Required Supplementary Stewardship Information

The Office of Management and Budget requires each federal agency to report on its stewardship over various resources entrusted to it and certain responsibilities assumed by it which cannot be measured and conveyed through traditional financial reports. These elements do not meet the criteria for assets and liabilities required in the preparation of the Department's financial statements and accompanying footnotes, but are nonetheless important to understanding the agency's financial condition, strategic goals, and related program outcomes.

Stewardship Expenses

Stewardship expenses are substantial investments made by the federal government for the long-term benefit of the nation. Because costs of stewardship resources are treated as expenses in the financial statements in the year the costs are incurred, they are reported as Required Supplementary Stewardship Information to highlight their benefit and to demonstrate accountability for their use.

In the United States, the structure of education finance is such that state and local governments play a much greater overall role than the federal government. Of the estimated more than $1 trillion spent nationally on all levels of education, the majority of funding comes from state, local, and private sources. In the area of elementary and secondary education, nearly 90 percent of resources come from nonfederal sources. These funds serve over 50 million students enrolled in public, private, and charter schools in the United States and its territories, according to the National Center for Education Statistics (NCES). See the NCES *Condition of Education Annual Report* for more information.

With its relatively small role in total education funding, the Department strives to create the greatest number of favorable program outcomes with a limited amount of taxpayer-provided resources. This is accomplished by targeting areas in which funds will go the furthest in doing the most good. Namely, federal funding is used to provide grant, loan, loan forgiveness, loan exit counseling, work-study, and other assistance to more than 20 million postsecondary students. During FY 2015, the majority of the Department's $303 billion in gross outlays were attributable to Direct Loan disbursements administered by Federal Student Aid. Grant-based activity under discretionary, formula, and need-based formats accounted for the remainder of the outlays.

Discretionary grants, such as TRIO and the Teacher Incentive Fund, are awarded on a competitive basis. When funds for these grants are exhausted, they will cease to be funded. The Department reviews discretionary grant applications using:

- a formal review process for selection,
- both legislative and regulatory requirements, and
- published selection criteria established for individual programs.

Formula grants, such as Title I and Title III of the *Elementary and Secondary Education Act* (ESEA), are not competitive. The majority go to school districts, as often as annually, on a formula basis, and:

- provide funds as dictated by a law, and
- allocate funds to districts on a per-student basis.

Need-based grants, including the Federal Pell grant, Federal Work Study, and the Federal Supplemental Educational Opportunity Grant (FSEOG), are based on family income and economic eligibility. While there are many state, institution (college or school), and privately sourced need-based grants, most need-based grants are funded by the federal government where the financial aid formula is determined by a combination of factors, including:

- family income and discretionary assets,
- expected family contribution (EFC), and
- dependency status of the student and other members of their family.

Further details on financial figures and program-level goals can be viewed in the Department's *2015 Budget Summary*.

Investment in Human Capital

Human capital investments are defined similarly by OMB, in Circular A-136, and the Statement of Federal Financial Accounting Standards (SFFAS) No. 8, *Supplementary Stewardship Reporting*. These investments are expenses included in net cost for education and training programs intended to increase or maintain national economic productive capacity; and produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity.

Departmentwide strategic goals are formed around the agency mission of promoting student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department drives toward accomplishing this mission by establishing priority areas. For 2015, the following six elements of focus were enumerated in the Department's Budget Request:

(1) increasing equity and opportunity for all students,
(2) strengthening support for teachers and school leaders,
(3) expanding high-quality preschool programs,
(4) augmenting affordability and quality in postsecondary education,
(5) promoting educational innovation and improvement, and
(6) improving school safety and climate.

Supplementing state and local government funding, the Department utilizes its annual appropriations and outlay authority to foster human capital improvements across the nation by supporting programs along the entire spectrum of "cradle to career" education. Direct loans, guaranteed loans, grants, and technical program assistance are administered and monitored by the Office of Federal Student Aid and numerous other program-aimed components of the Department. The Institute of Education Sciences is the independent nonpartisan research arm of the Department that aims to present scientific evidence on which to ground education practice and policy while providing useful information to all stakeholders in the arena of American education. Further details of each office and their work can be viewed on the Department's Coordinating Structure website.

The following table illustrates the Department's expenses paid for bolstering the nation's human capital, broken out by the nature of the expense, for the last five years.

Summary of Human Capital Expenses
(Dollars in Millions)

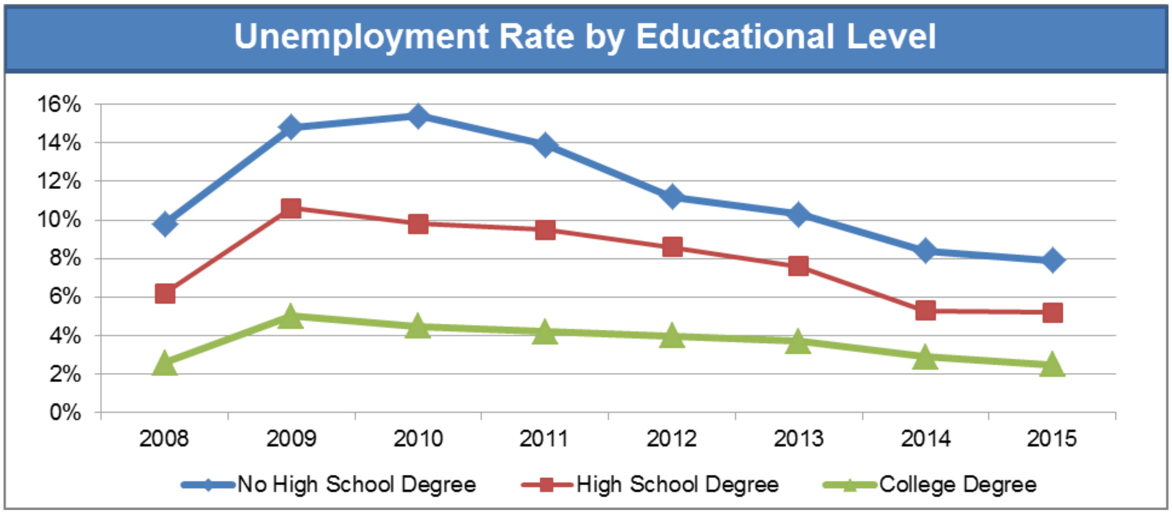
	2015	2014	2013	2012	2011
Federal Student Aid Expense					
Direct Loan Subsidy	$ (892)	$ 8,126	$ (39,557)	$ (10,720)	$ (28,630)
Federal Family Education Loan Program Subsidy	(3,856)	(6,585)	(8,753)	(14,381)	(16,126)
Perkins Loans, Pell and Other Grants	31,400	33,098	33,542	34,310	39,008
Salaries and Administrative	242	206	222	192	193
Subtotal	**26,894**	**34,845**	**(14,546)**	**9,401**	**(5,555)**
Other Departmental					
Elementary and Secondary Education	22,146	22,832	22,221	22,137	21,195
Special Education and Rehabilitative Services	15,751	15,948	15,919	16,139	15,357
American Recovery and Reinvestment Act and Education Jobs Fund	-	-	2,623	7,651	27,945
Other Departmental Programs	6,494	6,938	6,175	6,211	7,341
Salaries and Administrative	511	667	703	481	504
Subtotal	**44,902**	**46,385**	**47,641**	**52,619**	**72,342**
Grand Total	**$ 71,796**	**$ 81,230**	**$ 33,095**	**$ 62,020**	**$ 66,787**

Further detail regarding the nature of expenses and the recipient(s) of payments can be seen in the Department's financial statement footnotes (starting on page 60) and at the Department's *USA Spending Agency Profile Page*.

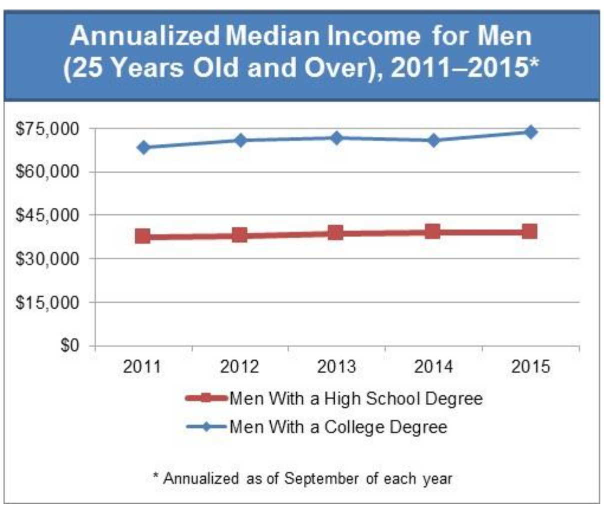
Program Outcomes

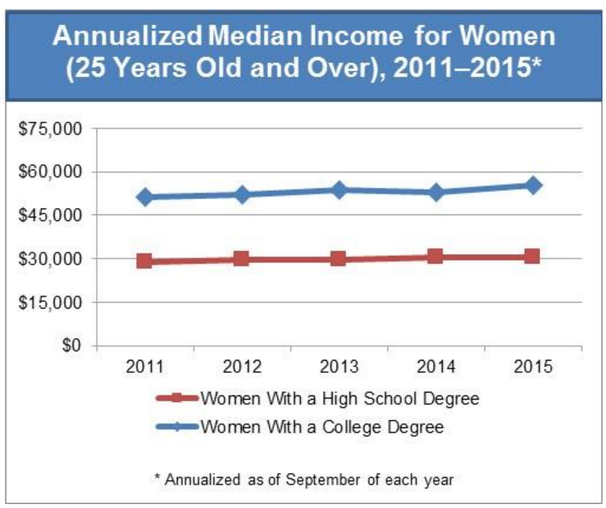
Favorable results in the various programs administered by the Department can be interpreted in many ways. The "cradle to career" analogy in education culminates with the successful completion of academic programs and the receipt of a degree. Accordingly, the effectiveness of the Department's investments in human capital can be gauged by changes in the amount of students who fully complete the requirements for earning a bachelor's or associate's degree. This often final stepping stone in one's educational career correlates strongly with wage and/or salary increases for a person, due to the high-level skills expected by employers of graduates entering the labor force. Attaining a degree has proven to increase an individual's job opportunity outlook for life, making them less susceptible to general economic downturns and allowing them to afford living expenses more comfortably; make debt payments, including student loans; and avoid delinquency and credit problems. Increased employability makes Americans more competitive in the global labor market, yielding lower unemployment, higher economic well-being, and greater national security.

Specific data on unemployment and median incomes in the United States released by the Department of Labor for Fiscal Year 2015 are displayed in the graphs below. Individuals with lower levels of education attained were unemployed at a higher rate. As of September 30, 2015, individuals who had not completed high school were unemployed at a rate of 7.9 percent, as compared to 5.2 percent for those who completed high school and 2.5 percent for those individuals who had completed a bachelor's degree or higher.



Annualized data on employed individuals' incomes show that career advancement trends are consistent for both men and women when accounting for whether an individual has a college education or a high school education. Men with high school diplomas earned an average of $39,156 annually, as compared to $73,532 for men who had completed a college degree. Similarly, women with high school diplomas earned $30,576, while college graduates earned $55,328. For further details, visit the Bureau of Labor Statistics.





Nationally, progress is being made from early education, through the time college graduates enter the workforce, and even after—when they are repaying student loan debt incurred for postsecondary education. Broad improvements to the system increase equitable opportunities for every child to have the privilege to learn, develop life skills, and succeed over the course of their adult life. This undoubtedly moves the nation forward.

Since the year 2000, the number of school-age children living in poverty has decreased by 29 percent. Additionally, more than 65 percent of children 3–5 years old attend preschool—a share that has risen steadily. Successful outcomes like these in early-focus areas lead to rising cohorts of elementary school students who continue to outperform their predecessor classes. This is shown in the fact that 4th and 8th grade metrics for aptitude tests in math and reading, presented by the National Assessment of Educational Progress, are at their highest ever.

At the secondary level, the number of students graduating or completely fulfilling general education requirements continues to rise each year. Increases are also taking place for all levels of postsecondary degrees. Recent data shows that 91 percent of young adults aged 25–29 have a high school diploma or equivalent, 45 percent have an associate's degree, and 34 percent have a bachelor's degree or higher. For the same age range, expanded to include those up to 34 years old, earnings were higher and unemployment was generally lower for each increased level of education.

The accessibility and equity facets of the nation's education system are at the heart of the Department's mission and are implied elements of all six goals of the *2014–2018 Strategic Plan*. High school graduation and drop out statistics continue to rise and fall, respectively, in general. For FY 2015, graduation rates reached an all-time high of 81.4 percent, meaning the Department has continued to make progress toward meeting the President's 2020 goal of 90 percent on-time graduations. More notably in the area of access and equity, demographic statistics show that the on-time rate increases for Black, Hispanic, and Native American students were around or above 4 percent.

With increased completion of high school diplomas, participation in some form of postsecondary education has also risen. In the 2013 cohort of students graduating from high school, for example, 66 percent enrolled in college the following fall. Participation in postsecondary programs is particularly higher for Black and Hispanic students, who have shown a combined increase of 1.1 million students since 2008.

In that student loan disbursements for college degrees make up the largest component of the Department's investment in American human capital, the Department assumes the implied responsibility for ensuring the sustainability of its major loan programs. Moreover, if college-bound students incur debt to earn a degree and then fail to get a job or afford their student loan payments, the Department would be falling short of its fourth strategic focus centered around the affordability of postsecondary education.

One important method used in the area of analyzing student loan programs, borrower activity, and institution participation is the monitoring of default statistics. Each year, substantial stewardship expenses incurred by the Department are aimed at lowering the number of defaulted loans, defaulted borrowers, and disbursed dollars going into default. This is done because every default—when a loan payment is missed for multiple months—results in loan funds that are not replenished, missed opportunities to invest in other degree-seeking human capital, and additional resources used by the government in attempting to collect its money. Each aspect of a default costs American taxpayers, affects the federal budget, decreases economic well-being, and harms borrowers' credit scores.

Although a direct and proven linkage does not exist between the two variables, the Department feels strongly about its ability to mitigate the risk of default through various efforts. Stewardship expenses for this postsecondary goal include those incurred to increase borrower awareness of repayment options, encouraging third-party loan servicers to work more effectively in helping students avoid default by devising viable repayment plans, and by working with financial aid offices around the country to help them improve the loan counseling provided to students who have yet to graduate or enter repayment.

Default statistics for the FY 2012 cohort of borrowers entering repayment were released at the end of FY 2015. Of the 5.1 million borrowers entering repayment from October 1, 2011 to September 30, 2012, 611,000 defaulted on their loan before September 30, 2014. This default rate of 11.8 percent across all institution types showed a decline from the prior year rate of 12.9 percent for the 2011 cohort. It is important to note that this metric is unadjusted for loan program facets, such as consolidations and forbearance.

Trends in default rates, among other indicating metrics monitored at the Department, continue to support proof of favorable outcomes within programs at all levels. The figures also effectively convey the synergetic nature of the Department’s mission for improving one of the most important building blocks of the nation’s infrastructure. Individual achievements fostered by the Department’s investments in human capital and supporting stewardship expenses as far back as “the cradle” continue to build a powerful foundation for career success and advancement of the nation, in and of itself, and against global competitors.