-	-	37	-	28	65
Public Gross Cost	-	-	15,327	-	771	16,098
Total Gross Program Costs	-	-	15,364	-	799	16,163
Intragovernmental Earned Revenue	-	-	2	-	-	2
Public Earned Revenue	-	-	22	-	2	24
Total Program Earned Revenue	-	-	24	-	2	26
Total Program Cost	**-**	**-**	**15,340**	**-**	**797**	**16,137**
Enhance the Education System's Ability to Continuously Improve						
Intragovernmental Gross Cost	-	-	-	-	73	73
Public Gross Cost	-	-	-	-	1,612	1,612
Total Gross Program Costs	-	-	-	-	1,685	1,685
Intragovernmental Earned Revenue	-	-	-	-	3	3
Public Earned Revenue	-	-	-	-	38	38
Total Program Earned Revenue	-	-	-	-	41	41
Total Program Cost	**-**	**-**	**-**	**-**	**1,644**	**1,644**
American Recovery and Reinvestment Act and Education Jobs Fund						
Intragovernmental Gross Cost	-	-	-	89	-	89
Public Gross Cost	-	-	-	43,990	-	43,990
Total Gross Program Costs	-	-	-	44,079	-	44,079
Intragovernmental Earned Revenue	-	-	-	-	-	-
Public Earned Revenue	-	-	-	-	-	-
Total Program Earned Revenue	-	-	-	-	-	-
Total Program Cost	**-**	**-**	**-**	**44,079**	**-**	**44,079**
Net Cost of Operations	**$ 10,757**	**$ 21,765**	**$ 15,340**	**$44,079**	**$ 7,733**	**$ 99,674**

Note 14. Interest Expense and Interest Revenue

For FY 2011 and FY 2010, interest expense and interest revenue by program consisted of the following:

Interest Expense and Interest Revenue
(Dollars in Millions)

	2011					
	Expenses			**Revenue**		
	Federal	**Non-federal**	**Total**	**Federal**	**Non-federal**	**Total**
Direct Loan Program	$ 14,321	$ -	$14,321	$ 3,493	$ 10,828	$14,321
FFEL Program						
Guaranteed Loan Program	1,331	(867)	464	464	-	464
Loan Purchase Commitment	1,552	-	1,552	77	1,475	1,552
Loan Participation Purchase	2,916	-	2,916	385	2,531	2,916
ABCP Conduit	48	-	48	18	30	48
TEACH Program	9	-	9	3	6	9
Other Programs	20	-	20	17	37	54
Total	**$ 20,197**	**$ (867)**	**$19,330**	**$ 4,457**	**$ 14,907**	**$19,364**

	2010					
	Expenses			**Revenue**		
	Federal	**Non-federal**	**Total**	**Federal**	**Non-federal**	**Total**
Direct Loan Program	$ 10,514	$ -	$10,514	$ 2,662	$ 7,852	$10,514
FFEL Program						
Guaranteed Loan Program	474	(152)	322	322	-	322
Loan Purchase Commitment	1,771	-	1,771	631	1,140	1,771
Loan Participation Purchase	3,397	-	3,397	1,222	2,175	3,397
ABCP Conduit	41	-	41	29	12	41
TEACH Program	7	-	7	3	4	7
Other Programs	18	-	18	12	37	49
Total	**$ 16,222**	**$ (152)**	**$16,070**	**$ 4,881**	**$ 11,220**	**$16,101**

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, 2011, budgetary resources were $366,381 million and net outlays were $234,942 million. As of September 30, 2010, budgetary resources were $362,489 million and net outlays were $235,919 million.

Permanent Indefinite Budget Authority

The Direct Loan, FFEL, and TEACH Programs have permanent indefinite budget authority through legislation. Parts B and D of the HEA (for the FFEL Program and Direct Loan Program, respectively) 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, 2011 and 2010, consisted of the following:

Obligations Incurred by Apportionment Type and Category

(Dollars in Millions)

	2011	2010
Direct:		
Category A	$ 649	$ 1,547
Category B	342,649	338,668
Exempt from Apportionment	2,167	4
	345,465	340,219
Reimbursable:		
Exempt from Apportionment	80	90
	80	90
Obligations Incurred	**$ 345,545**	**$ 340,309**

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, 2011 and 2010, consisted of the following:

Unused Borrowing Authority
(Dollars in Millions)

	2011		2010	
Beginning Balance, Unused Borrowing Authority	**$**	**133,120**	**$**	**106,355**
Current Year Borrowing Authority		211,980		183,079
Funds Drawn From Treasury		(193,130)		(155,346)
Borrowing Authority Withdrawn		(9,776)		(968)
Ending Balance, Unused Borrowing Authority	**$**	**142,194**	**$**	**133,120**

The Department is given authority to draw funds from Treasury to finance the Direct Loan, FFEL, and TEACH Programs. 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, 2011 and 2010, consisted of the following:

Undelivered Orders
(Dollars in Millions)

	2011		2010	
Budgetary	$	68,223	$	90,281
Non-Budgetary		161,016		147,260
Undelivered Orders (Unpaid)	**$**	**229,239**	**$**	**237,541**

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. Distributed Offsetting Receipts, for the years ended September 30, 2011 and 2010, consisted of the following:

Distributed Offsetting Receipts
(Dollars in Millions)

	2011		2010	
Negative Subsidies and Downward Re-estimates:				
FFEL Program	$	24,670	$	16,389
Direct Loan Program		25,502		12,375
Facilities Loan Programs		23		92
TEACH Program		6		1
Subtotal		50,201		28,857
Other		88		189
Distributed Offsetting Receipts	**$**	**50,289**	**$**	**29,046**

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

The FY *2013 Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2011, has not been published as of the issue date of these financial statements. The FY 2013 President's Budget is scheduled for release in February 2012. A reconciliation of the FY 2010 SBR to the FY 2012 President's Budget (FY 2010 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	**$ 362,489**	**$ 340,309**	**$ 29,046**	**$ 235,919**
Expired Funds	(1,387)	(679)	-	-
Amounts Included in the President's Budget	11,593	11,593	-	-
Funds Excluded from President's Budget and Rounding	(85)	2	3	(2)
Budget of the United States Government*	**$ 372,610**	**$ 351,225**	**$ 29,049**	**$ 235,917**

*Amounts obtained from the Appendix, Budget of the United States Government, FY 2012.

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. Because 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 2010 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 Budgetary Obligations to Net Cost of Operations

The Reconciliation of Budgetary Obligations to Net Cost of Operations provides information on how budgetary resources obligated during the period relate to 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.

The Reconciliation of Budgetary Obligations to Net Cost of Operations, as of September 30, 2011 and 2010, are presented below:

Reconciliation of Budgetary Obligations to Net Cost of Operations

(Dollars in Millions)

	2011	2010
Resources Used to Finance Activities:		
Obligations Incurred	$ 345,545	$ 340,309
Spending Authority from Offsetting Collections and Recoveries	(68,782)	(59,110)
Offsetting Receipts	(50,289)	(29,046)
Net Budgetary Resources Obligated	**226,474**	**252,153**
Imputed Financing from Costs Absorbed by Others	38	30
Other Financing Sources	(42,868)	(31,413)
Net Other Resources	**(42,830)**	**(31,383)**
Net Resources Used to Finance Activities	**183,644**	**220,770**
Less: Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
Increase/(Decrease) in Budgetary Resources Obligated but Not Yet Provided	(8,933)	13,755
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(5,785)	(10,883)
Credit Program Collections	(43,451)	(43,466)
Acquisition of Fixed Assets	4	12
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	201,658	179,895
Resources from Non-Entity Activity	(42,856)	(31,483)
Net Resources That Do Not Finance the Net Cost of Operations	**100,637**	**107,830**
Net Resources Used to Finance the Net Cost of Operations	**83,007**	**112,940**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Depreciation	16	22
Subsidy Amortization and Interest on the Liability for Loan Guarantees	1,823	(1,627)
Other	-	-
Total Components Not Requiring or Generating Resources	**1,839**	**(1,605)**
Increase in Annual Leave Liability	1	3
Accrued Re-estimates of Credit Subsidy Expense	(3,329)	(5,785)
Increase in Exchange Revenue Receivable from the Public	(12,008)	(5,877)
Accrued Interest with Treasury	1	4
Other	2	(6)
Total Components Requiring or Generating Resources in Future Periods	**(15,333)**	**(11,661)**
Total Components That Will Not Require or Generate Resources in the Current Period	**(13,494)**	**(13,266)**
Net Cost of Operations	**$ 69,513**	**$ 99,674**

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 2011 and FY 2010, the Department collected $1.3 million and $0.6 million, respectively, in custodial revenues.

Note 18. American Recovery and Reinvestment Act of 2009

The Recovery Act provided $97,407 million to the Department in supplemental appropriations for job preservation and state and local fiscal stabilization. This investment was made available for use in saving jobs, supporting states and local school districts, and advancing reforms and improvements in the education of the nation's children and youth from early learning programs through postsecondary education.

The Recovery Act created the State Fiscal Stabilization Fund (SFSF), a new program in which the Department awards grants to governors to help save jobs and drive education reform. The majority of SFSF funding was provided for two types of formula grants: Education State Grants and Government Services Grants. These awards are made by formula in exchange for a commitment to advance essential education reforms to benefit children and youth from early learning through postsecondary education, increasing teacher effectiveness and ensuring an equitable distribution of qualified teachers, and turning around the lowest-performing schools. There are also two competitive programs within the SFSF: Race to the Top and Investing in Innovation. Race to the Top grants are being awarded to states that are leading the way with ambitious, yet achievable, plans for implementing coherent, compelling, and comprehensive education reform. Investing in Innovation awards will support the development, validation, and expansion of approaches with demonstrated effectiveness at improving student achievement.

Recovery Act funding was also provided for several of the Department's key programs, including Student Financial Assistance, Education for the Disadvantaged, Special Education, School Improvement Programs, Rehabilitation Services and Disability Research, Institute of Education Sciences, Innovation and Improvement, Impact Aid, and Teacher Quality Partnerships. In addition, Recovery Act funding was provided for Student Aid Administration and to the Office of Inspector General.

The status of Recovery Act funding, as of September 30, 2011 and 2010, are presented below:

American Recovery and Reinvestment Act of 2009

(Dollars in Millions)

	Cumulative Totals as of September 30, 2011		
	Appropriations	**Obligations**	**Outlays**
State Fiscal Stabilization Fund:			
SFSF Formula Grants	$ 48,600	$ 48,600	$ 47,806
Investing in Innovation and Race to the Top	5,000	5,000	338
Subtotal	**53,600**	**53,600**	**48,144**
Student Financial Assistance:			
Federal Pell Grants	15,640	15,640	15,618
Mandatory Add-on Pell Grants	643	643	643
Federal Work Study Grants	200	200	200
Subtotal	**16,483**	**16,483**	**16,461**
Education for the Disadvantaged:			
Title I Targeted/ Finance Incentive Grants	10,000	10,000	9,276
School Improvement Grants	3,000	3,000	595
Subtotal	**13,000**	**13,000**	**9,871**
Special Education:			
IDEA Part B Grants to States	11,300	11,300	10,494
IDEA Part B Preschool Grants	400	400	352
IDEA Part C Grants for Infants and Families	500	500	429
Subtotal	**12,200**	**12,200**	**11,275**
School Improvement Programs:			
Enhancing Education through Technology	650	650	520
Education for Homeless Children and Youths	70	70	61
Subtotal	**720**	**720**	**581**
Rehabilitation Services and Disability Research:			
Vocational Rehabilitation	540	540	504
Independent Living Centers	88	88	34
Services for Older Blind Individuals	34	34	29
State Grants	18	18	16
Subtotal	**680**	**680**	**583**
Institute of Education Sciences	250	250	33
Innovation and Improvement	200	200	60
Impact Aid:			
Section 8007(a) Formula Grants	40	40	40
Section 8007(b) Competitive Grants	60	60	40
Subtotal	**100**	**100**	**80**
Higher Education	100	100	17
Student Aid Administration	60	60	60
Office of Inspector General	14	9	9
Total	**$ 97,407**	**$ 97,402**	**$ 87,174**

American Recovery and Reinvestment Act of 2009

(Dollars in Millions)

	Cumulative Totals as of September 30, 2010		
	Appropriations	Obligations	Outlays
State Fiscal Stabilization Fund:			
SFSF Formula Grants	$ 48,600	$ 48,600	$ 35,709
Investing in Innovation and Race to the Top	5,000	5,000	8
Subtotal	**53,600**	**53,600**	**35,717**
Student Financial Assistance:			
Federal Pell Grants	15,640	15,640	14,950
Mandatory Add-on Pell Grants*	643	643	643
Federal Work Study Grants	200	200	199
Subtotal	**16,483**	**16,483**	**15,792**
Education for the Disadvantaged:			
Title I Targeted/ Finance Incentive Grants	10,000	10,000	5,089
School Improvement Grants	3,000	3,000	44
Subtotal	**13,000**	**13,000**	**5,133**
Special Education:			
IDEA Part B Grants to States	11,300	11,300	5,660
IDEA Part B Preschool Grants	400	400	167
IDEA Part C Grants for Infants and Families	500	500	253
Subtotal	**12,200**	**12,200**	**6,080**
School Improvement Programs:			
Enhancing Education through Technology	650	650	218
Education for Homeless Children and Youths	70	70	35
Subtotal	**720**	**720**	**253**
Rehabilitation Services and Disability Research:			
Vocational Rehabilitation	540	540	230
Independent Living Centers	88	88	10
Services for Older Blind Individuals	34	34	11
State Grants	18	18	7
Subtotal	**680**	**680**	**258**
Institute of Education Sciences	250	250	2
Innovation and Improvement	200	200	23
Impact Aid:			
Section 8007(a) Formula Grants	40	40	40
Section 8007(b) Competitive Grants	60	60	6
Subtotal	**100**	**100**	**46**
Higher Education	100	100	2
Student Aid Administration	60	60	52
Office of Inspector General	14	3	3
Total	**$ 97,407**	**$ 97,396**	**$ 63,361**

* An additional $831 million provided by the Recovery Act was to be made available during FY 2010; however, this funding was repealed by the *Health Care and Education Reconciliation Act of 2010*, effective July 1, 2010.

Note 19. Education Jobs Fund

Public Law 111-226, enacted on August 10, 2010, created an Education Jobs Fund, which allows the Department to provide assistance in saving and creating education jobs. This investment of $10 billion was made available to states through formula grants for use in the 2010-11 school year for teachers and other employees of the nation's children and youth from early learning programs through secondary education. As of September 30, 2011, $10,000 million has been obligated and $6,287 million has been expended to support states and local school districts in their effort to save jobs. As of September 30, 2010, $9,007 million had been obligated and $1,232 million had been expended.

Note 20. 2005 Hurricane Relief

The *Hurricane Education Recovery Act* (Public Law 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 $1,945 million to the Department to provide needed assistance to reopen schools and help educate the estimated 370,000 students affected by Hurricanes Katrina and Rita. As of September 30, 2011, $1,875 million has been expended and $24 million remains available for future expenditure. During FY 2011, the Department returned to the Treasury $46 million that had reached the end of the period of availability. As of September 30, 2010, $1,845 million had been expended and $100 million remained available for future expenditure.

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, 2011, $61 million has been obligated from the earmarked funds to assist in the relief and recovery efforts, and $57 million has been expended. As of September 30, 2010, $61 million had been obligated and $57 million had been expended.

Note 21. 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 that provides financial assistance to eligible postsecondary school students. In FY 2011, the Department provided funding of 82.6 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.4 percent of program funding. For the latest academic year ended June 30, 2011, approximately 459 thousand loans were made, totaling approximately $853.9 million at 1,505 institutions, averaging $1,859 per loan. The Department's share of the Federal Perkins Loan Program was approximately $6.6 billion as of June 30, 2011.

In FY 2010, the Department provided funding of 82.5 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.5 percent of program funding. For the academic year ended June 30, 2010, approximately 441 thousand loans were made, totaling approximately $816.4 million at 1,540 institutions, averaging $1,852 per loan. The Department's share of the Federal Perkins Loan Program was approximately $6.6 billion as of June 30, 2010.

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