Notes to the Financial Statements
For the Years Ended September 30, 2016 and 2015

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

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 mission of the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department engages in four major types of activities: establishing policies related to federal educational funding, including the distribution of funds, collecting on student loans, and using data to monitor the use of funds; supporting data collection and research on America's schools; identifying major issues in education and focusing national attention on them; and enforcing federal laws prohibiting discrimination in programs that receive federal funds.

The Department is primarily responsible for administering federal student loan and grant programs and provides technical assistance to loan and grant recipients and other state and local partners. The significant portion of the financial activities of the Department relate to the execution of grant and loan programs which are discussed below.

Federal Student Loan Programs. The Department administers direct loan, loan guarantee and other student aid programs to help students and their families finance the cost of postsecondary education. These include the William D. Ford Federal Direct Loan (Direct Loan) program and the Federal Family Education Loan (FFEL) program.

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 through participating schools to eligible undergraduate and graduate students and their parents. The FFEL program, authorized by the HEA, operates through state and private nonprofit guaranty agencies which provided loan guarantees 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* (HCERA), stated that no new FFEL loans would be made effective July 1, 2010.

The Department also administers loans for the Historically Black Colleges and Universities (HBCU) Capital Financing program, the Health Education Assistance Loan (HEAL) program, and the Teacher Education Assistance for College and Higher Education Grant (TEACH) program, along with low-interest loans to institutions of higher education for the building and renovating of their facilities through the facilities loan programs.

Grant Programs. The Department has more than 100 grant and loan programs. The three largest grant programs are Title I, Federal Pell Grant (Pell Grant), and the *Individuals with Disabilities Education Act* (IDEA) grants. In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, awarded using a competitive process, and formula grants, using formulas determined by Congress with no application process.

The Department has three major program offices that administer most of its loan and grant programs.

- Federal Student Aid (FSA) administers need-based financial assistance programs for students pursuing postsecondary education and makes available federal grants, direct loans, and work-study funding to eligible undergraduate and graduate students.

- The Office of Elementary and Secondary Education (OESE) assists state and local educational agencies to improve the achievement of preschool, elementary, and secondary school students, helps ensure equal access to services leading to such improvement—particularly children with high needs, and provides financial assistance to local educational agencies whose local revenues are affected by federal activities.
- The Office of Special Education and Rehabilitative Services (OSERS) supports programs that help provide early intervention and special education services to children and youth with disabilities. OSERS also supports programs for the vocational rehabilitation of youth and adults with disabilities, including pre-employment transition services and other transition services designed to assist students with disabilities to enter postsecondary education and achieve employment.

Other offices that administer programs and provide leadership, technical assistance, and financial support to state and local educational activities and institutions of higher education for reform, strategic investment, and innovation in education include: the Office of Career, Technical, and Adult Education (OCTAE); Office of Postsecondary Education (OPE); Institute of Education Sciences (IES); Office of English Language Acquisition (OELA); and Office of Innovation and Improvement (OII). In addition, the Office for Civil Rights (OCR) works to ensure equal access to education, promotes educational excellence throughout the nation, and serves student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights issues. (See Note 10)

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 Generally Accepted Accounting Principles (GAAP) accepted in the U.S. for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as revised. 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 use of budgetary resources. FSA also issues audited stand-alone financial statements which are included in their annual report.

The Department's financial statements should be read as a component of the U.S. government, a sovereign entity. One of the many implications 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.

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

Accounting for Federal Credit Programs

The purpose of the *Federal Credit Reform Act of 1990* (FCRA) is to record the lifetime subsidy cost of direct loans and loan guarantees at the time the loan is disbursed. 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 particular borrowers is also subsidized (or may provide an offset to subsidy if the Department's rate is less).

Under the FCRA, subsidy cost is estimated using the net present value of future cash flows to and from the Department. In accordance with the FCRA, credit programs either estimate a subsidy cost to the government (a "positive" subsidy), breakeven (zero subsidy cost), or estimate a negative subsidy cost. Negative subsidy occurs when the estimated cost of providing loans to borrowers from Treasury borrowing, collection costs, and loan forgiveness is less than the value of collections from borrowers for interest and fees, in present value terms.

The subsidy costs of direct loan and loan guarantee programs are budgeted and tracked by the fiscal year in which the loan award is made or the funds committed. Such a grouping of loans or guarantees is referred to as a "cohort." A cohort is a grouping of direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years.

In order to account for the change in the net present value of the loan portfolio over time, the subsidy cost is "amortized" each year. Amortization of subsidy is interest expense on debt with Treasury minus interest income from borrowers and interest on uninvested fund balance with Treasury. It is calculated as the difference between interest revenue and interest expense. Amortization accounts for the differences in interest rates, accruals, and cash flows over the life of a cohort, ensuring that cost is reflected in subsidy estimates and re-estimates.

The FCRA establishes the use of financing, program, and Treasury General Fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991.

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury General Fund receipt accounts. Financing accounts are presented separately in the combined statement of budgetary resources (SBR) as non-budgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the *Budget of the United States Government* (President's Budget).
- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.
- Treasury General Fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of existing loans.

Budgetary Resources

Budgetary resources are amounts available to enter into new obligations and to liquidate them. 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 Treasury, and spending authority from collections.

Borrowing authority is an indefinite budgetary resource authorized under the FCRA. This resource, when realized, finances the unsubsidized portion of the Direct Loan, FFEL, and other loan programs. In addition, borrowing authority is requested to cover the cost of the initial loan disbursement as well as any related negative subsidy to be transferred to Treasury General Fund receipt accounts. Treasury prescribes the terms and conditions of borrowing authority and lends to the 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. Treasury sets a different fixed interest rate to be used for each loan cohort once the loans are substantially disbursed. 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.

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan, FFEL, and other loan programs. Subsidy and administrative costs of the programs are funded by appropriations. Borrowings are repaid using collections from borrowers, fees and interest on uninvested funds.

Unobligated balances represent the cumulative amount of budgetary resources that are not obligated and that remain available for obligation under law, unless otherwise restricted. Resources expiring at the end of the fiscal year remain available for five years, but only for upward adjustments of prior year obligations, after which they are canceled and may not be used. Resources that have not expired at year-end are available for new obligations, as well as upward adjustments of prior-year obligations. Funds are appropriated on an annual, multiyear, or no-year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Amounts in expired funds are unavailable for new obligations, but may be used to adjust previously established obligations.

Permanent Indefinite Budget Authority. The Direct Loan, FFEL, and other loan programs have permanent indefinite budget authority through legislation to fund subsequent increases to the estimated future costs of the loan programs. Parts B and D of the HEA pertain to the existence, purpose, and availability of permanent indefinite budget authority for these programs.

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 in accordance with congressional budgeting rules. (See Note 12)

Use of Estimates

Department management is required to make certain estimates while preparing consolidated financial statements in conformity with GAAP. These estimates are reflected in the assets, liabilities, net cost, and net position of the financial statements and may differ from actual results. The Department's estimates are based on management's best knowledge of current events, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the financial statements include: allocation of Department administrative overhead costs; allowance for subsidy for direct, defaulted guaranteed, and acquired loans; the liability for loan guarantees; the amount payable or receivable from annual credit program re-estimates and modifications of subsidy cost (general program administration cost); and grant liability and advance accruals. (See Notes 4, 5, 9, and 10)

Entity and Non-Entity 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. Non-entity assets are offset by liabilities to third parties and have no impact on net position. 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

Fund Balance with Treasury includes five types of funds in the Department's accounts with Treasury available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received: (1) general funds, which consist of expenditure accounts used to record financial transactions funded by congressional appropriations (which include amounts appropriated to fund subsidy and administrative costs of loan programs); (2) revolving funds, which manage the activity of self-funding programs whether through fees, sales, or other income (which include financing accounts for loan programs); (3) special funds, which collect funds from sources that are authorized by law for a specific purpose—these receipts are available for expenditure for special programs; (4) trust funds are used for the acceptance and administration of funds contributed from public and private sources and programs and are in cooperation with other federal and state agencies or private donors; and (5) other funds include deposit funds, agency receipt funds, and clearing accounts. Treasury processes cash receipts and cash disbursements for the Department. The Department's records are reconciled with Treasury's. (See Note 3)

Accounts Receivable

Accounts receivable are amounts due to the Department from the public and other federal agencies. Receivables from the public result from overpayments to recipients of grants and other financial assistance programs, as well as 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)

Guaranty Agencies' Federal Funds

Guaranty agencies' federal funds, which consist of Cash and Other Monetary Assets, are primarily comprised of the federal government's interest in the program assets held by state and nonprofit FFEL program guaranty agencies. Section 422A of the HEA required FFEL guaranty agencies to establish federal student loan reserve funds (federal funds). Federal funds 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.

The balance in the Federal Fund represents consolidated reserve balances of the 27 guaranty agencies based on the Guaranty Agency Financial Reports that each agency submits annually to the Department. Although the Department and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit based on form of organization. A year-end valuation adjustment is made to adjust the Department's balances in order to comply with federal accounting principles and disclose funds held outside of Treasury.

Guaranty agencies' federal funds are classified as non-entity assets with the public and are offset by a corresponding liability due to Treasury. The federal funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The federal funds are the property of the U.S. and are reflected in the *Budget of the United States Government*. Payments made to the Department from guaranty agencies' federal funds through a statutory recall or agency closures represent capital transfers and are credited to the Department's Fund Balance with Treasury account. (See Notes 2, 4, and 9)

Credit Program Receivables, Net and Liabilities for Loan Guarantees

The financial statements reflect the Department's estimate of the long-term subsidy cost of direct and guaranteed loans in accordance with the FCRA. 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 an "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 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 also values all pre-1992 loans, loan guarantees, and direct loans at their net present values. If the liability for loan guarantees is positive, the amount is reported as a component of credit program receivables, net.

The liability for loan guarantees presents the net present value of all future cash flows from currently insured FFEL loans, including claim payments, interest assistance, allowance payments, and recoveries from assigned loans. Guaranteed loans that default are initially turned over to guaranty agencies for collection. Defaulted FFEL loans are accounted for and reported in the financial statements under credit reform rules, similar to direct loans, although they are legally not direct student loans. Negative balances are reported as a component of credit program receivables, net. Credit program receivables, net includes defaulted FFEL loans owned by the Department and held by the Department or guaranty agencies. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over to the Department for collection.

FFEL program receivables include purchased loans and other interests acquired under an expired program. The cash flows related to these receivables include collections on purchased loans and other activities, including transfers of re-estimated subsidy. 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. (See Note 5)

Property and Equipment, Net and Leases

The Department has very limited acquisition costs associated with buildings, furniture and equipment as all Department and contractor staff are housed in leased buildings. The Department does not own real property for the use of its staff. 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.

The Department also leases information technology and telecommunications equipment, as part of a contractor-owned, contractor-operated services contract. Lease payments associated with this equipment have been determined to be operating leases and, as such, are expensed as incurred. The noncancellable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options. (See Notes 4 and 14)

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 6)

Accounts Payable

Accounts payable include amounts owed by the Department for goods and services received from other entities, as well as payments not yet processed. Accounts payable to the public primarily consists of in-process grant and loan disbursements, including an accrued liability for schools that have disbursed loans prior to requesting funds. (See Note 9)

Debt

The Department borrows from Treasury to provide funding for the Direct Loan, FFEL, and other credit programs for higher education. The liability to Treasury from borrowings represents unpaid principal at year-end. The Department repays the principal based on available fund balances. Interest rates are based on the corresponding rate for 10-year Treasury securities and are set for those borrowings supporting each cohort of loans once the loans for that cohort are substantially disbursed. Interest is paid to Treasury at September 30. 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 debt for other credit programs for higher education includes the liability for full payment of principal and accrued interest for the FFB-financed HBCU Capital Financing program. (See Note 7)

Net Cost

Net cost consists of gross costs and earned revenue. 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 nonfederal entities).

Net program costs are gross costs less revenue earned from activities. The Department determines gross cost and earned revenue by tracing amounts back to the specific program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program. (See Note 10)

Credit Program Interest Expense and Interest Revenue

The Department accrues interest receivable and records interest revenue on performing direct loans and FFEL loans purchased by the Department. The Department recognizes interest income when interest is accrued on loans to the public for the Direct Loan, FFEL, and other loan programs. FFEL financing and liquidating accounts accrue interest as part of allowance for subsidy. Interest due from borrowers is accrued at least monthly and is satisfied upon collection or capitalization into the loan principal. Federal interest revenue is recognized on fund balance with Treasury for the Direct Loan, FFEL, and other loan programs.

Federal interest expense is recognized on the outstanding borrowing from Treasury (debt) used to finance loans. The interest rate for federal interest expense is the same as the rate used for federal interest revenue.

Interest expense and interest revenue are equal for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest accruals and interest cash flows. 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. (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 amounts in financing accounts, liquidating accounts, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources.

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. Sick leave and other types of nonvested leave are expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources.

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 Notes 6 and 9)

Reclassifications

Certain reclassifications were made to the prior year financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities and net position, net cost of operations, or budgetary resources. Changes made to the balance sheet provide additional information related to credit program receivables and related liability balances, and immaterial balances were aggregated and consolidated into other lines. Components of the prior year Direct Loan subsidy transfers were reclassified in Note 5 to better reflect the fiscal year of underlying loan disbursement versus actual subsidy disbursement; the total FY 2015 Direct Loan subsidy transfers was not affected. Additionally, changes were made to the Statement of Budgetary Resources in accordance with OMB Circular A-136, *Financial Reporting Guidance,* to disaggregate end of year expired unobligated balances and recoveries of prior year unpaid obligations.

Note 2. Non-Entity Assets

As of September 30, 2016 and 2015, non-entity assets consisted of the following:

Non-Entity Assets
(Dollars in Millions)

	2016		2015	
Non-Entity Assets	**Intragovern-mental**	**With the Public**	**Intragovern-mental**	**With the Public**
Fund Balance with Treasury	$ 231	$ -	$ 69	$ -
Credit Program Receivables, Net	-	449	-	410
Other Assets				
Guaranty Agencies' Federal Funds	-	1,197	-	1,561
Accounts Receivable, Net	-	69	-	67
Total Non-Entity Assets	**231**	**1,715**	**69**	**2,038**
Entity Assets	96,634	1,076,227	103,628	1,017,384
Total Assets	**$ 96,865**	**$ 1,077,942**	**$ 103,697**	**$ 1,019,422**

The Department's FY 2016 assets are predominantly entity assets (99.8 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity intragovernmental assets primarily consist of balances in non-agency receipt accounts, deposit accounts and clearing accounts. Non-entity assets with the public primarily consist of guaranty agency reserves (69.8 percent), reported as Guaranty Agencies' Federal Funds, and related Federal Perkins Loan program loan receivables (26.2 percent), reported as credit program receivables, net. Federal Perkins Loan program receivables are a non-entity asset because the assets are held by the Department but are not available for use by the Department. The corresponding liabilities for these non-entity assets are reflected in various accounts, including intragovernmental accounts payable, Guaranty Agencies' Federal Funds Due to Treasury, and other liabilities. (See Note 9)

Note 3. Fund Balance with Treasury

Fund Balance with Treasury by status of funds and fund type, as of September 30, 2016 and 2015, consisted of the following:

Fund Balance with Treasury
(Dollars in Millions)

	2016					
	General Funds	**Revolving Funds**	**Special Funds**	**Trust Funds**	**All Other Funds**	**Total**
Status of Funds						
Unobligated Balance						
Available	$ 10,280	$ -	$ -	$ -	$ -	$ 10,280
Unavailable	902	15,480	12	-	-	16,394
Obligated Balance, not Disbursed	54,240	15,630	1	-	-	69,871
Other	-	-	-	-	218	218
Total Fund Balance with Treasury	**$ 65,422**	**$ 31,110**	**$ 13**	**$ -**	**$ 218**	**$ 96,763**

	2015					
	General Funds	**Revolving Funds**	**Special Funds**	**Trust Funds**	**All Other Funds**	**Total**
Status of Funds						
Unobligated Balance						
Available	$ 11,805	$ 550	$ -	$ 1	$ -	$ 12,356
Unavailable	1,394	13,886	14	-	-	15,294
Obligated Balance, not Disbursed	52,638	23,260	1	1	-	75,900
Other	-	-	-	-	69	69
Total Fund Balance with Treasury	**$ 65,837**	**$ 37,696**	**$ 15**	**$ 2**	**$ 69**	**$ 103,619**

Composition of Funds

A portion of the general funds is provided in advance by multiyear appropriations for obligations anticipated during the current and future fiscal years. Revolving funds are derived from borrowings, as well as collections from the public and other federal agencies. Special funds include fees collected on delinquent or defaulted Perkins loans that have reverted back to the Department from the initial lenders. Trust funds generally consist of remaining undisbursed donations for the hurricane relief activities.

Status of Funds

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. Total unavailable unobligated balance ($16,394 million) differs from unapportioned and expired amounts on the SBR ($17,591 million) due to the Guaranty Agencies' Federal Funds ($1,197 million).

Note 4. Other Assets

Other assets, as of September 30, 2016 and 2015, were comprised of the following:

Other Assets
(Dollars in Millions)

	2016		2015	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Guaranty Agencies' Federal Funds	$ -	$ 1,197	$ -	$ 1,561
Accounts Receivable, Net	1	137	2	101
Advances	101	3	76	2
Property and Equipment, Net	-	24	-	21
Other	-	2	-	4
Total Other Assets	**$ 102**	**$ 1,363**	**$ 78**	**$ 1,689**

Note 5. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees

The Department currently operates two major student loan programs, Direct Loan and FFEL. The Direct Loan program offers four types of loans: Stafford, Unsubsidized Stafford, PLUS, and Consolidation. Evidence of financial need is required for an undergraduate student to receive a subsidized Stafford loan. The other three loan programs are available to borrowers at all income levels. Loans can be used only to meet qualified educational expenses.

The Department holds $1,076.6 billion in outstanding credit program net receivables. This outstanding balance is comprised primarily of direct loans, defaulted FFEL loans, and FFEL loans purchased using authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). There are several other loan programs that the Department administers—including the Federal Perkins Loan program, TEACH grant program, HEAL program, and the Facilities Loan programs.

Credit program receivables, as of September 30, 2016 and 2015, consisted of the following:

Credit Program Receivables, Net
(Dollars in Millions)

	2016			
	Principal	Accrued Interest	Allowance for Subsidy	Net
Direct Loan Program	$ 902,754	$ 50,835	$ 5,292	$ 958,881
FFEL Program	109,804	18,191	(13,125)	114,870
Other Credit Programs for Higher Education	2,988	389	(549)	2,828
Total Credit Receivables	**$ 1,015,546**	**$ 69,415**	**$ (8,382)**	**$ 1,076,579**

	2015			
	Principal	Accrued Interest	Allowance for Subsidy*	Net
Direct Loan Program	$ 800,811	$ 44,250	$ 35,496	$ 880,557
FFEL Program	114,704	17,529	2,471	134,704
Other Credit Programs for Higher Education	2,876	361	(765)	2,472
Total Credit Receivables	**$ 918,391**	**$ 62,140**	**$ 37,202**	**$ 1,017,733**

* Includes allowance for subsidy and liability for loan guarantees

The federal student loan programs provide students and their families with the funds to help meet postsecondary education costs. Funding for these programs is provided through permanent indefinite budget authority. What follows is a comprehensive description of the student loan programs at the Department, including summary financial data and subsidy rates.

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 Direct Loan program. Direct Loans are originated and serviced through contracts with private vendors.

The Department records an estimated obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 6.2 percent of the amount obligated for new loan awards will not be disbursed.

Direct Loan program loan receivables includes defaulted and nondefaulted loans owned and held by the Department. Of the $953.6 billion in gross receivables, as of September 30, 2016, $57.3 billion (6.0 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $44.1 billion (5.2 percent) as of September 30, 2015.

The allowance for subsidy represents the estimated cost (to taxpayers) of financing the entire loan program for all loans outstanding. The subsidy cost figures are estimated using OMB-reviewed financial modeling methodologies which are subject to the FCRA. The allowance is the aggregate of all positive and negative subsidies as well as modification adjustments, at a point in time, for the current fiscal year and all those prior.

Positive subsidies, which are resources provided by Treasury to the Department for continuing loan origination and servicing activities, are required when estimated program cash outflows are expected to exceed inflows. Alternatively, when the estimated cash inflows are expected to exceed outflows, the Department transfers excess subsidy funds back to the Treasury (negative subsidy transfers). Positive subsidy increases aggregate program costs and negative subsidy decreases aggregate program costs to taxpayers.

The estimation process used to determine the amount of positive or negative subsidy expense each fiscal year, and subsequently the cumulative taxpayer cost of the program (allowance for subsidy), is subject to various internal and external risk factors which often show strong interdependence with one another. These risks include uncertainty about changes in the general economy, changes in the legislative and regulatory environment, and changing trends in borrower performance with regard to contractual cash flows within the loan programs.

Due to the complexity of the Direct Loan program, there is inherent projection risk in the process used for estimating long-term program costs. As stated, some uncertainty stems from potential changes in student loan legislation and regulations because these changes may fundamentally alter the cost structure of the program. Operational and policy shifts, such as growing efforts to increase borrower enrollment in income-driven repayment (IDR) plans, may also affect program costs by causing significant changes in borrower repayment timing. Actual performance may deviate from estimated performance, which is not unexpected given the long-term nature of these loans (cash flows may be estimated up to 40 years), and the multitude of projection paths and possible outcomes. The increasing enrollment of borrowers in the IDR plans has made projection of borrower incomes a key input for the estimation process. This uncertainty is directly tied to the macroeconomic climate and is another inherent program element which displays the interrelated risks facing the 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)

	2016	2015
Beginning Balance, Allowance for Subsidy	**$ (35,496)**	**$ (47,358)**
Activity		
Fee Collections	1,685	1,618
Loan Cancellations	(5,065)	(4,777)
Subsidy Allowance Amortization	17,815	16,373
Other	(350)	(460)
Total Activity	**14,085**	**12,754**
Subsidy Expense for Direct Loans Disbursed in the Current Year by Component		
Interest Rate Differential	(15,463)	(15,555)
Defaults, Net of Recoveries	(127)	217
Fees	(1,993)	(1,678)
Other	11,887	10,830
Total of the Above Subsidy Expense Components	**(5,696)**	**(6,186)**
Loan Modification	**-**	**9,936**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(1,536)	1,506
Technical and Default Re-estimates	23,351	(6,148)
Upward/(Downward) Subsidy Re-estimates	**21,815**	**(4,642)**
Ending Balance, Allowance for Subsidy	**$ (5,292)**	**$ (35,496)**

Loan cancellations include write-offs of loans because the borrower died, became disabled, or declared bankruptcy. The interest rate re-estimate reflects the cost of finalizing the Treasury borrowing rate to be used for borrowings received to fund the disbursed portion of the loan awards obligated. The remaining components of subsidy expense for direct loans disbursed in the current year consist of contract collection costs, program review collections, fees, loan forgiveness under PAYE and other accruals. Components of the FY 2015 subsidy expense for direct loans disbursed in the current year were reclassified to better reflect the fiscal year of underlying loan disbursement versus actual subsidy disbursement. Due to the interaction of the timing of disbursements by loan type and other underlying subsidy rates, the bulk of these expenses for both the 2015 cohort and 2016 cohort were recorded in FY 2016.

The following schedule summarizes the Direct Loan interest expense and interest revenue for the years ended September 30, 2016 and 2015:

Direct Loan Program Interest Expense and Revenue
(Dollars in Millions)

	2016	2015
Interest Expense on Treasury Borrowing	$ 30,503	$ 27,593
Total Interest Expense	**$ 30,503**	**$ 27,593**
Interest Revenue from the Public	$ 44,375	$ 39,760
Amortization of Subsidy	(17,815)	(16,373)
Interest Revenue on Uninvested Funds	3,943	4,206
Total Interest Revenue	**$ 30,503**	**$ 27,593**

The following schedule summarizes the Direct Loan subsidy expense for the years ended September 30, 2016 and 2015:

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2016	2015
Subsidy Expense for New Direct Loans Disbursed		
Interest Rate Differential	$ (15,463)	$ (15,555)
Defaults, Net of Recoveries	(127)	217
Fees	(1,993)	(1,678)
Other	11,887	10,830
Total Subsidy Expense for New Direct Loans Disbursed	**(5,696)**	**(6,186)**
Loan Modification	-	9,936
Upward/(Downward) Subsidy Re-estimates	21,815	(4,642)
Direct Loan Subsidy Expense	**$ 16,119**	**$ (892)**

Direct Loan program re-estimated subsidy cost was adjusted upward by $21.8 billion in FY 2016. The re-estimates reflect several updated assumptions: however, in this case, the size of the net upward re-estimate was due largely to collection rates on defaulted loans and repayment plan selection. Actual collections on defaults since FY 2011 were lower than anticipated, which reduced estimated lifetime rates and increased the cost to the Department by $10.1 billion. For repayment plan selection, a greater percentage of borrowers chose costlier plans than had been estimated and increased the cost to the Department by $8.1 billion. The percentage of borrowers choosing an income-driven repayment plan was the primary cost driver for that assumption.

Subsidy rates are sensitive to the difference between the borrowers' rates and the rate the Department is charged by Treasury on the debt to fund the loans; for example, a 1 percent increase in projected borrower interest rates would reduce projected direct loan subsidy cost by $4.8 billion. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2015. With the increase in income-driven repayment participation, the Department also conducted sensitivities on incomes for students in IDR and Public Service Loan Forgiveness (PSLF) plans. A 10 percent upward increase in borrower incomes decreases costs almost $8.7 billion for cohorts 1994–2015. A 10 percent increase in PSLF plan participation would increase costs $6.3 billion for cohorts 1994–2015.

Direct Loan program re-estimated subsidy cost was adjusted downward by $4.6 billion in FY 2015. Updated discount rates for the 2014 and 2013 cohorts decreased cost by $6.2 billion. Higher participation in income-dependent repayment plans increased cost by $15 billion. The introduction of a new model for estimating income-driven repayment plan costs resulted in a decrease in subsidy costs by $5.8 billion. Costs increased $1.8 billion due to increases in default rates. Changes in prepayment rates reflect larger than expected prepayment activity, leading to decreased interest earnings, resulting in $3.5 billion in upward subsidy cost. Costs decreased $5.7 billion due to higher forbearance rates. Interest accrues during forbearance and that interest is eventually paid to the Department. Other assumption updates produced offsetting costs, with the remainder attributable to interest on the re-estimate.

FY 2015 Modification. Recorded subsidy cost of a loan is based on a set of assumed future cash flows. Government actions that change these assumed future cash flows change subsidy cost and are recorded as loan modifications. Loan modifications are recognized under the same accounting principle as subsidy re-estimates. Modification adjustment transfers are required to adjust for the difference between the discount rate used to calculate the cost of the modification and the interest rate at which the cohort pays or earns interest.

The Department modified direct loans in FY 2015. Borrowers formerly ineligible for a more generous PAYE repayment plan became eligible for a modified version of PAYE leading to increased costs, resulting in a $9.3 billion upward modification of subsidy cost and a $629 million net upward modification adjustment transfer. In FY 2015, the Department forgave $2.1 billion in interest for borrowers participating in the PAYE/income-based repayment (IBR) plans, which provide that, if the borrower's monthly payment amount is not sufficient to pay the accrued interest on the borrower's direct subsidized loan or the subsidized portion of a direct consolidation loan, the Secretary does not charge the borrower the remaining accrued interest for a period not to exceed three consecutive years from the established repayment period start date on that loan under the PAYE/IBR plan.

The subsidy rates applicable to the 2016 loan cohort year follow:

Direct Loan Subsidy Rates—Cohort 2016

	Interest Differential	Defaults	Fees	Other	Total
Stafford	6.82%	1.56%	(1.68)%	4.98%	11.68%
Unsubsidized Stafford	(8.34)%	1.06%	(1.68)%	6.24%	(2.72)%
PLUS	(22.04)%	0.78%	(4.27)%	5.38%	(20.15)%
Consolidation	3.32%	(0.50)%	0.00%	10.68%	13.50%
Total	(4.40)%	0.65%	(1.58)%	7.18%	1.85%

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year and are weighted on gross volume. The subsidy expense for new direct loans reported in the current year relates 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 may include re-estimates. The subsidy rates shown above, which reflect aggregate positive subsidy in the FY 2016 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 Department does not re-estimate student loan cohorts until they are at least 90 percent disbursed. As a result, the financial statement re-estimate does not include a re-estimate of the current year cohort. The first re-estimate of this cohort will take place upon execution of the FY 2018 President's Budget.

The subsidy 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.

The following schedule summarizes the Direct Loan program loan disbursements by loan type for the years ended September 30, 2016 and 2015:

Direct Loan Program Loan Disbursements by Loan Type

(Dollars in Millions)

	2016	2015
Stafford	$ (23,752)	$ (23,953)
Unsubsidized Stafford	(52,254)	(52,698)
PLUS	(19,001)	(19,163)
Consolidation	(45,518)	(46,434)
Total Expenditures	**$ (140,525)**	**$ (142,248)**

The allocation of disbursements for the first three loan types is estimated based on historical trend information.

Student and parent borrowers may prepay existing loans without penalty through a new consolidation loan. Under the FCRA and requirements provided by OMB regulations, the retirement of direct loans being consolidated is considered a collection 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 subsidy costs. The net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect subsidy costs associated with anticipated future consolidation loans.

Direct loan consolidations were $46 billion during both FY 2016 and FY 2015. Under the FCRA, 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.

Federal Family Education Loan Program. As a result of the *SAFRA Act,* no new FFEL loans have been made since July 1, 2010. Federal guarantees on FFEL program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2016 and 2015, total principal balances outstanding of guaranteed loans held by lenders were approximately $197 billion and $220 billion, respectively. As of September 30, 2016 and 2015, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $193 billion and $215 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies. The rates range from 75 to 100 percent of the loan value depending on when the loan was made and the guaranty agency's claim experience.

FFEL Program Loan Receivables
(Dollars in Millions)

	2016				
	Principal	**Accrued Interest**	**Allowance for Subsidy**	**Loan Guarantee Liability**	**Net**
FFEL GSL Program (Pre-1992)	$ 4,087	$ 5,674	$ (7,622)	$ -	$ 2,139
FFEL GSL Program (Post-1991)	35,645	6,562	(12,398)	-	29,809
Loan Purchase Commitment	23,867	2,090	2,922	-	28,879
Loan Participation Purchase	44,434	3,600	4,347	-	52,381
ABCP Conduit	1,771	265	(374)	-	1,662
FFEL Program Loan Receivables	**$ 109,804**	**$ 18,191**	**$ (13,125)**	**$ -**	**$ 114,870**

	2015				
	Principal	**Accrued Interest**	**Allowance for Subsidy**	**Loan Guarantee Liability**	**Net**
FFEL GSL Program (Pre-1992)	$ 4,388	$ 6,149	$ (8,162)	$ (10)	$ 2,365
FFEL GSL Program (Post-1991)	33,415	5,756	(4,389)	3,398	38,180
Loan Purchase Commitment	26,474	1,981	4,410	-	32,865
Loan Participation Purchase	48,540	3,403	7,573	-	59,516
ABCP Conduit	1,887	240	(349)	-	1,778
FFEL Program Loan Receivables	**$ 114,704**	**$ 17,529**	**$ (917)**	**$ 3,388**	**$ 134,704**

ECASLA gave the Department temporary authority to purchase FFEL loans and participation interests in those loans. 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 Asset-Backed Commercial Paper (ABCP) Conduit. This authority expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. However, under the terms of the Put Agreement with the conduit, ABCP Conduit activity ceased operations in January 2014.

The FFEL guaranteed student loan financing account had a negative estimated liability for loan guarantees of $3.4 billion as of September 30, 2015. This indicated that expected collections on anticipated future defaulted loans was in excess of default disbursements, calculated on a net present value basis. Under GAAP, the negative estimated liability as of September 30, 2015, was classified as a component of credit program receivables on the consolidated balance sheet.

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)

	2016	2015
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ (3,398)**	**$ (4,218)**
Activity		
Interest Supplement Payments	(830)	(896)
Claim Payments	(6,678)	(6,917)
Fee Collections	1,731	1,926
Interest on Liability Balance	(1,766)	(1,826)
Other	5,648	12,797
Total Activity	**(1,895)**	**5,084**
Components of Loan Modification		
Loan Modification Costs	151	-
Modification Adjustment Transfers	24	-
Loan Modification	**175**	**-**
Upward/(Downward) Subsidy Re-estimates	**6,535**	**(4,264)**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**1,417**	**(3,398)**
FFEL Liquidating Account Liability for Loan Guarantees	12	10
FFEL Liabilities for Loan Guarantees	**$ 1,429**	**$ (3,388)**

Other activity includes negative special allowance collections, collections on defaulted FFEL loans, guaranty agency expenses, and loan cancellations due to death, disability, or 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. Loans in these programs are loans acquired by the Department. Acquired loans are reported at their net present value of future cash flows.

Loan Purchase Commitment Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2016	2015
Beginning Balance, Allowance for Subsidy	**$ (4,410)**	**$ (5,228)**
Activity		
Subsidy Allowance Amortization	644	724
Loan Cancellations	(193)	(274)
Contract Collection Cost and Other	(40)	(40)
Total Activity	**411**	**410**
Upward/(Downward) Subsidy Re-estimates	1,077	408
Ending Balance, Allowance for Subsidy	**$ (2,922)**	**$ (4,410)**

Loan Participation Purchase Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2016	2015
Beginning Balance, Allowance for Subsidy	**$ (7,573)**	**$ (8,373)**
Activity		
Subsidy Allowance Amortization	1,208	1,362
Loan Cancellations	(355)	(518)
Direct Asset Activities	(74)	(44)
Total Activity	**779**	**800**
Upward/(Downward) Subsidy Re-estimates	2,447	-
Ending Balance, Allowance for Subsidy	**$ (4,347)**	**$ (7,573)**

The following schedule provides FFEL program subsidy expense for the years ended September 30, 2016 and 2015, respectively:

FFEL Program Subsidy Expense

(Dollars in Millions)

	2016	2015
FFEL Loan Guarantee Program Subsidy Re-estimates	$ 6,535	$ (4,264)
Loan Purchase Commitment Subsidy Re-estimates	1,077	408
Loan Participation Purchase Subsidy Re-estimates	2,447	-
FFEL Program Upward/(Downward) Subsidy Re-estimates	**10,059**	**(3,856)**
FFEL Guaranteed Loan Program Modification Costs	175	-
FFEL Program Subsidy Expense	**$ 10,234**	**$ (3,856)**

FFEL guaranteed re-estimated subsidy cost was adjusted upward by $10.2 billion in FY 2016. The net upward re-estimates in these programs were due primarily to collection rates on defaulted loans which were lower than anticipated.

Subsidy rates are 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 subsidy costs by $16.6 billion.

FFEL guaranteed re-estimated subsidy cost was adjusted downward by $3.9 billion in FY 2015. Subsidy costs decreased $2.1 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. Subsidy costs decreased $706 million due to lower deferment rates on consolidated loans that have subsidized components of outstanding debt. The Department pays interest benefits when loans are in deferment, so lower deferment rates mean less interest benefits when loans are in deferment and thus, less interest benefit payments to lenders. Other assumption updates produced offsetting subsidy costs, with the remainder attributable to interest on the re-estimate.

FY 2016 Modification. In the FFEL program, private lenders provided loan capital, backed by a federal guarantee on the loans. The federal government provided interest subsidies to lenders and reimbursement to guaranty agencies for most of the costs associated with loan defaults and other loan cancellations. The *Consolidated Appropriations Act, 2016*, increased the guaranty agencies' maximum reinsurance percentage on default claims from 95 percent to 100 percent. State and private nonprofit guaranty agencies provide services that include: insurance payments to lenders for defaults, collection of some defaulted loans, default avoidance activities, and counseling to schools, students, and lenders.

Other Credit Programs for Higher Education

Receivables, Net for Other Credit Programs for Higher Education

(Dollars in Millions)

	2016				
	Principal	Accrued Interest	Allowance for Subsidy	Loan Guarantee Liability	Net
Federal Perkins Loans	$ 385	$ 242	$ (178)	$ -	$ 449
TEACH Program Loans	698	101	(109)	-	690
HEAL Program Loans	405	31	(99)	-	337
Facilities Loan Programs	1,500	15	(163)	-	1,352
Total	**$ 2,988**	**$ 389**	**$ (549)**	**$ -**	**$ 2,828**

	2015				
	Principal	Accrued Interest	Allowance for Subsidy	Loan Guarantee Liability	Net
Federal Perkins Loans	$ 356	$ 222	$ (168)	$ -	$ 410
TEACH Program Loans	642	97	(108)	-	631
HEAL Program Loans	415	28	(127)	(193)	123
Facilities Loan Programs	1,463	14	(169)	-	1,308
Total	**$ 2,876**	**$ 361**	**$ (572)**	**$ (193)**	**$ 2,472**

Federal Perkins Loan Program. The Federal Perkins Loan program 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 Grant Program. The Department awards annual grants of 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. The maximum lifetime grant for students is $16,000 for undergraduate programs and $8,000 for graduate programs. For students failing to fulfill the service requirement, the grants are converted to direct unsubsidized Stafford Loans. Since grants can be converted to direct loans, for budget and accounting purposes, the program is operated as a loan program under the FCRA.

The subsidy rates applicable to the 2016 loan cohort year follow:

TEACH Subsidy Rates—Cohort 2016

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	6.23%	0.21%	0.00%	6.61%	13.05%

HEAL Program. The Department assumed responsibility in FY 2014 for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL program is structured as required by the FCRA. A liquidating account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed prior to 1992. All loan activity for 1992 and beyond is recorded in corresponding financing accounts.

Facilities Loan Programs. The Department also administers the 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 loans to eligible institutions, charge interest, and collect principal and interest payments. In compliance with HEA, as amended, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default.

The total amount of support for HBCU programs, along with any accrued interest and unpaid servicing fees, will be capitalized to principal and be reamortized through the original maturity date of June 1, 2037. The Department has approximately $1.5 billion in outstanding borrowing from the FFB to support loans made to HBCU institutions and $235 million obligated to support near term lending as of September 30, 2016.

The Department administers the College Housing and Academic Facilities Loan (CHAFL) 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.

Administrative Expenses

Administrative expenses, for the years ended September 30, 2016 and 2015, consisted of the following:

Administrative Expenses
(Dollars in Millions)

	2016		2015	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 721	$ 465	$ 653	$ 442
Other Expense	50	33	28	18
Total	**$ 771**	**$ 498**	**$ 681**	**$ 460**

Note 6. 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

(Dollars in Millions)

	2016		2015	
	Intragovern-mental	**With the Public**	**Intragovern-mental**	**With the Public**
Liabilities Not Covered by Budgetary Resources				
Subsidy Due to Treasury General Fund	$ 2,429	$ -	$ 2,786	$ -
Other Liabilities				
Federal Perkins Loan Program	437	-	395	-
Accrued Unfunded Annual leave	-	40	-	38
FECA Liabilities	8	1	3	16
Custodial Liabilities	2	-	-	-
Total Liabilities Not Covered by Budgetary Resources	**$ 2,876**	**$ 41**	**$ 3,184**	**$ 54**
Total Liabilities Covered by Budgetary Resources	1,129,411	9,642	1,058,889	6,189
Total Liabilities	**$ 1,132,287**	**$ 9,683**	**$ 1,062,073**	**$ 6,243**

Note 7. Debt

Debt, as of September 30, 2016 and 2015, consisted of the following:

Debt

(Dollars in Millions)

	2016			
	Beginning Balance	**Borrowing**	**Repayments**	**Ending Balance**
Direct Loan Program	$ 909,927	$ 146,992	$ (62,634)	$ 994,285
FFEL Program	139,771	160	(8,584)	131,347
Other Credit Programs for Higher Education	2,078	224	(111)	2,191
Total	**$ 1,051,776**	**$ 147,376**	**$ (71,329)**	**$ 1,127,823**

	2015			
	Beginning Balance	**Borrowing**	**Repayments**	**Ending Balance**
Direct Loan Program	$ 819,007	$ 159,667	$ (68,747)	$ 909,927
FFEL Program	145,800	2,557	(8,586)	139,771
Other Credit Programs for Higher Education	1,864	268	(54)	2,078
Total	**$ 966,671**	**$ 162,492**	**$ (77,387)**	**$ 1,051,776**

The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2016, debt increased 7 percent from $1,052 billion in the prior year to $1,128 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Approximately 88.2 percent of the Department's debt, as of September 30, 2016, is attributable to the Direct Loan program. The majority of the net borrowing activity (borrowing less repayments) for the year was designated for funding new Direct Loan disbursements.

The Department also borrows from Treasury for activity in the other credit programs for higher education. During FY 2016, TEACH net borrowing of $67 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2016, debt in HBCU increased by $63 million, or 4.52 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

Note 8. Subsidy Due to Treasury General Fund

Subsidy Due to Treasury General Fund
(Dollars in Millions)

	2016	2015
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ -	$ 1,474
FFEL Program	213	3,977
Total Credit Program Downward Subsidy Re-estimates	**213**	**5,451**
Future Liquidating Account Collections		
FFEL Program	2,253	2,603
Other Credit Programs for Higher Education	176	183
Total Future Liquidating Account Collections	**2,429**	**2,786**
Total Subsidy Due to Treasury General Fund	**$ 2,642**	**$ 8,237**

When downward subsidy re-estimates are executed, the amounts will be transferred to the Treasury General Fund in the following fiscal year. Future liquidating account collections represent the net present value of estimated future excess collections (estimated collections in excess of estimated outlays) for the Department's pre-1992 FFEL and HEAL loan programs. When collected, these liquidating account excess collections will also be returned to the Treasury General Fund.

Note 9. Other Liabilities

Other liabilities, as of September 30, 2016 and 2015, consisted of the following:

Other Liabilities
(Dollars in Millions)

	2016		2015	
	Intragovern-mental	**With the Public**	**Intragovern-mental**	**With the Public**
Accounts Payable	$ 1	$ 3,966	$ 1	$ 3,695
Accrued Grant Liability	-	3,760	-	2,377
Guaranty Agencies' Funds Due to Treasury	1,197	-	1,561	-
Loan Guarantee Liability	-	1,633	-	-
Federal Perkins Loan Program	437	-	395	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	40	255	83	84
Advances from Others and Deferred Credits	11	9	14	18
Accrued Unfunded Annual Leave	-	40	-	38
FECA Liabilities	8	1	3	16
Accrued Payroll and Benefits	-	19	-	15
Employer Contributions and Payroll Taxes	126	-	3	-
Custodial Liability	2	-	-	-
Total Other Liabilities	**$ 1,822**	**$ 9,683**	**$ 2,060**	**$ 6,243**

Note 10. Intragovernmental Cost and Exchange Revenue by Program

As required by the *GPRA Modernization Act of 2010,* each of the Department's major program offices has been aligned with the goals presented in the Department's *Strategic Plan 2014–2018. Strategic Plan* Goals 1–5 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 strategic goals. The Department also has a cross-cutting *Strategic Plan* Goal 6, U.S. Department of Education Capacity, focusing primarily upon improving the organizational capacities of the Department to implement the *Strategic Plan* Goals 1–5. The costs associated with *Strategic Plan* Goal 6 are allocated to Goals 1–5 based on the number of full-time employee equivalents of each program. Some principal offices support more than one Departmental strategic goal, but have been assigned to a single net cost program for the purposes of this table based on their primary area of support.

Net Cost Program	Program Office	Strategic Goal
Increase College Access, Quality, and Completion	FSA OPE OCTAE	**Goal 1: Postsecondary Education, Career and Technical Education, and Adult Education.** Increase college access, affordability, quality, and completion by improving postsecondary education and lifelong learning opportunities for youths and adults.
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	OESE	**Goal 2: Elementary and Secondary Education.** Improve the elementary and secondary education system's ability to consistently deliver excellent instruction aligned with rigorous academic standards while providing effective support services to close achievement and opportunity gaps, and ensure all students graduate high school college- and career-ready. **Goal 3: Early Learning.** Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.
Ensure Effective Educational Opportunities for All Students	OELA OCR OSERS	**Goal 4: Equity.** Increase educational opportunities for underserved students and reduce discrimination so that all students are well-positioned to succeed.
Enhance the Education System's Ability to Continuously Improve	IES OII	**Goal 5: Continuous Improvement of the U.S. Education System.** Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, evidence, transparency, innovation, and technology.

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

2016

	FSA	OESE	OSERS	Other	Total
Increase College Access, Quality, and Completion					
Gross Cost					
Intragovernmental	$ 36,325	$ -	$ -	$ 120	$ 36,445
With the Public	56,707	-	-	4,162	60,869
Total Gross Program Costs	**93,032**	**-**	**-**	**4,282**	**97,314**
Earned Revenue					
Intragovernmental	(4,744)	-	-	(6)	(4,750)
With the Public	(29,516)	-	-	(50)	(29,566)
Total Program Earned Revenue	**(34,260)**	**-**	**-**	**(56)**	**(34,316)**
Total Program Costs	**58,772**	**-**	**-**	**4,226**	**62,998**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs					
Gross Cost					
Intragovernmental	-	183	-	-	183
With the Public	-	22,179	-	1	22,180
Total Gross Program Costs	**-**	**22,362**	**-**	**1**	**22,363**
Earned Revenue					
Intragovernmental	-	(5)	-	-	(5)
With the Public	-	(11)	-	-	(11)
Total Program Earned Revenue	**-**	**(16)**	**-**	**-**	**(16)**
Total Program Costs	**-**	**22,346**	**-**	**1**	**22,347**
Ensure Effective Educational Opportunities for All Students					
Gross Cost					
Intragovernmental	-	-	105	35	140
With the Public	-	-	15,973	812	16,785
Total Gross Program Costs	**-**	**-**	**16,078**	**847**	**16,925**
Earned Revenue					
With the Public	-	-	(10)	(1)	(11)
Total Program Earned Revenue	**-**	**-**	**(10)**	**(1)**	**(11)**
Total Program Costs	**-**	**-**	**16,068**	**846**	**16,914**
Enhance the Education System's Ability to Continuously Improve					
Gross Cost					
Intragovernmental	-	-	-	96	96
With the Public	-	-	-	2,025	2,025
Total Gross Program Costs	**-**	**-**	**-**	**2,121**	**2,121**
Earned Revenue					
With the Public	-	-	-	(58)	(58)
Total Program Earned Revenue	**-**	**-**	**-**	**(58)**	**(58)**
Total Program Costs	**-**	**-**	**-**	**2,063**	**2,063**
Net Cost of Operations	**$ 58,772**	**$ 22,346**	**$ 16,068**	**$ 7,136**	**$ 104,322**

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

2015

	FSA	OESE	OSERS	Other	Total
Increase College Access, Quality, and Completion					
Gross Cost					
Intragovernmental	$ 33,873	$ -	$ -	$ 80	$ 33,953
With the Public	25,627	-	-	4,117	29,744
Total Gross Program Costs	**59,500**	**-**	**-**	**4,197**	**63,697**
Earned Revenue					
Intragovernmental	(5,134)	-	-	(11)	(5,145)
With the Public	(26,413)	-	-	(42)	(26,455)
Total Program Earned Revenue	**(31,547)**	**-**	**-**	**(53)**	**(31,600)**
Total Program Costs	**27,953**	**-**	**-**	**4,144**	**32,097**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs					
Gross Cost					
Intragovernmental	-	179	-	-	179
With the Public	-	22,169	-	2	22,171
Total Gross Program Costs	**-**	**22,348**	**-**	**2**	**22,350**
Earned Revenue					
Intragovernmental	-	(12)	-	-	(12)
With the Public	-	(8)	-	-	(8)
Total Program Earned Revenue	**-**	**(20)**	**-**	**-**	**(20)**
Total Program Costs	**-**	**22,328**	**-**	**2**	**22,330**
Ensure Effective Educational Opportunities for All Students					
Gross Cost					
Intragovernmental	-	-	91	33	124
With the Public	-	-	15,776	756	16,532
Total Gross Program Costs	**-**	**-**	**15,867**	**789**	**16,656**
Earned Revenue					
Intragovernmental	-	-	(2)	-	(2)
With the Public	-	-	(8)	(1)	(9)
Total Program Earned Revenue	**-**	**-**	**(10)**	**(1)**	**(11)**
Total Program Costs	**-**	**-**	**15,857**	**788**	**16,645**
Enhance the Education System's Ability to Continuously Improve					
Gross Cost					
Intragovernmental	-	-	-	100	100
With the Public	-	-	-	2,312	2,312
Total Gross Program Costs	**-**	**-**	**-**	**2,412**	**2,412**
Earned Revenue					
Intragovernmental	-	-	-	(4)	(4)
With the Public	-	-	-	(55)	(55)
Total Program Earned Revenue	**-**	**-**	**-**	**(59)**	**(59)**
Total Program Costs	**-**	**-**	**-**	**2,353**	**2,353**
Net Cost of Operations	**$ 27,953**	**$ 22,328**	**$ 15,857**	**$ 7,287**	**$ 73,425**

Note 11. Credit Program Interest Expense and Interest Revenue

For FY 2016 and FY 2015, interest expense and interest revenue for credit programs consisted of the following:

Credit Program Interest Expense and Interest Revenue
(Dollars in Millions)

	2016						
	Interest Expense	Subsidy Amorti-zation	Net Expense	Gross Interest Revenue		Subsidy Amorti-zation	Net Revenue
	Federal	Non-federal		Federal	Non-federal	Non-federal	
Direct Loan Program	$ 30,503	$ -	$ 30,503	$ 3,943	$ 44,375	$ (17,815)	$ 30,503
FFEL Program	4,980	(1,766)	3,214	516	4,600	(1,902)	3,214
Other Credit Programs for Higher Education	66	-	66	12	79	(25)	66
Total	**$ 35,549**	**$ (1,766)**	**$ 33,783**	**$ 4,471**	**$ 49,054**	**$ (19,742)**	**$ 33,783**

	2015						
	Interest Expense	Subsidy Amorti-zation	Net Expense	Gross Interest Revenue		Subsidy Amorti-zation	Net Revenue
	Federal	Non-federal		Federal	Non-federal	Non-federal	
Direct Loan Program	$ 27,593	$ -	$ 27,593	$ 4,206	$ 39,760	$ (16,373)	$ 27,593
FFEL Program	5,252	(1,826)	3,426	454	5,110	(2,138)	3,426
Other Credit Programs for Higher Education	60	-	60	13	72	(25)	60
Total	**$ 32,905**	**$ (1,826)**	**$ 31,079**	**$ 4,673**	**$ 44,942**	**$ (18,536)**	**$ 31,079**

Note 12. Statement of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2016, budgetary resources were $335 billion and net agency outlays were $160 billion. As of September 30, 2015, budgetary resources were $350 billion and net agency outlays were $167 billion.

New Obligations and Upward Adjustments by Apportionment Type and Category

New obligations and upward adjustments by apportionment type and category, as of September 30, 2016 and 2015, consisted of the following:

New Obligations and Upward Adjustments by Apportionment Type and Category
(Dollars in Millions)

	2016	2015
Direct:		
Category A	$ 2,170	$ 2,083
Category B	304,270	318,212
Exempt from Apportionment	638	104
Total Direct Apportionment	307,078	320,399
Reimbursable:		
Category A	3	4
Category B	63	64
New Obligations and Upward Adjustments	**$ 307,144**	**$ 320,467**

New obligations and upward adjustments 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. The apportionment categories are determined in accordance with the guidance provided in OMB regulations. Category A apportionments are those resources that can be obligated in the current fiscal year 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 and related changes in available borrowing authority, as of September 30, 2016 and 2015, consisted of the following:

Unused Borrowing Authority
(Dollars in Millions)

	2016	2015
Beginning Balance, Unused Borrowing Authority	**$ 54,829**	**$ 61,327**
Current Year Borrowing Authority	167,400	171,807
Funds Drawn from Treasury	(147,376)	(162,492)
Borrowing Authority Withdrawn	(13,862)	(15,813)
Ending Balance, Unused Borrowing Authority	**$ 60,991**	**$ 54,829**

The Department is given authority to draw funds from Treasury to finance the Direct Loan, FFEL, and other loan programs. Unused borrowing authority is a budgetary resource and is available to support obligations for these programs. The Department periodically reviews its borrowing authority balances in relation to its obligations resulting in the withdrawal of unused amounts.

Undelivered Orders at the End of the Period

Undelivered orders, as of September 30, 2016 and 2015, consisted of the following:

Undelivered Orders
(Dollars in Millions)

	2016	2015
Budgetary	$ 50,019	$ 49,838
Non-Budgetary	73,366	75,064
Undelivered Orders (Unpaid)	**$ 123,385**	**$ 124,902**

Budgetary undelivered orders represent the amount of goods and/or services ordered which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred. Non-budgetary undelivered orders primarily represent undisbursed loan awards and related negative subsidy.

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 Treasury General Fund receipt accounts for downward current fiscal year executed subsidy re-estimates and negative subsidies. Distributed offsetting receipts, for the years ended September 30, 2016 and 2015, consisted of the following:

Distributed Offsetting Receipts
(Dollars in Millions)

	2016	2015
Negative Subsidies and Downward Re-estimates of Subsidies:		
FFEL Program	$ 2,550	$ 4,658
Direct Loan Program	7,881	8,211
Facilities Loan Programs	18	83
TEACH Program	5	31
HEAL Program	-	19
Total Negative Subsidies and Downward Re-estimates	10,454	13,002
Other	312	103
Distributed Offsetting Receipts	**$ 10,766**	**$ 13,105**

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

The *FY 2018 Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2016, has not been published as of the issue date of these financial statements. The FY 2018 President's Budget is scheduled for release in February 2017.

A reconciliation of the FY 2015 SBR to the FY 2017 President's Budget (FY 2015 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 Incurrred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	**$ 349,678**	**$ 320,467**	**$ 13,105**	**$ 167,138**
Expired Funds	(2,195)	(997)		
FFEL Guaranty Agency Amounts Included in the President's Budget	9,239	9,240		
Distributed Offsetting Receipts				13,105
Other	(10)	(3)	1	3
***Budget of the United States Government*[1]**	**$ 356,712**	**$ 328,707**	**$ 13,106**	**$ 180,246**

[1] Amounts obtained from the Appendix, *Budget of the United States Government,* FY 2017

Reconciling differences exist because the President's Budget excludes expired funds. Additionally, 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 fund of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the federal fund is independent from the Department's direct control, budgetary resources and obligations incurred are estimated and disclosed in the President's Budget to approximate the gross activities of the combined federal fund. Amounts reported on the FY 2015 SBR for the federal fund are compiled by combining all guaranty agencies' annual reports to determine a net valuation amount for the federal fund.

Note 13. Reconciliation of Net Cost of Operations to Budget

The reconciliation of net cost of operations to budget reconciles the resources used to finance activities, both those received through budgetary resources and those received through other means, with the net cost of operations on the statement of net cost. This reconciliation provides an explanation of the differences between budgetary and financial (proprietary) accounting, as required by FASAB Standard No. 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.

Resources used to finance activities (section one) are reconciled with the net cost of operations by: (a) excluding resources used or generated for items not part of the net cost of operations (section two); and (b) including components of the net cost of operations that will not require or generate resources in the current period (section three). The primary resources used to finance activities that do not fund the net cost of operations include the acquisition of net credit program assets, the liquidation of liabilities for loan guarantees, and subsidy re-estimates accrued in the prior period. Significant components of the net cost of operations that will not generate or use resources in the current period include subsidy amortization, interest on the liability for loan guarantees, and increases in exchange revenue receivable from the public.

The reconciliation of net cost of operations to budget, as of September 30, 2016 and 2015, are presented below:

Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

	2016	2015
Resources Used to Finance Activities:		
New Obligations and Upward Adjustments	$ 307,144	$ 320,467
Spending Authority from Offsetting Collections and Recoveries	(136,094)	(145,810)
Offsetting Receipts	(10,766)	(13,105)
Net Budgetary Resources Obligated	**160,284**	**161,552**
Imputed Financing from Costs Absorbed by Others	81	30
Other Financing Sources	(5,124)	(14,293)
Net Other Resources	**(5,043)**	**(14,263)**
Net Resources Used to Finance Activities	**155,241**	**147,289**
Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
(Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided	1,763	5,177
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(2,598)	(20,131)
Credit Program Collections	92,080	102,183
Acquisition of Fixed Assets	(11)	(15)
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(161,826)	(165,850)
Resources from Non-Entity Activity	5,196	14,948
Net Resources that Do Not Finance the Net Cost of Operations	**(65,396)**	**(63,688)**
Net Resources Used to Finance the Net Cost of Operations	**89,845**	**83,601**
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Change in Depreciation	-	1
Subsidy Amortization and Interest on the Liability for Loan Guarantees	17,977	16,710
Other	22	(1)
Total Components Not Requiring or Generating Resources	**17,999**	**16,710**
Increase/(Decrease) in Annual Leave Liability	2	1
Accrued Re-estimates of Credit Subsidy Expense	28,006	2,598
Increase in Exchange Revenue Receivable from the Public	(31,611)	(29,486)
Accrued Interest with Treasury	1	1
Other (+/-)	80	-
Total Components Requiring or Generating Resources in Future Periods	**(3,522)**	**(26,886)**
Total Components that Will Not Require or Generate Resources in the Current Period	**14,477**	**(10,176)**
Net Cost of Operations	**$ 104,322**	**$ 73,425**

Note 14. Commitments and Contingencies

The Department discloses contingencies where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred in accordance with FASAB Standard No. 5, Accounting for Liabilities of the Federal Government. The following commitments are amounts for contractual arrangements that may require future financial obligations.

Future Minimum Lease Payments

The Department leases all or a portion of 17 privately owned and 10 publicly owned buildings in 20 cities. Estimated future minimum lease payments for the privately and publicly owned buildings are presented below.

Future Minimum Lease Payments
(Dollars in Millions)

2016		2015	
FY	**Amount**	**FY**	**Amount**
2017	$ 74	2016	$ 83
2018	78	2017	76
2019	80	2018	81
2020	83	2019	79
2021	85	2020	82
After 2021	86	After 2020	84
Total	**$ 486**	**Total**	**$ 485**

Guaranty Agencies

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in fiscal years 2016 or 2015 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

Federal Perkins Loan Program

The Federal Perkins Loan program provides financial assistance to eligible postsecondary school students. In FY 2016, the Department provided funding of 83.0 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.0 percent of program funding. For the latest academic year that ended June 30, 2016, approximately 421 thousand loans were made totaling $1.0 billion at 1,378 institutions, making an average of $2,480 per loan. The Department's equity interest was approximately $6.5 billion as of June 30, 2016.

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.

The Federal Perkins Loan program was scheduled to officially end on September 30, 2015. However, the program was extended through September 30, 2017 by the *Federal Perkins Loan Program Extension Act of 2015* (Extension Act). The Extension Act eliminated the Perkins Loan grandfathering provisions that the Department had put in place, and establishes new eligibility requirements for undergraduate and graduate students to receive Perkins Loans.

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.

The cost of loan forgiveness related to the recent proprietary school closures reflected in the accompanying financial statements is limited to claims received through September 30. On November 1, 2016, the Department issued certain regulations that may affect the amount to ultimately be paid related to these claims. The final disposition of claims filed and those yet to be filed from schools closed before September 30 is not expected to have a material impact to these financial statements.

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.