



# FISCAL YEAR 2025 AGENCY FINANCIAL REPORT

U.S. DEPARTMENT OF EDUCATION

**U.S. Department of Education**

Linda E. McMahon

*U.S. Secretary of Education*

**Office of Finance and Operations**

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*Delegated the Duties of Assistant Secretary*

*Office of Finance and Operations, and Chief Financial Officer*

U.S. Department of Education

January 22, 2026

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Office of Finance and Operations  
U.S. Department of Education  
Washington, DC 20202-0600

# About This Report

The purpose of the U.S. Department of Education's (Department's) fiscal year (FY) 2025 *Agency Financial Report* (AFR) is to inform Congress, the President, other external stakeholders, and the American people on how the Department used the federal resources entrusted to it to advance the mission of the Department to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department accomplishes its mission and the related strategic goals and objectives by administering programs that range from preschool education through postdoctoral research; enforcing civil rights laws to provide equal access and treatment; and supporting research that examines ways that states, schools, districts, and postsecondary institutions can improve America's education system. As evidenced by the information contained in this AFR, the Department has demonstrated that it is a good steward of financial resources and has put in place adequate business and financial management systems, processes, and practices.

The AFR also provides high-level financial and performance highlights, assessments of controls, a summary of challenges, and a demonstration of the Department's stewardship. This report is required by legislation and complies with the requirements of the Office of Management and Budget's Circulars A-11, *Preparation, Submission, and Execution of the Budget*; A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*; and A-136, *Financial Reporting Requirements*.

Federal Student Aid (FSA), a principal office of the Department and a Performance-Based Organization (PBO), is mandated to prepare and submit an annual report (AR) detailing the PBO's financial and performance information for the fiscal year. The Department has historically referred to the report that is submitted under Section 141(c)(2) of the HEA as the FSA AR. This year, the Department has decided to consolidate the reporting of this information by including FSA's financial data in its Agency Financial Report (AFR). The Department's management considers this consolidated AFR and the audited financial statements to meet all reporting and auditing requirements of the PBO for FY 2025. The performance data, along with other required reporting elements for the PBO, will be included in the Department's FY 2025 Annual Performance Report, which is scheduled for publication in March 2026.

## Message from the Secretary



2025 will go down as a banner year for education. As we reflect on the first year of President Donald J. Trump's second term in the White House, we remain steadfast in our mission to ensure every student has the means, tools, and opportunities to excel in a rapidly changing world, while remaining committed to instructional excellence in every classroom across America.

This past year, the Department has demonstrated steadfast stewardship of federal resources, advanced our strategic goals through programs spanning from K-12 education to civil rights

enforcement to historic reforms at postsecondary education institutions—all of which will strengthen America's education system. Our Agency Financial Report for fiscal year 2025 (FY 2025) reflects not only our dedication to sound financial management, but also our resolve to meet the evolving needs of students, families, and educators across the country.

When President Trump nominated me to be Secretary of Education, he entrusted me to deliver on one of his most momentous campaign promises: returning education to the states. The Department was established in 1980 with the promise of improving education outcomes for America's students, but \$3 trillion in taxpayer dollars later, national test scores in reading and math have plummeted. In 2024, only 35% of fourth and eighth graders in our nation were proficient in reading, and only 39% of fourth graders and 28% of eighth graders were proficient in mathematics. The President and I share the firm, fundamental belief: that **the best education is closest to the child** and informed by the ones who know students best. We must empower local communities, state leaders, and parents—who understand their students' unique needs far better than Washington bureaucrats—to reclaim control of education and usher in a new era of excellence. In FY 2025, we took several significant steps towards improving education across the nation and implementing this agency's final mission:

After the Department's historic reduction in force in March, I launched the "**Returning Education to the States Tour**," with the goal of traveling to all 50 states to hear directly from teachers, parents, and community leaders about what is working best in their communities. I have and will continue to visit as many schools as possible across the country—public, private, charter, parochial—and will compile a toolkit of best practices that I will distribute to states when the tour is completed.

Next, my supplemental priorities released in 2025 reinforced this Administration's commitment to empowering local voices over federal mandates and promoting excellence in education. My *expanding education choice* priority will increase access to education

options across all relevant discretionary grant competitions. My *returning education to the states priority* will enable the Department to meet the needs of America's students without cumbersome federal burdens. My *evidence-based literacy priority* will provide the resources necessary to implement proven, data-driven literacy instruction to improve literacy skills across the nation, addressing the decades of dismal NAEP scores. My *supplemental priority on artificial intelligence (AI)* will be used to support the use of AI for both students and educators to improve learning outcomes for all. These priorities reinforce this Administration's desire to correct a pervasive, known problem in education: federal management has not yielded better outcomes. We have, and intend to continue, to chart a different course, prioritizing the needs of students, families, taxpayers, and the workforce.

Under my leadership, the Department has made historic investments in school choice, including a record-breaking \$500 million for the Charter Schools Program (CSP)—the largest in its history. At the same time, we reduced federal overreach in state CSP grant awards by eliminating a Biden-era requirement that the Secretary review how states authorize charter schools where lawful authorizers already exist. These changes expand options for families and empower parents to choose high-quality education that best meets their children's needs—regardless of income or zip code.

We have cut red tape to empower local education leaders. The Department issued 'Dear Colleague' letters to State Chiefs, reminding them of the existing flexibilities in federal law, giving them greater control over their education systems. We promoted statutory flexibilities under the Elementary and Secondary Education Act (ESEA) and the Education Flexibility Partnership Act of 1999 (Ed-Flex Act), allowing states to waive certain federal requirements without prior approval—empowering districts to focus on learning outcomes and local needs. This approach is already delivering results: in January 2026, Iowa became the first state approved for a Returning Education to the States waiver, redirecting nearly \$8 million from compliance to classrooms over four years.

As we worked toward returning education to the states, we also advanced initiatives to restore **responsible administration and accountability to our postsecondary education funding systems**.

Federal Student Aid (FSA) delivered over **\$131.1 billion** in Title IV aid to **10.5 million postsecondary students** and their families. During FY 2025, FSA operated on an annual administrative budget of **\$2.1 billion**. The Department has also been hard at work implementing historic reforms included in the Working Families Tax Cuts Act. These reforms are focused on simplifying student loan repayment, expanding short-term workforce education, and holding colleges accountable for poor student outcomes, ensuring that federal aid is directed to programs that are committed to outcomes, not inputs—truly educating students, rather than shackling them to debt.

FSA also delivered the new and improved *Free Application for Federal Student Aid*® (FAFSA®) form ahead of schedule for the first time in the form's existence, doing so within a more streamlined agency than in previous years. A record **19.2 million FAFSA forms** were processed in FY 2025, giving American students from all corners of the nation access

to higher education. The form was also launched with new features that will increase fiscal transparency and allow aspiring postsecondary students and families to see their future earnings potential before they choose their college or university.

In FY 2025, the Department delivered nearly **\$40 billion** in Pell Grants to over **7 million students**, reaffirming our commitment to affordable higher education to empower all students to achieve their educational goals. Building on this foundation, we have begun implementing the historic reforms included in the Working Families Tax Cuts Act, such as the creation of the short-term Workforce Pell Grant program, to make federal student aid available for short-term, high-quality programs that are closely aligned to workforce demand.

Since Day One, the Trump Administration has made **restoring merit, civil rights protections, and equal treatment under the law in higher education** a top priority, ensuring that taxpayer dollars do not support discrimination against students. For too long, universities have engaged in race- and sex-based discrimination with little to no federal enforcement. In FY 2025, the Department actively pursued Title IX and Title VI investigations into universities and K-12 institutions accused of such practices and took enforcement action against entities violating the law. We also secured historic agreements with universities that recommit them to merit-based admissions and hiring, to dismantling unlawful Diversity, Equity, and Inclusion (DEI) programs, and to ensuring that all students have access to equal educational opportunity.

After the previous Administration's warped Title IX enforcement, which allowed men in women's sports and intimate facilities, the Trump Administration returned to enforcing the 2020 Title IX rule on the basis of biological sex and re-established sex-segregated sports and intimate facilities. The Department secured Resolution Agreements with the University of Pennsylvania and Wagner College, who agreed to remove titles that were misappropriated by male athletes, and restore them to female athletes. Under the Resolution Agreements, both universities also apologized to women for allowing sex discrimination. In addition, after universities flagrantly disregarded the prohibition on racial discrimination in *SFFA v. Harvard* (2023), Title VI of the Civil Rights Act, and the Equal Protection Clause of the U.S. Constitution, the Department secured agreements with Columbia University and Brown University to cease illegal diversity, equity, and inclusion (DEI) programming, restore merit to admissions, and protect Jewish students amid an explosion of anti-Semitic harassment on campus. These agreements have both rectified past harm and instituted lasting change that ensures future students do not suffer the same discrimination.

We have also **renewed enforcement of Section 117** of the Higher Education Act, ensuring institutions receiving federal funds disclose foreign gifts and contracts of \$250,000 or more annually. For years, compliance was poor—only about 60% of institutions appear to be meeting their obligations—and the previous administration opened no new investigations and diminished the searchability functions of university disclosures for public inspection. In contrast, the Trump Administration launched four major inquiries into Harvard, the University of Pennsylvania, the University of Michigan, and the University of California, Berkeley, in response to clear disclosure failures by those institutions. In response to Executive Order 14282 (April 23, 2025), we began vigorous interagency information sharing. Foreign funding in higher education is a matter of national security, and as Secretary, I have—and will continue to—take all necessary steps to ensure transparency about these financial relationships.



Robust law enforcement permeates every sector under the Department's purview. In K-12, this Administration **restored parents' rights** under federal law, including the Family Educational Rights and Privacy Act (FERPA), to know about the most sensitive information pertaining to their child's health and wellbeing. The Department initiated investigations into the Maine, California, Kansas, Washington, Massachusetts, and Virginia departments of education and school districts amid allegations these entities, among another reports, hide a child's 'gender transition' from that child's parents. We continued our commitment to the Individuals with Disabilities Education Act (IDEA) by vigorously upholding civil rights for students with disabilities, securing resolution agreements with entities from to resolve digital accessibility complaints and ensure Section 504 and Individualized Education Plans (IEP) are implemented. And we canceled or non-continued millions of dollars in harmful, wasteful, and downright absurd DEI grants which illegally discriminate on the basis of race, including support for a Technical Assistance center focused on Early Childhood education to "address the systemic racism that permeates all aspects of society."

The Department also entered into a historic and successful partnership with the Department of Labor (Labor, DOL) to integrate the federal government's workforce development portfolio. The Departments transitioned the Workforce Innovation and Opportunity Act (WIOA) state plan portal to DOL to streamline federal workforce development programs, thereby allowing the Department and DOL to jointly administer core WIOA programs, including adult education and family literacy programs. Our most recent efforts have focused on integrating the Perkins state plan portal into the WIOA state plan portal so states with combined WIOA state plans can submit information through a single portal—cutting red tape and streamlining the application processes for states and grantees. The partnership's success speaks for itself. Since October 1, the joint agencies have successfully processed over 1,300 payment requests from 43 unique states and territories and onboarded all grantees to DOL's GrantSolutions and Payment Management System, which is the payment management and grant system used by the majority of all federal agencies. Grantees have efficiently drawn down their funds, with 42 of 53 Perkins grantees and 43 of 57 adult education grantees fully utilizing their allocations. This partnership, alongside my *career pathways and workforce readiness supplemental priority* supporting projects that will help Americans attain industry recognized credentials, will open opportunities for students and bolster workforce needs. As America approaches its Semiquincentennial—the 250th anniversary of our founding—the Department has launched initiatives to elevate civic and patriotic education nationwide. We partnered with over 50 national and state organizations to form the **America 250 Civics Education Coalition**, inspiring citizens to reflect on our history and shared values. Recently, we introduced the 50-state *History Rocks!* Trail to Independence Tour and the Presidential 1776 Award, a national high school civics scholarship competition. These efforts will continue into FY 2026.

Responsible stewardship of taxpayer dollars remains an integral part of the Department's mission. I am confident that the financial information presented in this Agency Financial Report is complete and reliable, in accordance with federal law. This report also details the Department's financial management systems, internal controls, and any identified challenges related to controls and compliance. In addition, the Department's

combined Annual Performance Report and Annual Performance Plan offers insights into the agency's overall performance as a federal entity. Released annually alongside the Department's budget request, this document connects performance objectives to allocated resources, supporting the achievement of targeted outcomes.

This year, the Department received an unmodified or "clean" opinion on its FY 2025 Balance Sheet. The preceding year (FY 2024), the Department received a disclaimer of opinion on this statement. Additionally, the prior year's auditors' internal control report identified one material weakness, "Controls over the Relevance and Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement" for which the Department has developed corrective action plans that have been implemented over the past year. Nonetheless, this material weakness is included again, revised to read "Controls over the Reliability of Underlying Data Used in Credit Reform Estimates Needs Improvement", in this year's audit report. The Department remains committed to evaluating its internal controls for improvement opportunities. The Department will develop and implement additional corrective action strategies to address the issues highlighted in the FY 2025 audit report.

Finally, I'm grateful to Department staff for their hard work and steadfast dedication, allowing us to pursue our mission to return education to the states, unleash a new era of educational excellence, and ensure America's students have the means to pursue any educational path they desire. Together, this staff has made significant and unprecedented achievements and turned a vision of a sea change in education into a reality. The implementation of our strategic plan and vision will continue beyond these next three years, leaving long lasting, positive impacts on not only the students today, but the future generations of our great nation.



Linda E. McMahon  
*U.S. Secretary of Education*  
January 22, 2026



# Message from the Federal Student Aid Chief Operating Officer



Dear Financial Aid Community:

I am pleased to present information about Federal Student Aid (FSA) in the U.S. Department of Education's (Department's) fiscal year (FY) 2025 Agency Financial Report (AFR).

FY 2025 was a defining year for FSA—one that demanded strong leadership, operational rigor, and clear accountability. As stewards of the largest federal financial aid portfolio in the nation's history, FSA carried a responsibility not only to deliver aid at scale, but to do so with transparency,

integrity, and disciplined execution. During the year, FSA successfully launched the Free Application for Federal Student Aid (FAFSA® form), navigated a shifting workforce, and made targeted operational improvements while continuing to serve students, families, borrowers, and institutions.

Beyond day-to-day program delivery, FSA focused on strengthening the systems and controls that underpin the federal student aid enterprise. This included modernizing critical technology, improving borrower experiences, reinforcing program integrity, and enhancing financial management practices. These efforts reflect a deliberate shift toward sustainable operations that prioritize results, risk management, and accountability for outcomes.

In FY 2025, FSA delivered more than \$131 billion in federal grants, loans, and work-study assistance to 10.5 million students at more than 5,200 postsecondary institutions. The organization processed more than 19 million FAFSA forms and managed a student loan portfolio exceeding \$1.7 trillion. These figures underscore both the scale of FSA's mission and the importance of sound governance to ensure that eligible students can access higher education while taxpayer dollars are protected.

Accountability and stewardship were central to FSA's work throughout the fiscal year. Enhanced FAFSA fraud analytics prevented improper payments and safeguarded more than \$1 billion in taxpayer funds. Information technology efficiencies reduced annual contract costs by \$25 million. FSA made measurable progress in internal controls, financial reporting, and corrective action management. These actions further strengthen taxpayer confidence in FSA's oversight of the student loan portfolio and increased fidelity of borrower data and led to an unmodified audit opinion on the Department's Balance Sheet for the first time in four years.

This AFR demonstrates FSA's commitment to transparency and responsible stewardship of the federal resources entrusted to us. Looking ahead, FSA will continue implementing the provisions of the *One Big Beautiful Bill Act* while maintaining a clear focus on accountability, operational excellence, and delivering results for students, parents, borrowers, institutions of higher education, and our financial aid partners.

A handwritten signature in black ink, appearing to read "Richard J. Lucas". The signature is fluid and cursive, with the first name "Richard" and last name "Lucas" clearly distinguishable.

Richard Lucas  
*Acting Chief Operating Officer*  
*Federal Student Aid*  
*United States Department of Education*  
January 22, 2026

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# MANAGEMENT'S DISCUSSION & ANALYSIS

## About the Department

### ***Our Mission***

**The U.S. Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.**

### **Who We Are.**

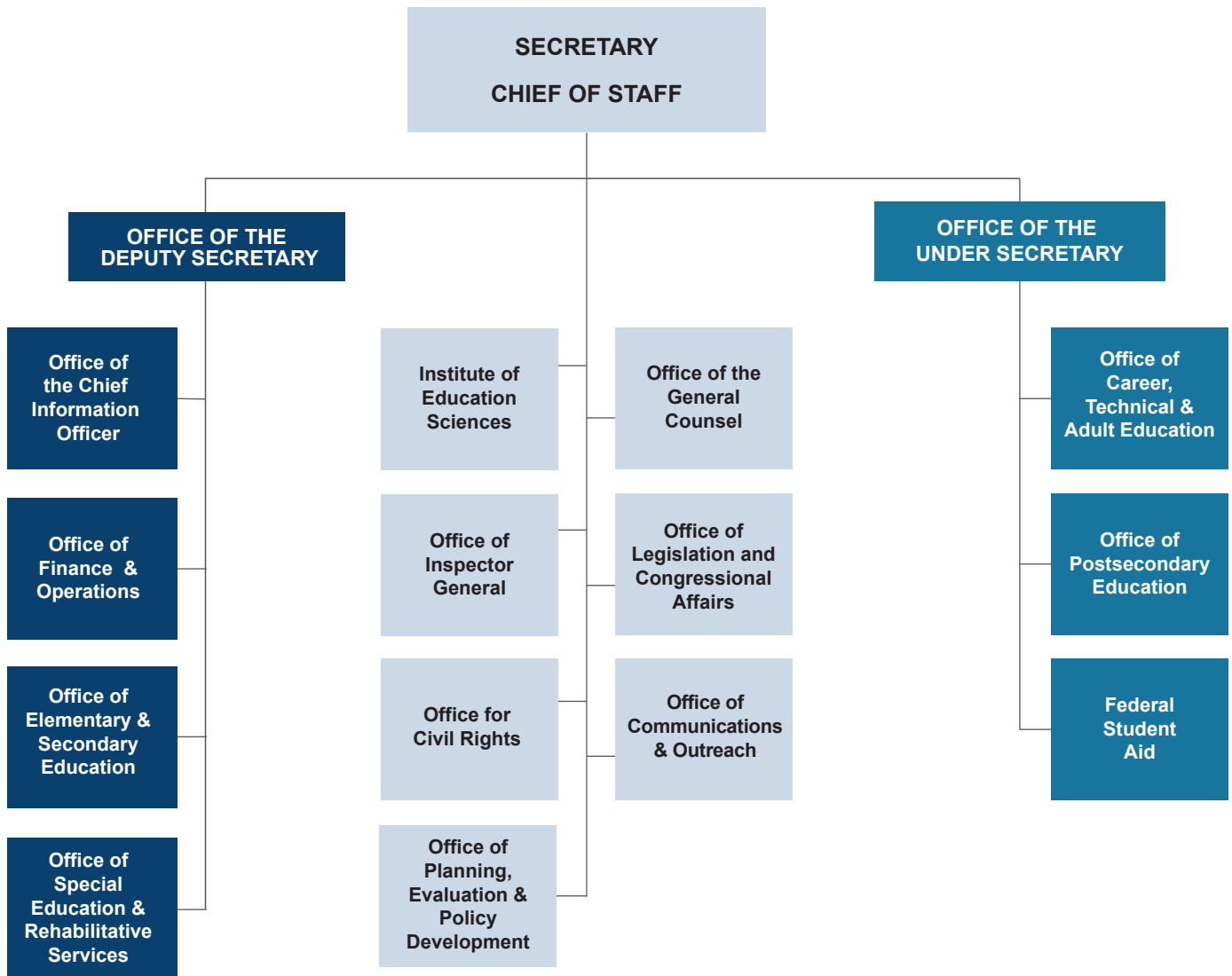
The U.S. Department of Education is a 45-year experiment that began in 1980 when Congress and President Jimmy Carter elevated a federal education office into a Cabinet-level department intended to collect and report statistical data and to coordinate federal support for schools, funds, and student aid. Early federal involvement was well-intentioned but over time the centralized agency diluted state and local control, with outcomes that have failed to meaningfully improve student achievement despite increased taxpayer spending.

### **Returning Education to the States**

Making meaningful change to the status quo in education requires breaking up the education bureaucracy in Washington, D.C. The Department is partnering with better positioned federal agencies to manage federal education programs while continuing the critical funding and support for K-12 education, students with disabilities, and postsecondary programs. By returning education authority to states, empowering parents, streamlining or eliminating ineffective federal functions, and refocusing the federal role on its core responsibilities, the Department will reduce unnecessary federal bureaucracy in local education. This approach will improve student outcomes, foster innovation, and develop a workforce prepared to compete in the global economy—ensuring that all U.S. students have equal access and equal opportunity to succeed. <https://www.ed.gov/about/initiatives/returning-education-states>



# U.S. Department of Education Coordinating Structure



## DEPARTMENT WIDE KEY PERFORMANCE RESULTS

Typically, in accordance with the *GPRA Modernization Act of 2010*, the Department's overall framework for performance management begins with a focus on its Strategic Plan. Such plans provide a basis and foundation for establishing and implementing priorities, highlighting performance goals and strategic objectives, and developing and using targets, metrics, and other performance indicators to gauge progress and outcomes.

The 2024 election of President Donald J. Trump, and his subsequent 2025 inauguration, signaled a mandate for a bold, new vision for the Department. As such, the Department pivoted from its prior FY 2022-2026 Strategic Plan and adopted the President's stated intention to close the Department and to cede its functions to the states as its new strategic plan. Secretary of Education Linda E. McMahon expanded on that strategy, articulating that the current Department staff and resources would be deployed to meet the "final mission". The President also issued executive orders, and presidential actions, that provided further instruction and guidance regarding how to reshape the federal government and, specifically, the Department. The Department has executed the requirements contained in the executive orders and continues to invest in enhancing and improving the quality of education throughout the nation. The Department continues to pursue and maintain a substantive performance management program that maintains the classic principles of aligning programmatic policy, fiscal and operational resources, budgetary planning and execution, and workforce planning and structuring to provide data and accountability to support management intention and decision support for the Department's strategic goals, priorities, and plans.

Of the 207 executive actions President Trump signed as of the end of the fiscal year (September 30, 2025), and the additional 52 presidential actions published for the same period, many of these have laid the foundation to help reposition and realign the Department's policies and core work, to accomplish the stated and primary goal of shifting resources and responsibilities to the states for ultimate and direct control and management of the nation's education system.

The table at the end of this section highlights selected executive orders that directly or indirectly impacted the Department's performance for FY 2025, and that will continue to guide the Department's work and operations throughout the remainder of the President's term in office. The following sections will provide examples of FY 2025 performance accomplishments and results that align directly to specific executive orders referred to earlier.

In support of Executive Order Number 14242, signed March 20, 2025, Improving Education Outcomes by Empowering Parents, States, and Communities the Department stood up partnerships with the Department of Labor (DOL), the Department of the Interior (DOI), the Department of State (DOS), and the Department of Health and Human Services (HHS), through seven (7) interagency agreements (IAAs) "to break up the federal education bureaucracy, ensure efficient delivery of funded programs, activities, and move closer to fulfilling the President's promise to return education to the states." These partnerships will impact the Departments core programmatic work and operations support for K-12 (elementary and secondary) education, postsecondary education (including workforce and career technical education), Indian education, childcare access, foreign medical education and accreditation, and international education and foreign language studies. These partnerships and related activities, when fully implemented, will

also support the Department's initial workforce development partnership with DOL that transitioned the Department's Office of Career, Technical, and Adult Education to the agency, as well as executing the directives contained in Executive Order Number 14278, signed on April 23, 2025, Preparing Americans for High-Paying Skilled Trade Jobs of the Future

In support of the Department's initiatives and strategic mission to reimagine and reorient education throughout the nation, Secretary McMahon fulfilled her goal and promise of initiating a tour of the 50 States to meet with parents, students, communities and other stakeholders to invite feedback and innovative ideas regarding the improvement of education outcomes in the states and across the nation. Now termed the "Returning Education to the States Tour," the Secretary has visited 24 of the 50 states and used these visits—to preschools, elementary, secondary, and postsecondary schools, communities, vocational schools, and with parents and state leaders—as a first-hand source of information and data to inform how she executes and implements the President's vision for the future of education in America. This tour also supported the implementation of the President's Executive Order Number 14242, signed March 20, 2025, Improving Education Outcomes by Empowering Parents, States, and Communities. The Department provides information on the Secretary's tour, information she has learned from local communities and leaders, and updates on what is to come at <https://www.ed.gov/about/initiatives/returning-education-states-tour>. (<https://www.whitehouse.gov/presidential-actions/2025/03/improving-education-outcomes-by-empowering-parents-states-and-communities/>) The tour also, in part, serves as facilitation and implementation of Executive Order Number 14190, signed on January 29, 2025, Ending Radical Indoctrination in K-12 Schooling.

Expanding school choice options was a foundational pillar and primary goal of the first Trump Administration, and continues to be a staple of the President's second term agenda and strategy. Accordingly, the Department and its Office of Elementary and Secondary Education (OESE) took unprecedented action during FY 2025 to increase investment in these programs, enhance awareness, and provide significant options for implementation and success of educational choice programs. In support of education choice and alternative options focused on the needs of students and their families, the Department has made significant investments in charter school education through the release of \$500 million in grant awards for the Charter Schools Programs (<https://www.ed.gov/about/news/press-release/us-department-of-education-announces-release-of-record-500-million-charter-schools-programs>). This action was further enhanced by the removal of certain previous restrictions and requirements that mandated the Secretary's review of how states approve select entities' (e.g., private colleges and universities) authorization of charter schools in states where they are already lawful authorizers. The Department undertook this action to assist in returning educational authority to the states, reduce burdensome red tape, and expand school choice options in support of President Trump's Executive Order Number 14191, signed January 29, 2025, Expanding Educational Freedom and Opportunity for Families (<https://www.whitehouse.gov/presidential-actions/2025/01/expanding-educational-freedom-and-opportunity-for-families/>). Secretary McMahon has emphasized the availability, and the need, for State Education Chiefs to increase flexibility in their use of Title I fund allocations. The Department has clarified to states that they may use up to 3 percent of the Title I funding to support local education agency funding for use in direct student services, including services such as advanced courses, dual enrollment, academic tutoring, career and technical education, personalized learning, and out-of-school activities. See more on this, including the

Secretary's March 31, 2025, letter to the State Education Chiefs at <https://www.ed.gov/about/news/press-release/department-of-education-encourages-states-expand-education-choice-leveraging-flexibilities-title-i-funds>.

The Department is also committed to increasing safety in schools across the country, and providing insight and awareness to parents and families about the quality of schools that their children may attend. In that vein, the Department issued guidance regarding the unsafe school choice option. Not only does this enhance the ability of students and families to make critical and necessary choices about their educational paths, but it also increases the safety of students across the nation and holds schools accountable when they are not upholding their duty to keep their students and campus safe. The Department continues to ensure that options in school choice are equitable—providing guidance for improving academic achievement and equitable services for private school students and encouraging local educational innovation and autonomy. The Department has emphasized the availability of Ed-Flex Act authority, which allows the waiver of certain federal requirements that apply to schools and districts without additional burden of submission to and approval by the Department.

These efforts are also tangentially relevant to the President's interest in expanding and protecting religious liberty. The Department may implement this interest through enhanced or increased school choice options, particularly in conjunction with private, non-public schools, or entities with strong capabilities to deliver superior educational content that may not have been afforded an opportunity to participate in federal educational programs or funds due to legal restrictions based on their religious affiliations. The Department's efforts to strengthen school choice for states and local communities supported the President's goal to broaden access and options in school choice, as outlined in Executive Order Number 14291, signed May 1, 2025, Establishment of the Religious Liberty Commission, and the earlier Executive Order Number 14202, signed February 6, 2025, Eradicating Anti-Christian Bias.

The President's quest for greater accountability and stewardship of resources is broad but intentional, highlighting themes that support and are embedded in the Department's FY 2025 strategic plan. The Department leveraged its Office for Civil Rights (OCR) and Office of Postsecondary Education (OPE) to take action to review its portfolio of unresolved complaints to address and eradicate pervasive antisemitic actions and attitudes across college and university campuses. The Department has sought both to hold institutions and their leaders accountable under both civil and criminal authorities so that they must take steps to ensure that campus environments are safe from physical violence, harassment, and all other practices of maltreatment that may exist, in accordance with Executive Order Number 14188, signed January 29, 2025, Additional Measures to Combat Anti-Semitism.

In implementing the provisions of Executive Order Number 14151, signed January 20, 2025, Ending Radical and Wasteful Government DEI Programs and Preferences and also Executive Order Number 14281, signed April 23, 2025, Restoring Equality of Opportunity and Meritocracy (<https://www.whitehouse.gov/presidential-actions/2025/04/restoring-equality-of-opportunity-and-meritocracy/>), the Department ordered the elimination of diversity, equity, inclusion, and accessibility (DEI/DEIA) across the Department, removing the concept, wording, and applications of these concepts or requirements in roles, employment (positions), hiring practices, grant programs, contracts, and any facet of existence deemed to be other than merit-based, colorblind, equality and efficiency. The Department's efforts, in execution, included

reviews of existing and planned grant awards, existing contracts and planned contractual actions, and in many cases resulted in terminations or non-continuations in the case of grant awards; or descopeing or cancellations of contractual funding sources, for numerous institutions of higher education, as well as contract vendors of products and services. This effort also linked to contract efficiency and optimization reviews, led by the Department of Government Efficiency (DOGE), as directed by Executive Order Number 14210 signed February 26, 2025, Implementing the President's "Department of Government Efficiency" Cost Efficiency Initiative. Also completed were merit reviews and hiring freezes in accordance with the following Executive Orders, Number 14170 signed January 20, 2025 Reforming the Federal Hiring Process and Restoring Merit to Government Service; Executive Order Number 14173, signed January 21, 2025, Ending Illegal Discrimination and Restoring Merit-Based Opportunity.

The Department also reaffirmed the fundamental and incontrovertible reality that there are two sexes, male and female, and its approval of programmatic funding and related requirements must consistently reflect the same. The Department and its OCR also reestablished the interpretation of the Title IX regulations (Title IX of the Education Amendments Act of 1972), no longer allowing funding for programs or activities that allow transgender women (biological males) to participate in women's athletics, in colleges and universities receiving federal funding or resources, or subject to federal oversight of such programs (<https://www.ed.gov/media/document/title-ix-enforcement-directive-dcl-109477.pdf>; <https://www.ed.gov/sites/ed/files/2024-09/01194025-a2.pdf>). This is consistent with the President's Executive Order Number 14168, signed January 20, 2025, Defending Women From Gender Ideology Extremism and Restoring Biological Truth to the Federal Government (<https://www.whitehouse.gov/presidential-actions/2025/01/defending-women-from-gender-ideology-extremism-and-restoring-biological-truth-to-the-federal-government/>).

Another example and significant portfolio of the Department's core work and performance in FY 2025 was in its stewardship of the Individuals with Disabilities Education Act, signed by President Gerald Ford. This legislation turned 50 years old in 2025 and was widely heralded during FY 2025, noting its continued relevance and importance to the disability education community. Since inception, the number of students with disabilities served by the Office of Special Education and Rehabilitations Services (OSERS) and its signature entities (the Office of Special Education Programs (OSEP) and the Rehabilitation Services Administration (RSA) have increased. In FY 2025, the OSEP funding across its formula and discretionary grants programs was approximately \$15.3 billion, and the RSA funding for its formula and discretionary grants programs was approximately \$4.3 billion. These programs continue to be some of the most utilized and efficiently administered programs in the Department. The 50<sup>th</sup> year anniversary of this notable and critical legislation was a source of pride and celebration for the Department this year, and more facts regarding it can be found in the following link: <https://sites.ed.gov/idea/osep-fast-facts-50-years-of-idea/>.

The Secretary also established and published her key priorities for this term during FY 2025. Those are traditionally referred to as the "Secretary's Supplemental Priorities" and are used, often in tandem with other identified absolute priorities, in the competitive, discretionary grantmaking process. The supplemental priorities are tools that allow the Administration to align discretionary grant program competitions with its priorities. These priorities are announced in a Notice of Proposed Priorities (NPP), as well as the general announcements about discretionary grant program awards opportunities, in a Notice Inviting Application (NIA), regarding applying for programs with open grant

competitions. Department program officers and others involved in the peer review process for competitive grants then consider and evaluate whether, and to what extent, prospective applications address the selection criteria and supplemental priorities included in the application requirements.

The **Secretary's Supplemental Priorities** to guide the Department's grantmaking now include:

- ***Evidence-Based Literacy*** – promotes proven methods of literacy instruction, such as the science of reading, to bolster student performance;
- ***Expanding Education Choice*** – expands access to education choice across all applicable discretionary grant competitions;
- ***Returning Education to the States*** – enables the Department to prioritize state applicants in competitions where they qualify as eligible entities or applicants can endorse other types of entities;
- ***Advancing Artificial Intelligence (AI) in Education*** – encourages the responsible use of AI technologies to enhance classroom efficiency, reduce administrative burdens, and improve teacher training and evaluation;
- ***Prioritizing Patriotic Education*** – promotes civic education that teaches American history and America's founding principles in a way that is accurate, honest, and inspiring;
- ***Meaningful Learning*** – focuses on strengthening core instruction in mathematics, expanding access to high-quality instructional materials, promoting effective interventions and supports, creating strategic staffing models, implementing new school day schedules, expanding access to high-impact tutoring, supporting career-connected learning, and advancing innovative assessment models; and
- ***Career Pathways and Workforce Readiness*** – supports projects that align with workforce development programs with state priorities, encourage state efforts to identify industry-recognized credentials, build the skilled trades, promote industry-led sector partnerships, increase work-based learning opportunities, expand pre-apprenticeships, and foster the development of talent marketplaces.

In support of the Secretary's priority on making literacy investments, during FY 2025, OESE aggressively pushed to expand resources and investments in evidence-based literacy grant awards from its Education Innovation and Research program. The team plans to invest \$167 million in grant awards to state education agencies to support proven approaches and accelerate the adoption of evidence-based literacy practices that deliver meaningful improvements in student outcomes.

Under the Secretary's priority on AI literacy, the Department seeks to actively shape and develop roles for AI in schools across the nation. During FY 2025, the Department also issued guidance explaining allowable uses of federal funds for relevant AI activities, like developing AI tools for tutoring and crafting new instructional materials. The Department also addressed risk management with AI, releasing guidance and toolkits emphasizing balancing its benefits, with risks such as cyberbullying, data privacy, and bias, requiring more vigilance and protection of civil rights. This priority is also important for promoting AI literacy for education and expanding access to AI-powered tools for personalized learning and college and career exploration and development. All these efforts support the



President's Executive Orders on AI, including:

- Executive Order Number 14179, signed January 23, 2025, Removing Barriers to American Leadership in Artificial Intelligence
- Executive Order Number 14277, signed April 23, 2025, Advancing Artificial Intelligence Education for American Youth
- Executive Order Number 14319, signed July 23, 2025, Preventing Woke AI in the Federal Government

Supporting the President's and the Secretary's priorities related to patriotic education, especially considering the upcoming 250th anniversary of the nation's founding and adoption of our U.S. Constitution, the Secretary announced in FY 2025 the creation of the "America 250 Civics Education Coalition", a coalition comprised of over 40 national and state organizations, focused on uplifting national history and American values and principles, and high-quality civics education and instruction. A Department press release states, "[w]ith oversight from U.S. Secretary of Education Linda McMahon and the Department, the AFPI-led coalition will spearhead nationwide initiatives to engage students, educators, and communities in conversations about liberty, citizenship, and America's enduring values." She also created another touring initiative, called "History Rocks!" as a vehicle to feature hands-on learning activities, opportunities for students to explore their roles as future leaders, and conversations with community members about how to strengthen civic education nationwide. <https://www.ed.gov/about/news/press-release/us-secretary-of-education-linda-mcmahon-kick-national-history-rocks-tour> <https://www.ed.gov/about/news/press-release/us-department-of-education-afpi-tpusa-hillsdale-college-and-over-40-national-and-state-organizations-launch-america-250-civics-coalition>

In FY 2025, the Department also announced \$153 million in new grant awards through the American History and Civics Seminars Programs. These grants are largely awarded to institutions of higher education with independent civics centers and non-profit organizations focused on American History and civics education. Additionally, these grants will fund Seminars for America's Semiquincentennial, and Civics Literacy Initiatives.

Along with supporting the Secretary's Supplemental Priorities, these efforts also support and help to execute the President's following Executive Orders:

- Executive Order Number 14189, signed January 29, 2025, Celebrating America's 250<sup>th</sup> Birthday
- Executive Order Number 14253, signed March 27, 2025, Restoring Truth and Sanity to American History

Rounding out the highlights regarding the America 250 initiative is the Presidential 1776 Award, a national student competition recognizing excellence in American founding history. Open to high schoolers, it includes a first round online exam, regional semifinals, and a nationally broadcast final "Civics Bee" in Washington, D.C. Winners receive scholarships up to \$150,000, celebrating knowledge of the Founders, Constitution, and Revolutionary War. <https://www.presidential1776award.org/>

The President issued Executive Order Number 14279, signed April 23, 2025, *Reforming Accreditation to Strengthen Higher Education*, directing the Secretary to overhaul the

accreditation system. Namely, this order bars accreditors from using diversity mandates and requires them to include measures of “intellectual diversity” and student outcomes such as program-level student outcome data instead, forbidding any reference to race, ethnicity, or sex. Examples of that outcome data would include graduation rates, postgraduate earnings, etc. Finally, this effort effectively increases federal oversight of the accreditation process, with the Department having more and broader authority to deny, suspend, or terminate the federal recognition of accrediting agencies that fail to comply with these new standards.

In May 2025, the Department issued guidance (through Dear Colleague Letter GEN-25-03) to streamline the process for colleges and universities to switch accreditors. The intent of this decision was to help institutions to not be subjected to more progressive oversight and to allow them to align with accreditors that match their values. The Administration also lifted a moratorium on reviewing new accrediting agencies to foster a more competitive “marketplace”, with hopes that new alternative accrediting agencies.

In spring 2025, the Department began a workforce restructuring effort as a part of its strategy to reduce the federal bureaucracy and prepare for a return of functions and activities to the states, as outlined by both the President in executive orders and the Secretary in the supplemental priorities. Using workforce reshaping tools such as reductions in force, deferred resignations, and retirements to reduce and “right size” the staffing and overall workforce for the main of goal of the Department’s eventual closure, staffing levels were cut nearly in half from the numbers that existed at the start of the Administration. While this caused some temporary disruption to the administrative state, the Department was able to solidify its infrastructure, internal controls, and expertise—sufficiently to begin efforts to consolidate and centralize those operational activities to ensure functional integrity. The Department also leveraged its remaining and experienced professionals to identify new innovations that helped to streamline the core work and created some new efficiencies and useful improvements too.

The Institute of Education Sciences was significantly reduced and restructured as a part of these efforts as well, including staff reductions and ending several long-term contracts supporting the work and many longitudinal studies as had existed, previously. The Secretary has since signaled new approaches and priorities to move toward a national research entity that is more efficient but may be less centralized within the Department.

In March 2025, the President signed an executive order directing elimination of paper financial transactions (Executive Order 14247—Modernizing Payments to and From America’s Bank Account). The Department quickly established internal working groups, engaged with Treasury and other external partners, implemented tracking tools to keep leaders informed of key activities, and took all necessary actions to establish a robust foundation in support of implementation. These efforts resulted in the Department meeting every due date for project deliverables in FY 2025 and set the groundwork for accomplishment of all expected actions in FY 2026.

In June 2025, the Department announced intentions to launch a nationwide effort to eliminate identity theft and fraud in the federal student aid programs for the fall 2025 semester to protect taxpayers while significantly reducing the administrative burden on colleges and universities. The Department implemented enhanced fraud controls governing how institutions of higher education distribute financial assistance, including mandatory identity verification for certain first-time student applicants. As a result, the

Department took measures resulting in prevention of \$1 billion in federal student aid fraud since January 2025. Closing identify theft loopholes and vulnerabilities prevented fraud related to the *Free Application for Federal Student Aid*® (FAFSA®), payments to deceased borrowers and disbursements to fake students initiated by sophisticated fraud rings.

This FY 2025 Agency Financial Report combines the performance presentation for the MD&A reporting for both the Department overall, and its largest component (and performance-based organization), Federal Student Aid (FSA). As the largest principal office of the Department and the main contributor to the balance sheet, FSA was heavily involved in the Department's response to meeting the final mission and incorporating executive orders across FY 2025. As such, more will follow under the program analysis section of the MD&A related to FSA's performance during FY 2025, and how it responded to the President's Executive Orders as well, especially regarding its efforts and activities supporting Executive Order Number 14235, signed March 7, 2025, Restoring Public Service Loan Forgiveness, and other Presidential directives related to program changes and management of the FSA federal student loan portfolio.

In June 2025, the White House issued Directive M25-30 (Ensuring Accountability: How We Oversee, Audit, and Improve) to refocus federal financial accountability, addressing declining audit quality (more qualified/disclaimer opinions) by streamlining reporting into a single-year format and emphasizing risk-based oversight, particularly for high-impact areas aiming for a clean audit by 2028. In response to this in FY 2025, the Department established the Financial Audit Remediation Tiger Team. The cross-function team, comprised of systems, data, loan servicing, and finance teams from both the Department and FSA, established and executed a repeatable data comparison process to either validate the data or identify, refer, and remediate using other data sources any discrepancies identified between National Student Loan Data System (NSLDS®) and the non-default loan servicing systems that provide inputs to the Loan Receivable Subsidy Estimate student loan model (SLM). This process allowed FSA to assert to materially accurate data inputs for the Loan Receivable Subsidy Estimate, which paves the way for improved confidence in data quality and significant progress toward obtaining a favorable audit opinion in the near term.

Furthermore, FSA is focused on refining internal processes and leveraging data analytics to identify inefficiencies across the process and throughout the system infrastructure to automate the borrower experience and reduce the expense of FSA and the taxpayers in managing the outstanding portfolio. For example, in FY 2025, FSA directly communicated with borrowers resuming loan payments after a multi-year pause, successfully encouraging behavior that led to successful repayment. Including, clear and concise messaging to borrowers strongly contributed to an overall increase in the number of borrowers leveraging auto-debit in FY 2025 (6.4% growth year over year). As stewards of the taxpayer dollar, in support of **Executive Order 14247**, "Modernizing Payments To and From America's Bank Account," FSA will take steps to eliminate paper payments and disbursements, reducing opportunities for fraud while improving outcomes for students and borrowers.

### President Trump's 2025 Executive Orders and Presidential Actions

This document provides an overview of selected Executive Orders and Presidential Actions issued by President Trump in 2025 with bearing on the Department of Education's FY 2025 strategic plans and performance. The table below includes the date, index or number, action type, title, and official source link for reference.

Date	Executive Order Number	Action Type	Title	PDF URL
1/20/2025	14151	Executive Order	Ending Radical and Wasteful Government DEI Programs and Preferencing	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-01953.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-01953.pdf</a>
1/20/2025	14158	Executive Order	Establishing and Implementing the President's "Department of Government Efficiency"	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02005.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02005.pdf</a>
1/20/2025	14159	Executive Order	Protecting the American People Against Invasion	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02006.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02006.pdf</a>
1/20/2025	14160	Executive Order	Protecting the Meaning and Value of American Citizenship	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02007.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-29/pdf/2025-02007.pdf</a>
1/20/2025	14168	Executive Order	Defending Women From Gender Ideology Extremism and Restoring Biological Truth to the Federal Government	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-30/pdf/2025-02090.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-30/pdf/2025-02090.pdf</a>
1/20/2025	14170	Executive Order	Reforming the Federal Hiring Process and Restoring Merit to Government Service	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-30/pdf/2025-02094.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-30/pdf/2025-02094.pdf</a>
1/20/2025	14171	Executive Order	Restoring Accountability to Policy-Influencing Positions Within the Federal Workforce	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02095.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02095.pdf</a>
1/21/2025	14173	Executive Order	Ending Illegal Discrimination and Restoring Merit-Based Opportunity	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02097.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02097.pdf</a>
1/21/2025	14174	Executive Order	Revocation of Certain Executive Orders	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02098.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02098.pdf</a>
1/23/2025	14178	Executive Order	Strengthening American Leadership in Digital Financial Technology	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02123.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02123.pdf</a>
1/23/2025	14179	Executive Order	Removing Barriers to American Leadership in Artificial Intelligence	<a href="https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02172.pdf">https://www.govinfo.gov/content/pkg/FR-2025-01-31/pdf/2025-02172.pdf</a>
1/29/2025	14188	Executive Order	Additional Measures To Combat Anti-Semitism	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02230.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02230.pdf</a>
1/29/2025	14189	Executive Order	Celebrating America's 250th Birthday	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02231.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02231.pdf</a>
1/29/2025	14190	Executive Order	Ending Radical Indoctrination in K-12 Schooling	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02232.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02232.pdf</a>
1/29/2025	14191	Executive Order	Expanding Educational Freedom and Opportunity for Families	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02233.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-03/pdf/2025-02233.pdf</a>

Date	Executive Order Number	Action Type	Title	PDF URL
1/31/2025	14192	Executive Order	Unleashing Prosperity Through Deregulation	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-06/pdf/2025-02345.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-06/pdf/2025-02345.pdf</a>
2/5/2025	14201	Executive Order	Keeping Men Out of Women's Sports	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-11/pdf/2025-02513.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-11/pdf/2025-02513.pdf</a>
2/6/2025	14202	Executive Order	Eradicating Anti-Christian Bias	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-12/pdf/2025-02611.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-12/pdf/2025-02611.pdf</a>
2/11/2025	14210	Executive Order	Implementing the President's "Department of Government Efficiency" Workforce Optimization Initiative	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-14/pdf/2025-02762.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-14/pdf/2025-02762.pdf</a>
2/14/2025	14214	Executive Order	Keeping Education Accessible and Ending COVID-19 Vaccine Mandates in Schools	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-20/pdf/2025-02931.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-20/pdf/2025-02931.pdf</a>
2/18/2025	14215	Executive Order	Ensuring Accountability for All Agencies	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-24/pdf/2025-03063.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-24/pdf/2025-03063.pdf</a>
2/19/2025	14217	Executive Order	Commencing the Reduction of the Federal Bureaucracy	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-25/pdf/2025-03133.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-25/pdf/2025-03133.pdf</a>
2/19/2025	14219	Executive Order	Ensuring Lawful Governance and Implementing the President's "Department of Government Efficiency" Deregulatory Initiative	<a href="https://www.govinfo.gov/content/pkg/FR-2025-02-25/pdf/2025-03138.pdf">https://www.govinfo.gov/content/pkg/FR-2025-02-25/pdf/2025-03138.pdf</a>
2/26/2025	14222	Executive Order	Implementing the President's "Department of Government Efficiency" Cost Efficiency Initiative	<a href="https://www.govinfo.gov/content/pkg/FR-2025-03-03/pdf/2025-03527.pdf">https://www.govinfo.gov/content/pkg/FR-2025-03-03/pdf/2025-03527.pdf</a>
3/1/2025	14224	Executive Order	Designating English as the Official Language of the United States	<a href="https://www.govinfo.gov/content/pkg/FR-2025-03-06/pdf/2025-03694.pdf">https://www.govinfo.gov/content/pkg/FR-2025-03-06/pdf/2025-03694.pdf</a>
3/7/2025	14235	Executive Order	Restoring Public Service Loan Forgiveness	<a href="https://www.govinfo.gov/content/pkg/FR-2025-03-12/pdf/2025-04103.pdf">https://www.govinfo.gov/content/pkg/FR-2025-03-12/pdf/2025-04103.pdf</a>
3/14/2025	14238	Executive Order	Continuing the Reduction of the Federal Bureaucracy	<a href="https://www.govinfo.gov/content/pkg/FR-2025-03-20/pdf/2025-04868.pdf">https://www.govinfo.gov/content/pkg/FR-2025-03-20/pdf/2025-04868.pdf</a>
3/20/2025	14240	Executive Order	Eliminating Waste and Saving Taxpayer Dollars by Consolidating Procurement	<a href="https://www.govinfo.gov/content/pkg/FR-2025-03-25/pdf/2025-05197.pdf">https://www.govinfo.gov/content/pkg/FR-2025-03-25/pdf/2025-05197.pdf</a>
3/20/2025	14242	Executive Order	Improving Education Outcomes by Empowering Parents, States, and Communities	<a href="https://www.govinfo.gov/content/pkg/FR-2025-03-25/pdf/2025-05213.pdf">https://www.govinfo.gov/content/pkg/FR-2025-03-25/pdf/2025-05213.pdf</a>
3/20/2025	14243	Executive Order	Stopping Waste, Fraud, and Abuse by Eliminating Information Silos	<a href="https://www.govinfo.gov/content/pkg/FR-2025-03-25/pdf/2025-05214.pdf">https://www.govinfo.gov/content/pkg/FR-2025-03-25/pdf/2025-05214.pdf</a>
3/25/2025	14247	Executive Order	Modernizing Payments To and From America's Bank Account	<a href="https://www.govinfo.gov/content/pkg/FR-2025-03-28/pdf/2025-05522.pdf">https://www.govinfo.gov/content/pkg/FR-2025-03-28/pdf/2025-05522.pdf</a>
3/25/2025	14249	Executive Order	Protecting America's Bank Account Against Fraud, Waste, and Abuse	<a href="https://www.govinfo.gov/content/pkg/FR-2025-03-28/pdf/2025-05524.pdf">https://www.govinfo.gov/content/pkg/FR-2025-03-28/pdf/2025-05524.pdf</a>
3/27/2025	14251	Executive Order	Exclusions From Federal Labor-Management Relations Programs	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-03/pdf/2025-05836.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-03/pdf/2025-05836.pdf</a>

Date	Executive Order Number	Action Type	Title	PDF URL
3/27/2025	14253	Executive Order	Restoring Truth and Sanity to American History	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-03/pdf/2025-05838.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-03/pdf/2025-05838.pdf</a>
4/15/2025	14271	Executive Order	Ensuring Commercial, Cost-Effective Solutions in Federal Contracts	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-18/pdf/2025-06835.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-18/pdf/2025-06835.pdf</a>
4/15/2025	14274	Executive Order	Restoring Common Sense to Federal Office Space Management	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-18/pdf/2025-06838.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-18/pdf/2025-06838.pdf</a>
4/15/2025	14275	Executive Order	Restoring Common Sense to Federal Procurement	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-18/pdf/2025-06839.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-18/pdf/2025-06839.pdf</a>
4/23/2025	14277	Executive Order	Advancing Artificial Intelligence Education for American Youth	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07368.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07368.pdf</a>
4/23/2025	14281	Executive Order	Restoring Equality of Opportunity and Meritocracy	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07378.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07378.pdf</a>
4/23/2025	14282	Executive Order	Transparency Regarding Foreign Influence at American Universities	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07379.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07379.pdf</a>
4/23/2025	14283	Executive Order	White House Initiative To Promote Excellence and Innovation at Historically Black Colleges and Universities	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07380.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07380.pdf</a>
4/23/2025	14279	Executive Order	Reforming Accreditation To Strengthen Higher Education	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07376.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07376.pdf</a>
4/23/2025	14280	Executive Order	Reinstating Commonsense School Discipline Policies	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07377.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-28/pdf/2025-07377.pdf</a>
4/24/2025	14284	Executive Order	Strengthening Probationary Periods in the Federal Service	<a href="https://www.govinfo.gov/content/pkg/FR-2025-04-29/pdf/2025-07469.pdf">https://www.govinfo.gov/content/pkg/FR-2025-04-29/pdf/2025-07469.pdf</a>
5/1/2025	14290	Executive Order	Ending Taxpayer Subsidization of Biased Media	<a href="https://www.govinfo.gov/content/pkg/FR-2025-05-07/pdf/2025-08133.pdf">https://www.govinfo.gov/content/pkg/FR-2025-05-07/pdf/2025-08133.pdf</a>
6/6/2025	14306	Executive Order	Sustaining Select Efforts To Strengthen the Nation's Cybersecurity and Amending Executive Order 13694 and Executive Order 14144	<a href="https://www.govinfo.gov/content/pkg/FR-2025-06-11/pdf/2025-10804.pdf">https://www.govinfo.gov/content/pkg/FR-2025-06-11/pdf/2025-10804.pdf</a>
7/17/2025	14317	Executive Order	Creating Schedule G in the Excepted Service	<a href="https://www.govinfo.gov/content/pkg/FR-2025-07-23/pdf/2025-13925.pdf">https://www.govinfo.gov/content/pkg/FR-2025-07-23/pdf/2025-13925.pdf</a>
7/23/2025	14319	Executive Order	Preventing Woke AI in the Federal Government	<a href="https://www.govinfo.gov/content/pkg/FR-2025-07-28/pdf/2025-14217.pdf">https://www.govinfo.gov/content/pkg/FR-2025-07-28/pdf/2025-14217.pdf</a>
7/24/2025	14322	Executive Order	Saving College Sports	<a href="https://www.govinfo.gov/content/pkg/FR-2025-07-29/pdf/2025-14392.pdf">https://www.govinfo.gov/content/pkg/FR-2025-07-29/pdf/2025-14392.pdf</a>
8/7/2025	14332	Executive Order	Improving Oversight of Federal Grantmaking	<a href="https://www.govinfo.gov/content/pkg/FR-2025-08-12/pdf/2025-15344.pdf">https://www.govinfo.gov/content/pkg/FR-2025-08-12/pdf/2025-15344.pdf</a>
8/28/2025	14343	Executive Order	Further Exclusions From the Federal Labor- Management Relations Program	<a href="https://www.govinfo.gov/content/pkg/FR-2025-09-03/pdf/2025-16924.pdf">https://www.govinfo.gov/content/pkg/FR-2025-09-03/pdf/2025-16924.pdf</a>
9/29/2025	14354	Executive Order	Continuance of Certain Federal Advisory Committees	<a href="https://www.govinfo.gov/content/pkg/FR-2025-10-06/pdf/2025-19485.pdf">https://www.govinfo.gov/content/pkg/FR-2025-10-06/pdf/2025-19485.pdf</a>



Since the Department has chosen to produce separate financial and performance reports, a detailed discussion of performance information for FY 2025 will be provided in the Department's FY 2025 Annual Performance Report (APR), which will include FSA performance data, along with its mandated PBO elements, and FY 2027 Annual Agency Performance Plan (APP). The FY 2025 APR and FY 2027 APP and the U.S. Department of Education Fiscal Years 2026-2030 Strategic Plan is to be released online at the same time as the President's FY 2026 Budget of the United States Government (President's Budget) in February 2026. For more information, prior-year performance reports can be found on the Department's website. The Department also urges readers to seek programmatic data as it is reported in the Congressional Budget Justification, as well as on the web pages of individual programs.

The Department's financial statements are prepared to report the financial position, financial condition, and results of operations, consistent with the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

## DEPARTMENT WIDE SIGNIFICANT OPPORTUNITIES AND RISKS

The Department's largest program, the William D. Ford Federal Direct Loan (Direct Loan) Program, provides students and their families with funds to help pay for their postsecondary education costs. The following describes (1) the opportunities the Department has to make student debt more manageable and (2) the risks inherent in estimating the cost of the program.

### Managing Student Loan Debt

Each year, federal student loans help millions of Americans attend college or career school—an investment that, on average, has high returns. While the average return to obtaining a postsecondary credential remains high, many students leave school poorly equipped to manage their debt.

On July 4, 2025, the President signed the *One Big Beautiful Bill Act* (OBBBA) into law, which implemented sweeping changes to simplify the student loan repayment system, support short-term career focused programs that train workers for in-demand jobs, and hold colleges accountable by eliminating student loan eligibility for programs that leave students worse off than if they had never enrolled. Some of these changes were effective upon enactment, while others will go into effect in 2026 and over the course of the next three years. By the end of FY 2025, FSA had established a strong foundation for implementing the OBBBA. Through a clearly defined governance structure, rigorous policy analysis, early system deployments, and proactive vendor and stakeholder engagement, FSA has positioned itself to deliver on the provisions contained in OBBBA. These accomplishments reflect FSA's ability to translate complex legislation into coordinated operational action while continuing to serve millions of students, borrowers, and institutions nationwide.

The Department continues to work relentlessly to make student loan debt more manageable. Looking to the future, the Department will:

- Continue to conduct outreach efforts to inform student loan borrowers of their repayment options.
- Work to simplify the student loan repayment system by swiftly implementing the OBBBA.
- Continue to support the development of additional tools, such as updating the College Scorecard, the College Financing Plan, and the FAFSA lower earnings indicator, to increase transparency around higher education costs and outcomes that may help students and families make informed decisions before enrolling in postsecondary education.

As of September 30, 2025, there were 13.3 million borrowers with Department held loans (including Department serviced Federal Family Education Loan (FFEL) Program loans) in active repayment that were current on their loans, meaning zero to 30 days past due. This is about 4.2 million fewer borrowers than were current in February 2020, prior to the COVID-19 emergency, when 17.5 million borrowers had loans in repayment that were current.

### Managing Risks Facing the Direct Loan Program

Estimation of Federal credit programs involves inherent risk. Direct Loan Program costs are estimated consistent with the requirements of the *Federal Credit Reform Act of 1990*. Under the act, the future disbursements and collections associated with a cohort of loans are estimated for the entire life of the loan, up to 40 years in this case. The actual performance of a loan cohort tends to deviate from the estimated performance during that time, which is not unexpected in developing estimates. There are inherent risks to estimating future lifetime disbursements and collections for a cohort stemming from legislative, regulatory, or administrative actions. There are also risks related to certain economic factors such as the unemployment rate and wage growth. Finally, there is operational risk as unforeseen issues in administering and servicing student loans may impact the cost estimates.

The Department utilizes the best data available with modeling techniques that have been examined over time by several outside entities. Management has confidence over the estimates by using several different tools to analyze cost estimates. Re-estimates on the loan portfolio are performed twice a year ensuring that the most up to date data and models are used.

## Kindergarten through grade 12

Many of the Department's Kindergarten through grade 12 (K-12) programs involve awarding grants to state and local educational agencies. The Department manages and spends financial resources on programs designed to support parents, teachers, principals, school leadership, institutions, and states in the pursuit of instilling knowledge and transferring skills to students. The Department awards most of its K-12 funding on the basis of statutory formulas, while it awards other funds competitively. The majority of the Department's K-12 programs are administered by the Office of Elementary and Secondary Education, while a significant investment is administered by the Office of Special Education and Rehabilitative Services and a smaller portion by the Office of English Language Acquisition. Additionally, the Office of Career, Technical, and Adult Education administers Career and Technical Education programs, which often fund projects in secondary education. For additional resources on state performance reports and other information about K-12 education, see the **Department's web page on Elementary and Secondary Education**.

To ensure efficient delivery of funded programs and activities and move closer to fulfilling the President's promise to return education to the states, the Administration is entering into agreements with the Departments of Labor (DOL), DOI, DOS, and HHS. Most of the Department of Education's K-12 programs will see DOL take on a greater role, ensuring these activities are better aligned with workforce and college programs to set up students for success at every step of their education.

### SIGNIFICANT FINANCIAL POSITION RELATED TO K-12 PROGRAMS

Dollars in Millions		FY 2025
<b>Balance Sheet</b>		
Assets		
Fund Balance with Treasury	\$	48,636
Other Assets		(80)
Total Assets	\$	48,556
Liabilities		
Accrued Grant Liabilities	\$	956
Accounts Payable		270
Other Liabilities		105
Total Liabilities	\$	1,331
Net Position		
Unexpended Appropriations	\$	47,269
Cumulative Results of Operations		(44)
Total Net Position	\$	47,225
<b>Statement of Net Cost</b>		
Gross Program Costs	\$	62,759
Less Earned Revenue		(121)
Net Cost of Operations	\$	62,638

K-12 program assets primarily consist of grant funding that has not yet been disbursed to grantees, which is reflected in the \$48.6 billion net Fund Balance with Treasury shown in the table above. The net Fund Balance with Treasury for the Department's K-12 programs decreased by more than 25% during FY 2025, with a corresponding decrease in Unexpended Appropriations, largely as a result of the disbursement of grant funding that was provided to the Department in previous fiscal years. The net cost of operations for the Department's K-12 programs totaled \$62.6 billion during FY 2025, which was approximately 38% less than the prior year. The change was largely because K-12 program grants disbursed in recent fiscal years included funding that had been provided in COVID-19 relief appropriations.

## Federal Student Aid

As the nation's largest provider of federal student financial aid, Federal Student Aid (FSA) is responsible for implementing and managing federal student financial assistance programs authorized under the *Higher Education Act of 1965*, as amended (HEA). *Title IV* of the HEA specifically authorizes the federal student financial assistance programs for which FSA is responsible. These programs provide grants, loans, and work-study funds to students attending colleges or career and technical schools.

To execute Title IV programs, FSA is responsible for a range of functions across the student aid lifecycle, including:

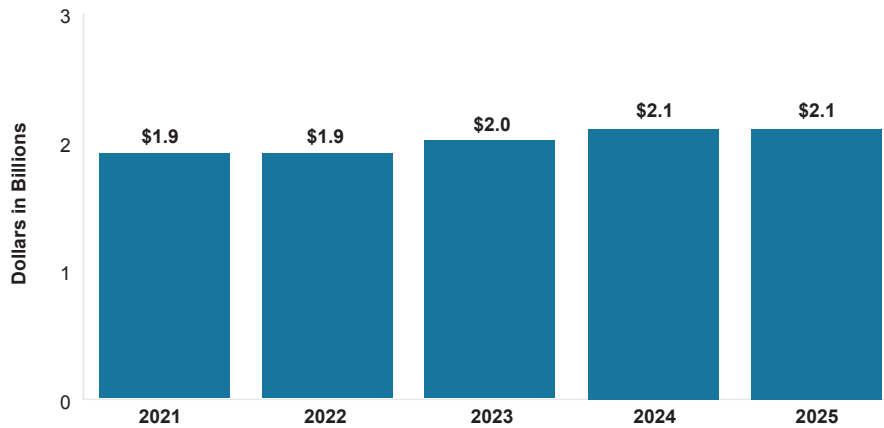
- informing students and families about the availability of the federal student aid programs and the process of applying for and receiving aid from those programs;
- developing the *Free Application for Federal Student Aid* (FAFSA) form and processing millions of FAFSA forms each year;
- accurately disbursing, reconciling, and accounting for billions of dollars of federal student aid funds delivered to students annually;
- managing the outstanding federal student loan portfolio and securing repayment from federal student loan borrowers;
- offering free assistance to students, parents, and borrowers throughout the entire financial aid process; and
- providing oversight and monitoring of all program participants—schools, financial entities, and students—to ensure compliance with the laws, regulations, and policies governing the federal student aid programs.

Designated as a PBO by Congress in 1998, FSA strives to deliver tangible results and efficient performance, as well as continuous improvement of the processes and systems that support its mission. The organization's responsibilities include coordinating and monitoring the activity of the large number of federal, state, nonprofit, and private entities involved in delivering federal student aid within the statutory framework established by Congress and regulatory framework established by the Department.

FSA currently operates under a functional organizational structure that aligns the key business areas with its strategic goals, business objectives, and vision. A Chief Operating Officer (COO), who is appointed by the Secretary of Education, leads FSA. FSA's Acting COO is Richard Lucas.

During FY 2025, FSA operated on an annual administrative budget of approximately \$2.1 billion. The headquarters for FSA is located in Washington, DC, with nine regional offices located throughout the country.

**Figure 1: FSA Administrative Budget  
FY 2021–2025**



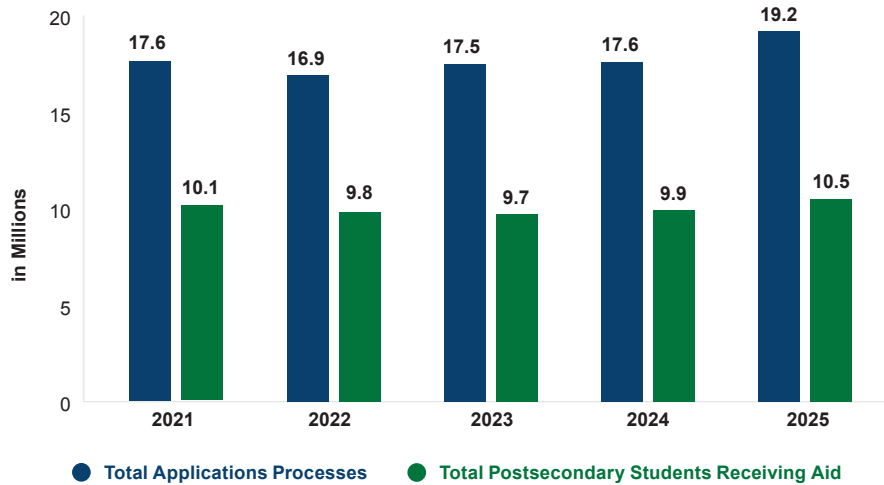
FSA delivers billions of dollars in financial aid annually to students through the Title IV programs of the HEA. These programs provide financial assistance, covering expenses such as tuition and fees, room and board, books and supplies, and transportation. Federal financial aid is mainly distributed to students through:

- Loans: Student aid funds that are borrowed to help pay for eligible education programs and must be repaid with interest,
- Grants: Student aid funds that do not have to be repaid, unless other conditions apply, and
- Work-Study: Part-time employment program that allows students enrolled in college to earn money to help pay for school.

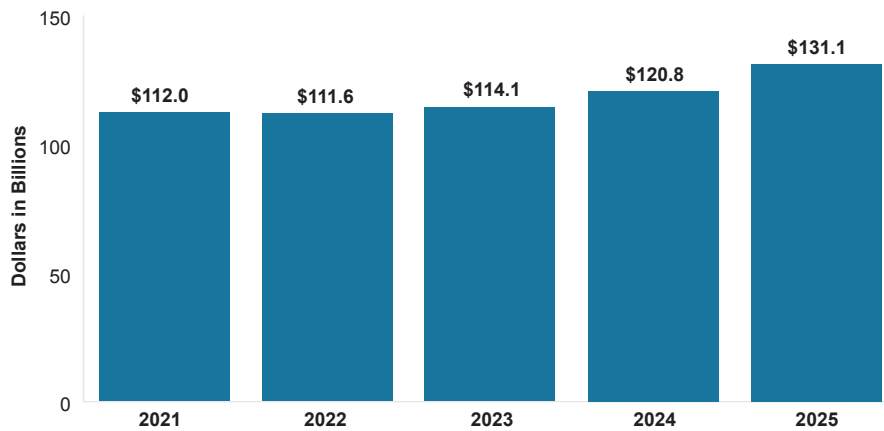
To obtain federal financial aid, prospective aid recipients must complete the FAFSA form. In FY 2025, FSA processed approximately 19.2 million FAFSA forms, resulting in the delivery of more than \$131.1 billion in Title IV aid to 10.5 million postsecondary students and their families. These students attended 5,280 active institutions of higher education that participate in federal student aid programs and which are accredited by agencies recognized by the Secretary.

In FY 2025, FSA made significant improvements in delivering and processing the FAFSA form. For example, beta testing was conducted in FY 2025 to ensure that critical issues and core functionality were in place before the FAFSA form was released for the 2026-27 school year. The revised FAFSA form became available in September 2025, the earliest it has been available in history, and takes only an estimated thirty minutes to complete.

**Figure 2: Total FAFSA Forms Processed and Total Students Receiving Aid FY 2021–2025**



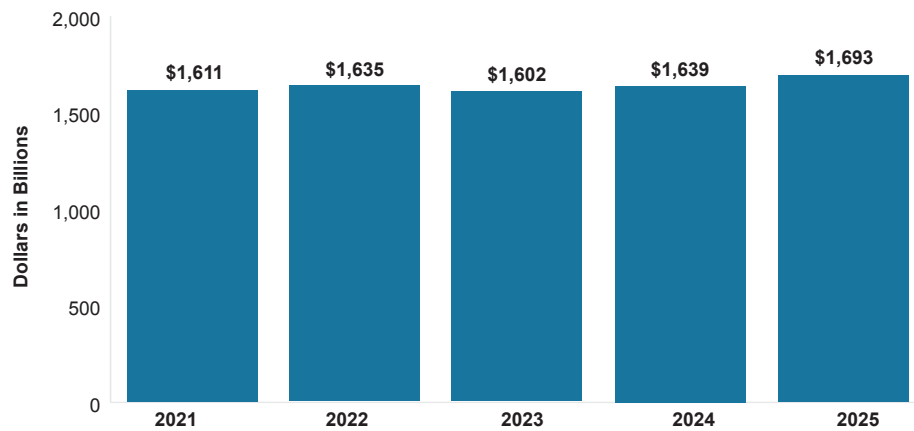
**Figure 3: Total Student Aid Delivered FY 2021–2025**





FSA currently manages directly or oversees a loan portfolio of approximately \$1.7 trillion.<sup>1</sup> The portfolio consists of approximately 218.9 million student loans made to more than 45 million borrowers. The various types of loan programs are described in the following section.

**Figure 4: Student Loan Portfolio<sup>2</sup>**  
**FY 2021–2025**



<sup>1</sup> Refers to the total FSA student loan portfolio.

<sup>2</sup> The amounts in Figure 4 include both lender-held FFEL loans and School-held Perkins loans. Amounts derived from the National Student Loan Data System (NSLDS®) database.

## Federal Student Aid Credit Programs

The Title IV programs of the HEA include both federal credit programs and federal non-credit programs. The federal credit programs primarily disburse student financial aid in the form of loans. As discussed previously, federal student loans are student aid funds that are borrowed and must be repaid. A summary discussion of each Title IV credit program is presented in the paragraphs after the table.

In its role of administering Title IV aid, FSA oversaw the disbursement of approximately \$89.1 billion in federal student loans to over 6.8 million recipients. The following section summarizes each loan program, including the aid disbursed in FY 2025.

### Summary of Federal Aid Disbursed to Students by Credit Program<sup>3</sup> (Dollars in Millions)

Programs	2025 Aid Disbursed to Students
<b>Federal Loan Programs</b>	
William D. Ford Federal Direct Loan Program	\$88,951.6
The Teacher Education Assistance for College and Higher Education Grant Program	103.0
Total Federal Credit Programs	\$89,054.6

The **William D. Ford Federal Direct Loan (Direct Loan) Program** lends funds directly to students and parents through participating schools. Created in 1993, the program is funded through borrowings from the U.S. Department of the Treasury (Treasury). Federal student loans are the largest component of financial aid.

The total disbursement displayed above is distributed across four different types of Direct Loans that are available for borrowers:

- **Direct Subsidized Loans:** Federal loans based on financial need made to undergraduate students for which the federal government generally does not charge interest while the borrower is in school or in a deferment status. While interest does begin accruing during the six month grace period, borrowers are not required to make payments during that time. When the borrower does begin making payments, all of the accrued interest must be satisfied before any payment will be applied to principal. Depending on actions taken by the borrower, the accrued interest could be capitalized into the outstanding principal.

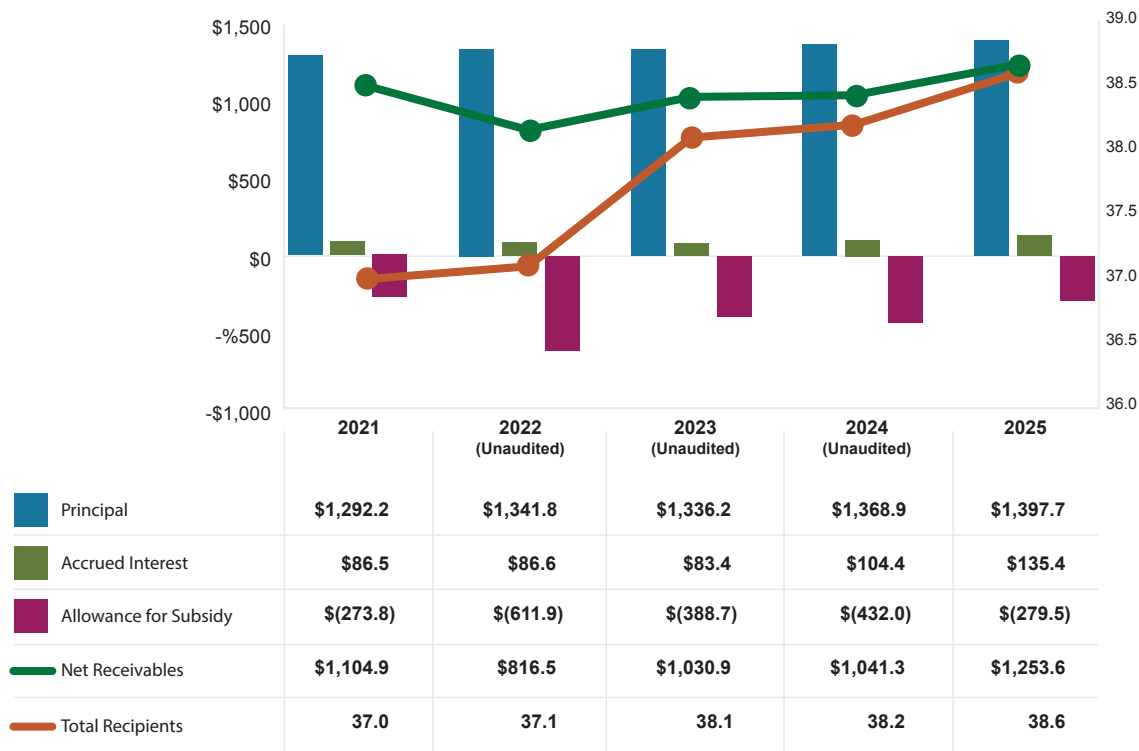
<sup>3</sup> Aid disbursed to students as cited in the table above, and in the following sections concerning the Federal Loan Programs, the Federal Grant Programs, and the Federal Work-Study Program in the Management's Discussion and Analysis are fiscal year amounts derived from amounts from FSA's and the Department's financial systems. The number of awards or recipients reported in the Management's Discussion and Analysis is derived from a variety of sources including FSA's Common Origination and Disbursement System and data used to support the President's Budget. Recipient counts are based on award year.

- **Direct Unsubsidized Loans:** Federal loans made to undergraduate students and graduate students for which the borrower is fully responsible for paying the interest regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement and continues throughout the life of the loan.
- **Direct Parent Loans for Undergraduate Students (PLUS) Loans:** Federal loans made to graduate or professional students and parents of dependent undergraduate students for which the borrower is fully responsible for paying the interest regardless of the loan status.
- **Direct Consolidation Loans:** Federal loans that allow the borrower to combine multiple existing federal student loans into one new loan. The borrower will only have to make one monthly payment on the consolidation loan, and the repayment term of the loan may be longer than the terms of the original loans, which may result in a lower monthly payment.

As of September 30, 2025, FSA's portfolio of Direct Loans included approximately \$1,253.6 billion in credit program receivables, net. In FY 2025, the Department disbursed approximately \$89.0 billion<sup>4</sup> in net loans to approximately 6.8 million recipients.

For detailed information on the Direct Loan portfolio, such as outstanding balances by school type and borrower location, please visit the FSA Data Center at <https://studentaid.gov/data-center>.

**Figure 5: Components of Direct Loan Receivables, Net<sup>5</sup>**  
(Dollars in Billions)



<sup>4</sup> Excludes consolidation loans of \$26.0 billion

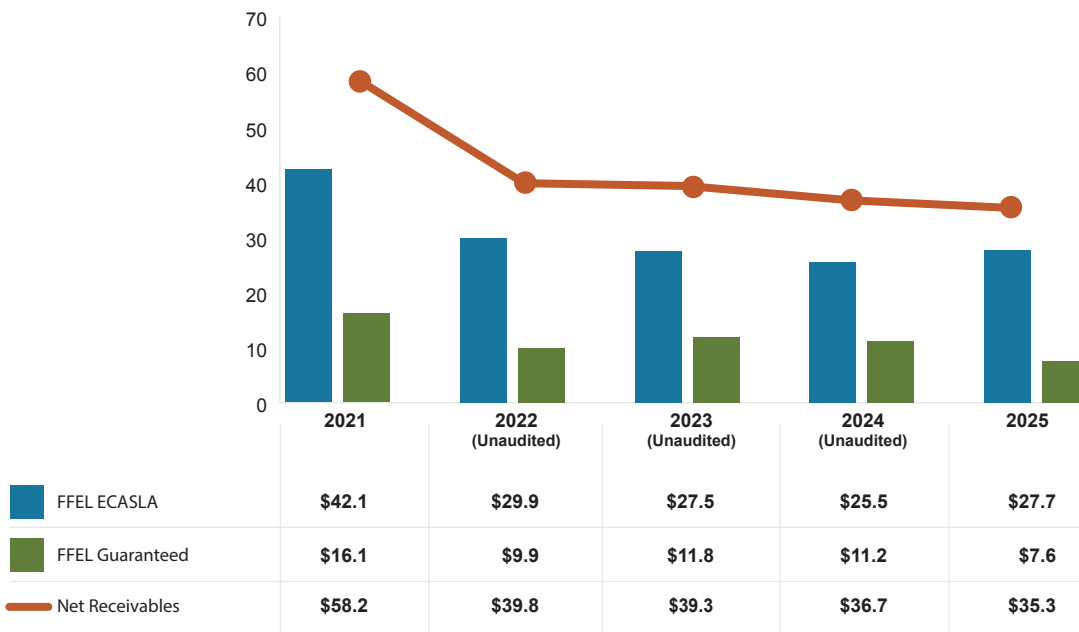
<sup>5</sup> Recipient numbers come from the FSA Data Center or National Student Loan Data System (NSLDS®) database.

Under the **Federal Family Education Loan (FFEL) Program**, students and parents obtained federal loans through private lenders. Guaranty Agencies (GAs) insure lenders against borrower default; the federal government, in turn, reinsures the GAs. Federal subsidies ensure private lenders earn a certain yield on the loans they hold.

The passage of the *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA) (Pub. L. 111-152), ended the origination of new FFEL Program loans as of July 1, 2010. Nevertheless, FSA, lenders, and GAs continue to service and collect outstanding FFEL Program loans. FSA, FFEL lenders, and GAs held a FFEL Program loan portfolio of approximately \$98.6 billion as of September 30, 2025. Of this portfolio, \$35.3 billion represented FSA's credit program receivables, net, comprised of \$27.7 billion in loans acquired under the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) authorization and \$7.6 billion acquired under the "traditional" program. FSA made gross payments of approximately \$1.3 billion to lenders for interest and special allowance subsidies and \$2.3 billion to GAs for reinsurance claims and fees paid for account maintenance, default aversion, and collection activities.

*ECASLA* authorized the Department to implement several programs to ensure credit market disruptions did not deny eligible students and parents the access to federal student loans for the 2008–09 and 2009–10 academic years. The authority for two ECASLA Programs, the Loan Purchase Commitment Program and the Loan Participation Interest Purchase Program, expired after September 30, 2010. The third ECASLA Program, the Asset-Backed Commercial Paper Conduit (ABCP Conduit) Program, ended in January 2014.

**Figure 6: Total FFEL Loan Receivables, Net<sup>6</sup>**  
(Dollars in Billions)



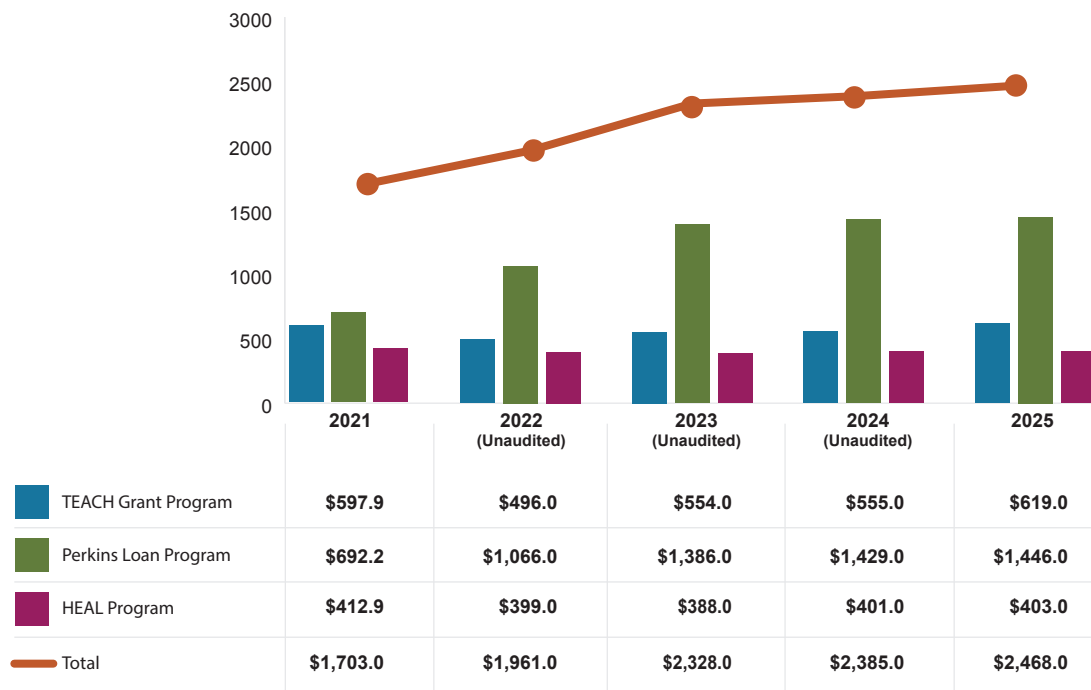
<sup>6</sup> FFEL Guaranteed refers to the FFEL Guaranteed (Non-ECASLA) Program; FFEL ECASLA refers to FFEL ECASLA Acquired Loan Program.

The **Teacher Education Assistance for College and Higher Education (TEACH) Grant Program** provides individual awards of up to \$4,000 per year (unadjusted) to full-time students agreeing to teach mathematics, science, or other specialized subjects in a high-poverty school for at least four years within eight years of their graduation. This program began July 1, 2008. The adjusted maximum TEACH Grant award was \$3,772 in the 2024–25 award year (after 5.7% mandatory adjustment) and remained \$3,772 in the 2025–26 award year. If students fail to fulfill the service requirements specific to the program, their TEACH Grants convert to Direct Unsubsidized Loans, with interest accruing from the time of the award. In FY 2025, the Department disbursed nearly 23,000 grants to more than 23,000 recipients totaling \$103.0 million under the TEACH Grant Program. Credit program receivables, net of allowance for subsidy, were approximately \$619.0 million for FY 2025.

The **Federal Perkins Loan Program** was a campus-based student aid program that ended in 2018. These loans were made by schools to undergraduate and graduate students who demonstrate financial need. Historically, participating schools received a certain amount of funds each year from FSA for distribution under this program, which supplemented funds in a school's revolving fund, from which new disbursements were made. These funds enabled eligible institutions to offer low-interest loans to students based on financial need. Once the full amount of the school's funds had been awarded to students, no additional loans were to be made under this program for the year. The *Federal Perkins Loan Program Extension Act of 2015* eliminated the authorization for schools to make new Federal Perkins loan disbursements as of September 30, 2017, and ended all Perkins loan disbursements by June 30, 2018. Credit program receivables, net of allowance for subsidy, were approximately \$1,446.0 million for FY 2025.

The **Health Education Assistance Loan (HEAL) Program** was transferred to FSA from the U.S. Department of Health and Human Services in FY 2014 under the *Consolidated Appropriations Act, 2014* (Pub. L. 113-76). This program enabled graduate students in schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, chiropractic, and programs in health administration and clinical psychology to obtain federally insured loans through participating lenders. Since September 30, 1998, no new loans have been originated through this program; however, borrowers are still obligated to repay any outstanding loans obtained through the program. Credit program receivables, net of allowance for subsidy were approximately \$403.0 million for FY 2025.

**Figure 7: Other Credit Program Receivables Loan, Net  
(Dollars in Millions)**



## SIGNIFICANT FINANCIAL POSITION RELATED TO FEDERAL STUDENT AID CREDIT PROGRAMS

Dollars in Millions		FY 2025
<b>Balance Sheet</b>		
Assets		
Fund Balance with Treasury	\$	107,531
Other Assets		161
Loans Receivable - Direct Loan Program		1,253,560
Loans Receivable – FFEL Program		35,301
Loans Receivable – Other Credit Programs for Higher Education		2,468
Negative Loan Guarantee Liabilities		8,706
Cash and Other Monetary Assets		659
Total Assets	\$	1,408,386
Liabilities		
Debt Associated with Loans – Direct Loan Program	\$	1,287,923
Debt Associated with Loans – FFEL Program		56,285
Debt Associated with Loans – Other Credit Programs for Higher Education		645
Accounts Payable		3,531
Subsidy Due to Treasury		51,617
Guarantee Agency Funds Due to Treasury		659
Other Liabilities		1,457
Total Liabilities	\$	1,402,117
Net Position		
Unexpended Appropriations	\$	12,027
Cumulative Results of Operations		(5,758)
Total Net Position	\$	6,269
<b>Statement of Net Cost</b>		
Gross Program Costs	\$	(101,767)
Less Earned Revenue		(56,728)
Net Cost of Operations	\$	(158,495)

FSA's credit program assets totaled \$1,408.4 billion as of September 30, 2025. As shown in the table above, most assets relate to loans receivables, \$1,291.3 billion, which comprised 91.7% of total assets. Direct loans comprise the largest share of these receivables. All other assets totaled \$117.0 billion, most of which was Fund Balance with Treasury (\$107.5 billion), which decreased by approximately 24% during FY 2025, largely as a result of the disbursement of Direct Loan program funds that were available at the end of the prior fiscal year.

FSA's credit program liabilities totaled \$1,402.1 billion as of September 30, 2025. As shown above, most of these liabilities are also associated with loan programs, \$1,344.9 billion, which are primarily amounts borrowed from the Treasury to fund student loans. Debt associated with the Direct Loan Program totaled \$1,287.9 billion as of September 30, 2025.



The net cost of operations for FSA's credit programs totaled \$(158.5) billion (surplus) FY 2025. FSA's credit program net costs can change significantly each year as a result of changes in estimated subsidy expenses—primarily subsidy expenses for direct loans. The largest component of the FY 2025 total was subsidy expense for the Direct Loan program, which totaled \$(146.1) billion (surplus).

Subsidy expenses are estimates of the present value cost of providing direct loans but exclude the administrative costs of issuing and servicing the loans. The Department estimates subsidy expenses using a set of econometric and financial models as well as cash flow models. The three components of subsidy expenses include subsidy expense for loans disbursed in the current year, subsidy re-estimates, and loan modifications. The Department estimates subsidy expenses annually for new loans disbursed in the current year and annually updates the previous cost estimates for outstanding loans disbursed in prior years based on various updated assumptions (subsidy re-estimates).

The Department updates its subsidy cost estimates each year for outstanding loans disbursed in prior years using a process referred to as a subsidy re-estimate. The total of Direct Loan subsidy re-estimates during FY 2025 was a net \$26.4 billion downward subsidy re-estimate. The components of the Direct Loan Program subsidy re-estimates are summarized in Note 13 of the Other Information section at page 109. The FY 2025 year-end subsidy re-estimates for the Direct Loan and FFEL programs resulted in \$51.1 billion of the \$51.6 billion total Subsidy Due to Treasury shown in the table above. This represents the amount of accrued downward re-estimates of subsidy expense that will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from the Office of Management and Budget (OMB).

The Department also updates previous cost estimates based on any new legislation or other government actions that change the terms of existing loans and alter the estimated subsidy cost. This process is referred to as a modification. During FY 2025, the Department recorded a total of \$147.2 billion net downward modifications. The modifications that were recorded in FY 2025 included changes resulting from the OBBBA and Temporary Expanded Public Service Loan Forgiveness (TEPSLF). These modifications are described in Note 13 of the Other Information section (page 109).

## Federal Student Aid Non-Credit Programs

The Title IV non-credit programs also support the borrower's ability to pay for college. This federal financial aid is distributed to students through grants and work-study. FSA's current non-credit programs consist of the Federal Pell Grant Program, Federal Supplemental Educational Opportunity Grant Program, and Federal Work-Study Program. These programs support the mission of increasing access to quality postsecondary education. A summary discussion of each Title IV non-credit program is presented in the paragraphs after the table.

**Summary of Federal Aid Disbursed to Students by Non-Credit Program**  
(Dollars in Millions)

Programs	2025 Aid Disbursed to Students
<b>Federal Grant Programs</b>	
Federal Pell Grant Program	\$39,934.4
Federal Supplemental Educational Opportunity Grant Program	925.1
Iraq and Afghanistan Service Grant Program	0.1
Subtotal Grants Program	\$40,859.6
<b>Federal Work-Study Program</b>	
Federal Work-Study Program	\$1,191.9
<b>Total Federal Non-Credit Programs</b>	<b>\$42,051.5</b>

\*Iraq and Afghanistan Service Grant Program will no longer be issued as a separate Grant program beginning in award year 2024-25. Any amounts included in the chart are adjustments only.

In fulfilling its responsibility for administering Title IV aid, FSA oversaw the disbursement of approximately \$42.1 billion in grants and work-study to more than 7.2 million recipients. The following provides a summary for each grant program, including aid disbursed in FY 2025.

The **Federal Pell Grant Program** helps ensure financial access to postsecondary education by providing grant aid to low-income and middle-income undergraduate students. Considered the foundation of a student's financial aid package, Federal Pell Grants vary according to the financial circumstances of students and their families. In FY 2025, the Department disbursed more than \$39.9 billion in Federal Pell Grants averaging approximately \$5,546 to approximately 7.2 million students. The maximum Federal Pell Grant award was \$7,395 in the 2024–25 award year and remained \$7,395 in the 2025–26 award year. The *FAFSA Simplification Act* removed the requirement for a student to be enrolled at least half-time to receive Federal Pell Grant funds of more than 100% of the student's Scheduled Award. Therefore, to be eligible for the additional Federal Pell Grant funds, the student must only be otherwise eligible to receive Federal Pell Grant funds for the payment period to receive funds more than 100% of the student's Scheduled Award.

The **Federal Supplemental Educational Opportunity Grant Program** is a campus-based program through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered directly by the financial aid office at each participating school. Each participating school receives a certain amount of Federal Supplemental Educational Opportunity Grant funds each year from FSA. Once the full amount of the school's grant funds has been awarded

to students, no additional awards can be made under this program for the year. This form of aid does not require repayment. In FY 2025, approximately \$925.1 million were disbursed through nearly 1.6 million campus-based awards.

**The Iraq and Afghanistan Service Grant Program**, which became effective July 1, 2010, provided non-need-based grants to students whose parent or guardian was a member of the Armed Forces and died in Iraq or Afghanistan because of military service after September 11, 2001. These grants were awarded to students who were not eligible for a Federal Pell Grant based on financial need. Due to the *FAFSA Simplification Act*, no new Iraq and Afghanistan Service Grants were issued for the 2024–25 award year (amounts listed are due to adjustments only). Instead, eligible students now receive the maximum Federal Pell Grant award under the Special Rule described in HEA Section 401(c), as amended.

The **Federal Work-Study Program** is also a campus-based program through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer part-time employment to undergraduate, graduate, and professional students based on financial need, allowing them to earn money to help pay education expenses. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. In FY 2025, approximately \$1.2 billion were disbursed in nearly 600,000 campus-based awards.

#### SIGNIFICANT FINANCIAL POSITION RELATED TO FEDERAL STUDENT AID NON-CREDIT PROGRAMS

Dollars in Millions		FY 2025
<b>Balance Sheet</b>		
Assets		
Fund Balance with Treasury	\$	24,186
Other Assets		23
Total Assets	\$	24,209
Liabilities		
Accrued Grant Liabilities	\$	4,143
Accounts Payable		684
Other Liabilities		29
Total Liabilities	\$	4,856
Net Position		
Unexpended Appropriations	\$	19,405
Cumulative Results of Operations		(52)
Total Net Position	\$	19,353
<b>Statement of Net Cost</b>		
Gross Program Costs	\$	39,317
Less Earned Revenue		(12)
Net Cost of Operations	\$	39,305

FSA's non-credit program assets primarily consist of grant funding that has not yet been disbursed to grantees, which is reflected in the \$24.2 billion net Fund Balance with Treasury shown in the table above. The largest component of the net Fund Balance with Treasury as of September 30, 2025, is undisbursed funds for the Federal Pell Grant program (\$23.3 billion). FSA non-credit program Fund Balance with Treasury decreased by approximately 25% during FY 2025, with a corresponding decrease in Unexpended Appropriations, largely as a result of the disbursement of grant funding that was provided to the Department in previous fiscal years. The net cost of operations for the FSA's non-credit programs totaled \$39.3 billion during FY 2025, which was similar to the prior year.

FSA's non-credit program liabilities totaled \$4.9 billion as of September 30, 2025. As shown above, most of these liabilities are also associated with the accrued grant liability, \$4.1 billion, which represents the Department's estimate of allowable expenditures incurred by grantees as of September 30, 2025, that the grantee has not yet drawn on their available balance to be reimbursed by the Department. The accrued grant liability for the Federal Pell Grant program (\$3.6 billion) makes up the majority of the total liability.

## Other Higher Education Programs

The Department's Other Higher Education programs include grants for Rehabilitation Services; IDEA; Higher Education, and Career, Technical, and Adult Education; and funding to support research and collect education statistics. For more information on the grants provided for Other Higher Education programs, see Note 15 on page 117.

### SIGNIFICANT FINANCIAL POSITION RELATED TO OTHER HIGHER EDUCATION PROGRAMS

Dollars in Millions		FY 2025
<b>Balance Sheets</b>		
Assets		
Fund Balance with Treasury	\$	10,307
Other Assets		2,476
Total Assets	\$	12,783
Liabilities		
Accrued Grant Liabilities	\$	6
Accounts Payable		82
Other Liabilities		32
Total Liabilities	\$	120
Net Position		
Unexpended Appropriations	\$	12,693
Cumulative Results of Operations		(30)
Total Net Position	\$	12,663
<b>Statement of Net Cost</b>		
Gross Program Costs	\$	10,612
Less Earned Revenue		(14)
Net Cost of Operations	\$	10,598

Total assets for Other Higher Education programs primarily consist of grant funding that has not yet been disbursed to grantees, which is reflected in the \$10.3 billion net Fund Balance with Treasury shown in the table above. As of September 30, 2025, total assets also include \$2.2 billion in advance payments made by the Department to the Department of Labor as part of an interagency agreement to distribute Career, Technical, and Adult Education grant program funding to grant recipients, which is included in the Other Assets line in the table above.

# Analysis of Systems, Controls, and Legal Compliance

## SECRETARY'S STATEMENT OF ASSURANCE FISCAL YEAR 2025

January 22, 2026

The U.S. Department of Education (Department) is responsible for establishing and maintaining effective internal control and financial management systems to achieve the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) and the *Federal Financial Management Improvement Act of 1996* (FFMIA).

In accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the Department conducted an assessment of internal control over operations, reporting, and compliance. Based on management's assessment, the Department provides reasonable assurance, except for one material weakness in FY 2025.

The material weakness relates to controls over the reliability of underlying data and code used in developing subsidy cost estimates for the Department's Direct Loan and Federal Family Education Loan (FFEL) portfolios. The Department annually performs subsidy re-estimates using the internally developed Student Loan Model (SLM), which relies on assumptions derived from internally sourced data elements. During FY 2025, Federal Student Aid (FSA), in coordination with the Department, continued implementing corrective actions to address this material weakness, including strengthening governance and controls over the data and code supporting SLM assumptions, enhancing data validation and escalation processes, and improving management oversight. Additional corrective actions are planned for completion in FY 2026.

In accordance with FFMIA, the Department conducted its required management assessment of financial management systems pursuant to OMB Circular A-123, Appendix D. Based on this assessment, and considering the independent financial statement auditor's report, the Department determined that its financial management systems substantially complied with FFMIA requirements for FY 2025.

The Department remains committed to completing corrective actions and to continuously strengthening its internal control and financial management systems to support effective operations, reliable financial reporting, and compliance with applicable laws and regulations.



**Linda E. McMahon**

## Introduction / Overview

The Federal Managers' Financial Integrity Act (FMFIA) requires agency heads to annually assess operations and provide a Statement of Assurance to the President and Congress, affirming effective risk management and internal control. The Government Accountability Office's *Standards for Internal Control in the Federal Government* (the Green Book) defines internal control as a process effected by management, oversight bodies, and personnel that provides reasonable assurance that agency objectives are achieved in the areas of:

- **Operations** – Effectiveness and efficiency of operations.
- **Reporting** – Reliability of internal and external reporting.
- **Compliance** – Adherence to applicable laws and regulations.

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, aligns with FMFIA and the Green Book and requires management to ensure that financial management systems comply with Government-wide requirements under the Federal Financial Management Improvement Act (FFMIA) as reinforced in Appendix D. Strong internal controls and risk management practices are critical for the Department to operate efficiently, safeguard resources, report reliably, and maintain compliance. Responsibility for adequate controls rests with all levels of management.

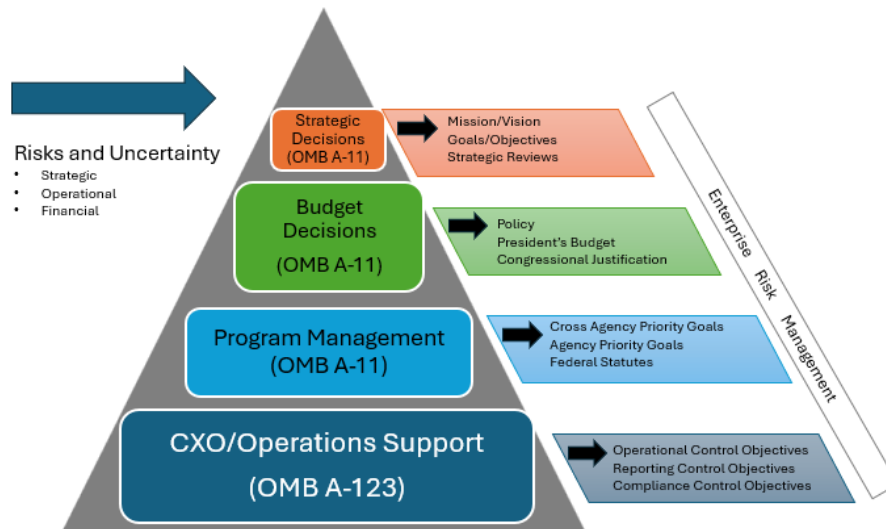
## ENTERPRISE RISK MANAGEMENT FRAMEWORK

The Department maintains an integrated **Enterprise Risk Management (ERM) framework** linking strategic decisions, budget formulation, program management, and operational controls. ERM aligns OMB Circular A-11 planning and budgeting with A-123 internal control requirements to reduce the Department's highest mission, financial, and compliance risks.

ERM integrates four layers of decision-making:

- **Operations** – Day-to-day controls are documented, tested, and remediated to ensure reliable operations, reporting, and compliance.
- **Programs** – Offices link strategies to measurable outcomes, connecting risk registers and performance metrics to Department priorities.
- **Budget** – Resource allocation reflects risk tradeoffs, funding critical areas and linking requests to expected risk reduction.
- **Strategy** – Leadership defines risk appetite and priorities, using consolidated risk information to guide Department-wide tradeoffs.



**Figure 8. Department of Education Enterprise Risk Management Framework**

Key enterprise risks for FY 2025 include:

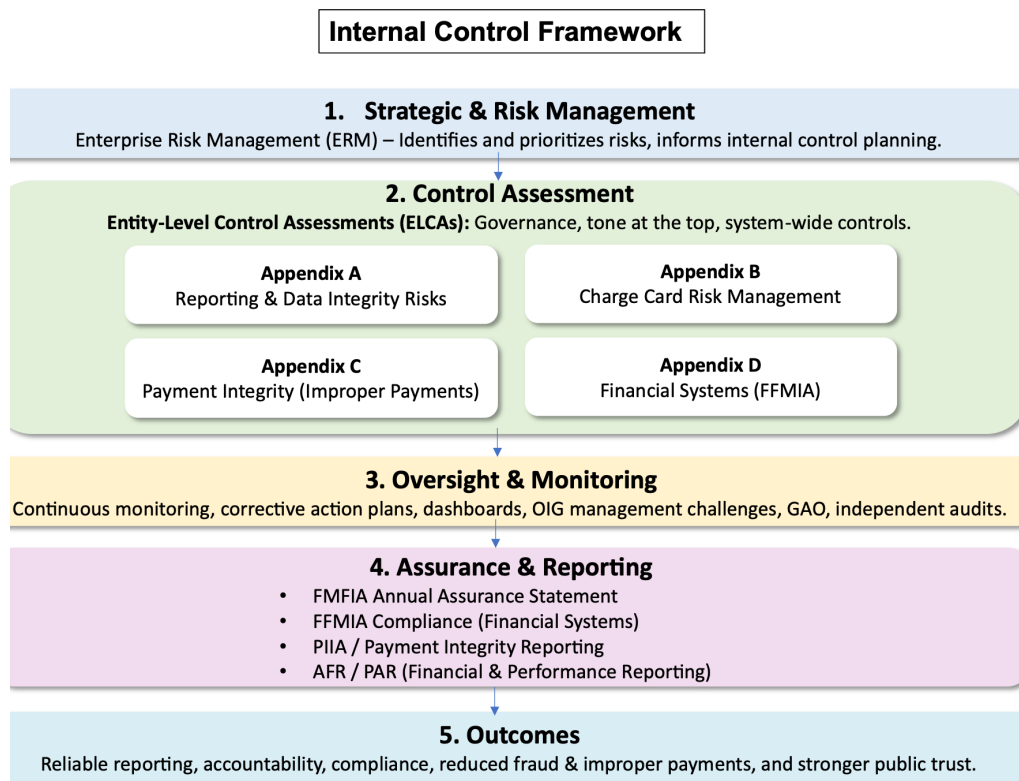
- Modernization and availability of student aid systems (e.g., FAFSA/award systems).
- Cybersecurity and information security threats.
- Data quality and integrity issues.
- Student loan servicing and repayment accuracy.
- Improper payments and fraud.
- Protection of Personally Identifiable Information (PII).
- Continuity of operations and resilience.
- Financial management and reporting risks.

## ANALYSIS OF CONTROLS

### Internal Control Framework and Assurance

The Department's internal control framework integrates ERM, entity-level control assessments, A-123 compliance, and oversight from OIG and GAO. It provides reasonable assurance that operations are effective, resources are safeguarded, and reporting is reliable and compliant with laws and regulations.

Figure 9. Department of Education Internal Control Framework



Together, these components provide **reasonable assurance** that operations are effective, resources are safeguarded, and financial reporting is reliable and compliant with applicable laws and regulations.

Oversight is continuous and incorporates internal control testing, automated monitoring, corrective action plan tracking, and external review activities, including OIG management challenges, GAO audits, and annual financial statement audits. These inputs drive corrective actions and contribute to the steady strengthening of the Department's control environment.

The Department's assurance process includes Entity-Level Control Assessments (ELCAs), FMFIA Annual Assurance Statements, FFMIA compliance determinations, Payment Integrity Information Act (PIIA) reporting, and publication of the AFR. Collectively, these mechanisms support transparent reporting to OMB, Congress, and the public.

ELCAs evaluate governance, tone at the top, ethical culture, and Department-wide control practices. The Department implements **OMB Circular A-123** requirements through the four appendices:

- **Appendix A** – Management of reporting and data integrity risks
- **Appendix B** – Management of government charge card risk
- **Appendix C** – Payment integrity (PIIA), improper payment estimation, and related corrective actions
- **Appendix D** – FFMIA compliance for financial systems

As part of these activities, the Department identified several significant deficiencies during FY 2025, including one related to suspense account management and others associated with IT access governance, security monitoring, and change-management activities. These conditions are limited in scope and are being addressed through ongoing corrective action plans, continued monitoring, and process improvements designed to further strengthen the internal control environment.

### **Material Weakness – Controls over the Reliability of Underlying Data Used in Credit Reform Estimates Needs Improvement**

The Department continues to address a **carryover material weakness** related to controls over the reliability of underlying data and code used in key assumptions for the Student Loan Model (SLM). The SLM relies on internally sourced data elements, including information reported by Federal loan servicers and maintained in the National Student Loan Data System (NSLDS). This material weakness affects the reliability of data supporting subsidy cost estimates for the Department's Direct Loan and FFEL portfolios.

During FY 2025, the Department and FSA implemented and advanced corrective actions to address this material weakness, including conducting additional root-cause analyses, establishing cross-functional teams to perform data comparisons between NSLDS and servicer source systems, enhancing processes for identifying and escalating data variances, and strengthening governance and controls over the data and code supporting SLM assumptions. These actions improved management's ability to identify, analyze, and communicate data issues and support continued remediation efforts planned for completion in FY 2026.

### **A-123 Appendix A Testing**

The Department conducts annual activities to assess and strengthen internal controls, including:

- Documenting significant business processes and subprocesses
- Conducting risk-based testing of key financial and operational controls
- Developing and tracking corrective action plans
- Maintaining a Data Quality Plan to improve reporting reliability

In FY 2025, the Department separately tested key financial controls and identified a significant deficiency related to suspense account management. However, no additional material weaknesses were identified through this testing. Recommendations were issued to further strengthen internal controls. Testing of payroll systems administered by the shared service provider confirmed that controls were generally effective, with no significant deficiencies or material weaknesses noted.

As a shared service provider, the Department of the Interior (DOI) provided SSAE 18 (SOC 1 Type 2) assurance over the Federal Personnel and Payroll System (FPPS), with KPMG LLP issuing a qualified opinion noting that, except for isolated deficiencies in access deactivation and developer access reviews, DOI's system description and controls were fairly presented and generally effective in achieving the stated control objectives.

## Operational Efficiency

The FY 2025 reduction in force (RIF) resulted in adjustments to the Department's operating model and oversight capacity. In response to reduced staffing levels, the Department refined internal processes and service delivery approaches to promote operating efficiency while continuing to carry out its core mission and statutory responsibilities. These adjustments were designed to align available resources with priority functions and to maintain continuity of operations.

While workforce reductions required program areas to adapt existing workflows, the Department implemented measures to sustain oversight and accountability, including strengthening internal controls, streamlining processes, and increasing reliance on centralized and shared services. The Department also leveraged existing technology and coordination mechanisms to mitigate operational risks. Collectively, these actions supported continued operational effectiveness during the transition period.

## Management's Response to OIG-Identified Management Challenges

### Overview

*The Office of Inspector General (OIG) annually identifies the most significant management and performance challenges facing the Department of Education (the Department). These challenges represent areas of elevated risk that require strengthened internal controls, improved operational processes, and sustained management attention to ensure the effective stewardship of Federal resources. The Department continually monitors these challenges and implements corrective actions to mitigate risk, enhance compliance, and support mission delivery.*

*For FY 2025, the OIG identified four primary challenges: (1) oversight of student financial assistance, (2) oversight of grantees, (3) data quality and reporting, and (4) information technology (IT) security. Each challenge reflects a core area where improvements to governance, systems, or internal controls can strengthen the Department's overall performance. The sections below provide context for each challenge and summarize the Department's ongoing efforts to address them.*

### Challenge 1: Oversight and Monitoring of Student Financial Assistance

Oversight of student financial assistance involves ensuring that Federal student aid programs are administered in compliance with statutory and regulatory requirements, that funds are used appropriately, and that risks of improper payments, fraud, waste, and abuse are mitigated. Key activities include monitoring drawdown patterns, assessing program performance indicators, overseeing compliance with program rules, and coordinating across program and administrative offices that support Federal student aid operations.

During FY 2025, staffing transitions required the temporary redistribution of certain oversight responsibilities; however, existing processes and internal controls remained in place to maintain continuity. The Department continues to review roles and responsibilities as part of its broader organizational restructuring and may consider formal reassignment of specific functions to support clarity of responsibilities and sustained monitoring capacity.

### **Challenge 2: Oversight and Monitoring of Grantees**

Oversight of grantees encompasses monitoring performance and financial reporting, conducting compliance reviews, providing technical assistance, addressing audit findings, and ensuring that grantees and subrecipients meet program goals and adhere to Federal requirements. Effective grantee oversight is essential to safeguarding taxpayer dollars and ensuring that program outcomes are achieved.

Throughout FY 2025, program offices continued to implement established oversight procedures, including periodic reviews, closeout activities, and the provision of technical assistance. Staffing changes required adjustments in workload distribution, yet internal controls and monitoring mechanisms allowed the Department to maintain continuity in grant oversight activities. Work remains underway to strengthen communication with grantees and refine monitoring approaches to align with available resources and evolving program needs.

### **Challenge 3: Data Quality and Reporting**

Data quality and reporting are essential components of program administration, performance measurement, financial reporting, and informed decision-making. This challenge involves ensuring that data used across the Department are accurate, complete, reliable, and available when needed. It also includes effective management of information collections, reporting systems, governance processes, internal controls over data integrity, and documentation supporting data quality.

The Department is reviewing its information-collection requirements to identify opportunities to reduce reporting burden while improving alignment with policy and program priorities. Concurrently, data systems and related contract structures are being reassessed to support ongoing maintenance needs and potential modernization. The use of more granular activity tracking, automated reporting pipelines, and real-time dashboards has strengthened transparency, improved forecasting, and enhanced internal controls over data used for operational and financial decision-making.

### **Challenge 4: Information Technology Security**

Information technology (IT) security remains a significant challenge as the Department contends with the increasing sophistication of cybersecurity threats. This challenge includes implementing and maintaining NIST-aligned security controls, protecting sensitive data, identifying and remediating vulnerabilities, completing required system authorizations, conducting continuous monitoring, managing access and identity controls, and ensuring compliance with Federal cybersecurity requirements.

During FY 2025, staffing transitions resulted in gaps in internal IT security expertise; however, these were mitigated through support from the Office of the Chief Information Officer, contractor resources, and targeted professional development for staff in significant security-responsibility roles. Mandatory cybersecurity training and the expanded use of real-time monitoring tools improved situational awareness and supported the Department's ability to safeguard systems and data against evolving threats.

## Conclusion

*The Department remains committed to addressing the critical management challenges identified by the OIG. Efforts to strengthen oversight of student financial assistance, enhance grantee monitoring, improve data quality and reporting, and advance IT security reflect the Department's broader commitment to continuous improvement and responsible stewardship of Federal resources. Continued coordination across program and administrative components, supported by strong internal controls and strategic investments in personnel, processes, and systems, will be essential to sustaining progress in these areas and effectively supporting the Department's mission.*

## Data Quality and Reporting Controls

The Department maintains internal controls to ensure the accuracy, reliability, and integrity of data used for financial reporting, program oversight, performance management, and public reporting. These controls include Department-wide data governance, standardized data quality tools and guidance, system-embedded validations, reconciliations, monitoring, and layered review processes. During FY 2025, workforce disruptions temporarily constrained analytical capacity in some offices; however, core data quality controls remained in place, and identified issues were addressed through enhanced monitoring, technical assistance, and remediation activities. Based on these efforts, management determined that internal controls over data accuracy and reliability were generally effective for FMFIA assurance purposes.

## OTHER INTERNAL CONTROL ISSUES

FMFIA assessments and self-reported control deficiencies are analyzed, prioritized, and addressed through corrective action plans. Progress is tracked, integrated with Statements of Assurance and A-123 Appendix A assessments to ensure continuous improvement of management controls.

## ANALYSIS OF FINANCIAL MANAGEMENT SYSTEMS

### Financial Management Systems

The Department's financial management systems are essential to executing federal education programs efficiently, maintaining accountability, and providing reliable financial information to stakeholders. These systems ensure compliance with federal laws and regulations, support informed decision-making, and provide the foundation for accurate and timely financial reporting. To maintain operational effectiveness and compliance with the FFMIA, the Department continuously evaluates both IT and financial controls across its systems environment.

### EDCAPS Core Financial Applications

The Department's core financial applications operate within the Education Central Automated Processing System (EDCAPS), an integrated environment combining commercial off-the-shelf software, custom code, and system interfaces. EDCAPS supports essential financial functions including the general ledger, funds management, grants and contract management, receivables, budget execution, and administrative processes.

## Internal Department Systems

### 1. Financial Management Support System (FMSS)

FMSS is the Department's core financial system, providing general ledger management, financial statement preparation, funds control, budget execution, purchase receiving, accounts receivable, and accounts payable. The Oracle E-Business Suite application resides behind the Department firewall and is not externally accessible.

In FY 2025, FMSS—designated as a mission-critical system—focused on the following priorities:

- Implementing cross-validation rules to prevent invalid accounting transactions
- Transmitting departmental spending data to USASpending.gov under FFATA and the *Digital Accountability and Transparency Act of 2014* (DATA Act)
- Processing all departmental payments through Treasury's Secure Payment System

### 2. Grants Management System (G5)

G5 manages the full grants lifecycle—from application and award through payment processing and closeout—enhancing recipient responsiveness and improving the accuracy of financial data.

## External Systems

### 1. Acquisition Management System (AMS)

AMS serves as the central repository for acquisition and contract data. As of November 18, 2024, the Department deployed a modernized AMS to replace the legacy Contracts and Purchasing Support System (CPSS).

### 2. E2 Travel System

The E2 travel system provides end-to-end travel management services under a GSA third-party contract. It interfaces with EDCAPS under an established Memorandum of Understanding (MOU) and Information Security Agreement.

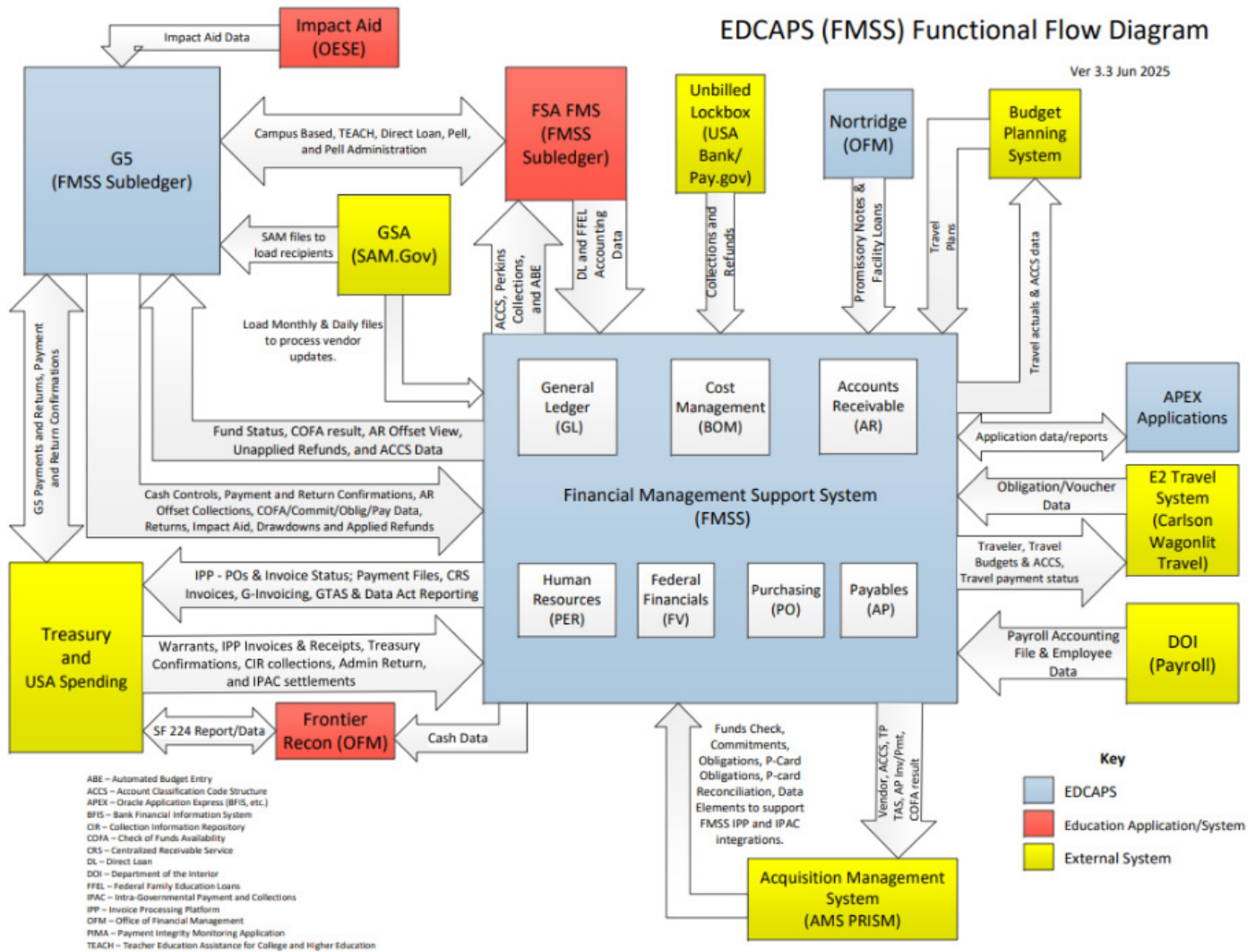
## EDCAPS System Interfaces

FMSS integrates with numerous internal and external systems to support enterprise-wide financial functions.

- **Internal Interfaces:** Fiserv Frontier, G5, Northridge
- **External Interfaces:** Oracle Enterprise Performance Management Cloud (Budget Planning System), AMS, and Treasury systems including:
  - Invoice Processing Platform (IPP)
  - Collections Information Repository (CIR)
  - Centralized Receivables Service (CRS)
  - Treasury confirmations, warrants, administrative returns, and debt referrals



Figure 10. EDCAPS Data Flows



### Information Technology Controls

The Department's IT control environment supports both financial and operational objectives. Key IT control domains include:

- **Security Management Controls:** Technical, operational, and physical safeguards to reduce risks to data, systems, and assets
- **Access Controls:** Measures governing who can access systems, data, or physical locations
- **Change Management Controls:** Policies and procedures that govern modifications to IT systems to reduce risk and avoid disruptions
- **Monitoring and Testing:** Regular assessment of system and application controls to ensure operational effectiveness

- **Segregation of Duties Controls:** Distribution of critical IT tasks to prevent fraud, errors, or misuse
- **Contingency Planning Controls:** Measures that support business continuity and recovery from IT disruptions

### EDCAPS Users

EDCAPS and its interfacing systems support both internal and external users:

- Internal Users:
  - FMSS – 256
  - G5 – 555
  - AMS – 346
  - E2 – 2,574
- External Users:
  - Approximately 40,614, primarily G5 grant recipients

### FY 2025 Risk Assessment and IT Security Testing

During FY 2025, the Department conducted a comprehensive IT risk assessment and tested 95 IT security controls across EDCAPS components and interconnected systems:

- EDCAPS – 23
- FMSS – 25
- AMS – 34
- G5 – 13

The Department identified several significant deficiencies in FY 2025 related to access governance, security monitoring, and change-management activities. These issues arose during a period of workforce transition, and the Department has since taken corrective steps to address them. Several deficiencies have already been resolved, and the remaining actions are in progress and being closely monitored to ensure full remediation in FY 2026.

### Compliance with FFMIA

Management is responsible for ensuring that financial management systems:

1. Provide reliable financial data that meet system requirements.
2. Comply with federal accounting standards.
3. Conform to the U.S. Standard General Ledger at the transaction level.

Relevant guidance includes **Appendix D of OMB Circular A-123** (Management of Financial Management Systems – Risk and Compliance) and **OMB Circular A-130** (Managing Information as a Strategic Resource). The FY 2025 FFMIA assessment also considered feeder and mixed financial systems supporting both financial and non-financial functions. These include:

- FSA Financial Management System (FMS)
- National Student Loan Data System (NSLDS)
- Common Origination and Disbursement System (COD)
- Debt Management and Collection System (DMCS)
- Access & Identity Management System (AIMS)

### Overall Assessment of FFMIA Compliance

The Department's financial management systems are designed to support effective internal control and produce accurate, reliable, and timely financial data in accordance with FFMIA requirements. The FY 2025 assessment considered both core financial systems and feeder and mixed systems that support financial and non-financial functions.

Based on management's assessment conducted in accordance with OMB Circular A-123, Appendix D, and the results of the independent auditor's evaluation, and consideration of the independent financial statement auditor's report, the Department determined that its financial management systems substantially complied with FFMIA requirements for FY 2025. The independent auditors did not identify any instances in which the Department's financial management systems failed to substantially comply with Federal accounting standards, applicable Federal laws, or the U.S. Standard General Ledger at the transaction level.

## ANALYSIS OF LEGAL COMPLIANCE

### Statutory and Regulatory Compliance

The Department operates under a comprehensive framework of federal laws, regulations, and executive guidance that govern financial management, operations, grants administration, data security, and civil rights compliance. The sections below summarize the major statutory and regulatory authorities, along with corresponding Department actions and compliance status.

#### I. Financial Management & Accountability

##### *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*

The *Federal Managers' Financial Integrity Act of 1982* (FMFIA), Pub. L. 97-255, requires Federal agencies to establish and maintain internal controls that provide reasonable assurance that programs operate effectively and efficiently, financial reporting is reliable, and applicable laws and regulations are followed. In accordance with FMFIA and OMB Circular A-123, the Department conducted its FY 2025 risk-based internal control assessments and issued its annual Statement of Assurance. As a result of these assessments, the Department identified one material weakness and one significant deficiency related to internal controls over financial reporting and operations.

In FY 2025, the Department reported a carryover material weakness related to Federal Student Aid's (FSA) internal controls over the completeness and accuracy of National Student Loan Data System (NSLDS) data used in key assumptions for credit subsidy cost estimates. This material weakness was first identified in FY 2024 and remained unresolved in FY 2025. During FY 2025, FSA implemented significant corrective actions, including establishing a cross-functional tiger team to compare NSLDS data with loan servicer

source systems, enhancing data variance identification and escalation processes, expanding data analytics capacity, and developing new data validation edits for servicer data feeds. FSA will continue to mature, standardize, and document these controls, with remaining corrective actions planned for completion in FY 2026.

The Department also identified a Department-wide significant deficiency related to workforce disruptions resulting from the March 2025 RIF. The RIF reduced staffing capacity across multiple Principal Offices and constrained certain centralized administrative and oversight functions, affecting the consistent execution and documentation of key operational controls in areas such as grants documentation, grant oversight, and operational staffing support. While compensating controls were implemented through Department-level shared services and senior leadership oversight, the scope and pervasiveness of these impacts warranted classification as a significant deficiency. Management has initiated corrective actions to address this condition, including reassessing organizational structures, prioritizing high-risk functions, rebuilding critical staffing capacity, and strengthening enterprise-level governance. These actions are expected to improve control execution, sustainability, and resilience as the Department continues to stabilize operations and strengthen its internal control environment.

#### ***Federal Financial Management Improvement Act of 1996 (FFMIA)***

The *Federal Financial Management Improvement Act of 1996* (FFMIA), Pub. L. 104-208, requires Federal agencies to maintain financial management systems that substantially comply with Federal accounting standards, applicable Federal laws, and the U.S. Government Standard General Ledger at the transaction level. OMB Circular A-123, Appendix D, provides the framework for assessing compliance with FFMIA requirements.

During FY 2025, the Department conducted its required management assessment of financial management systems and related processes in accordance with OMB Circular A-123, Appendix D. Based on the results of this assessment, and subject to the independent auditor's evaluation, the Department determined that its financial management systems **substantially complied** with FFMIA requirements. Any identified system limitations did not rise to the level of material noncompliance and are addressed through established corrective action and system improvement processes, as appropriate.

#### ***Payment Integrity Information Act of 2019 (PIIA)***

The *Payment Integrity Information Act of 2019* (PIIA), Pub. L. 116-117, requires agencies to reduce improper payments and report annually on programs susceptible to significant improper payments. The Department's Office of Inspector General (OIG) conducts annual reviews of agency compliance against six statutory PIIA requirements. Based on the most recent OIG review in FY 2025 (covering FY 2024 reporting), the OIG concluded that the Department met all PIIA compliance requirements, while identifying opportunities to further strengthen the methodologies used to estimate improper payments and unknown payments for certain programs. The Department continues to address these methodological considerations as part of its ongoing payment integrity efforts reflected in the FY 2025 reporting cycle.

## **II. Grants & Administrative Requirements**

### **Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance, 2 CFR Part 200)**

The Uniform Guidance (2 CFR Part 200) establishes government-wide standards for the administration of Federal awards, including cost principles, audit requirements, and financial and administrative management. The Department implements these requirements

through grant policies, system controls, monitoring activities, and technical assistance to grantees to support compliance, accountability, and effective stewardship of Federal funds.

#### **Subpart F of Uniform Guidance, 2 CFR Part 200 / *Single Audit Act***

The *Single Audit Act* and Subpart F of Uniform Guidance, 2 CFR Part 200 require audits of non-Federal entities that expend Federal funds to promote accountability and oversight. The Department ensures compliance through monitoring of Single Audit submissions and follow-up on audit findings. During FY 2025, the Department experienced workforce disruptions resulting from the March 2025 RIF, which required a temporary pause in certain Single Audit follow-up activities while responsibilities and resources were reassessed. The Department continues to receive and review Single Audit reports and is evaluating options to resume follow-up activities consistent with available resources and risk-based priorities.

#### ***Government Performance and Results Act Modernization Act (GPRAMA)***

The *GPRAMA Modernization Act of 2010* (GPRAMA) strengthens Federal performance management by requiring agencies to establish strategic and priority goals, conduct data-driven performance reviews, and publicly report progress toward achieving results. During FY 2025, the Department maintained required GPRAMA planning and reporting activities, including strategic planning, annual performance planning, and public performance reporting. Workforce disruptions resulting from the March 2025 rRIF affected the timing and frequency of certain internal performance management activities; however, senior leadership continued to oversee performance priorities, and the Department sustained its core GPRAMA governance and reporting responsibilities. Accordingly, the Department assessed itself as compliant with GPRAMA for FY 2025.

#### ***Disability Rights Oversight and Compliance***

The Department enforces and oversees compliance with Federal disability rights requirements through the administration of the following statutory authorities:

- **Individuals with Disabilities Education Act (IDEA):** Ensures compliance with requirements for providing a free appropriate public education to children with disabilities, including oversight of States' implementation of individualized education programs (IEPs).
- **Section 504 of the Rehabilitation Act of 1973:** Enforces prohibitions against disability-based discrimination in programs and activities receiving Federal financial assistance and monitors recipient compliance with accessibility and reasonable accommodation requirements.
- **Americans with Disabilities Act (ADA):** Oversees compliance with accessibility and equal opportunity requirements across all Department programs, services, and activities.

Through these authorities, the Department implements internal controls designed to monitor compliance, identify deficiencies, and address noncompliance through corrective actions and enforcement mechanisms. These controls support consistent application of disability rights requirements and help ensure that Department programs operate in accordance with applicable Federal law.

### III. Information Security & Privacy

#### *Federal Information Security Modernization Act of 2014 (FISMA)*

The *Federal Information Security Modernization Act of 2014* (FISMA) requires federal agencies to develop, document, and implement agencywide programs to secure information and information technology systems, ensuring confidentiality, integrity, and availability of all system-related information. In FY 2025, the Department and FSA's information security programs were in compliance with FISMA. The Department received an overall FISMA assessment of **"Managed and Measurable" (Level 4 Cybersecurity Maturity Level)**, indicating effective controls. Five domains achieved the highest score of **Optimized (Level 5)**, and four domains met the **Managed and Measurable** requirement. Several improvements were implemented in FY 2025 to strengthen overall cybersecurity performance.

Security Function	Metric Domain	Maturity Level	Change from 2024
Govern	Cybersecurity Governance	Managed and Measurable	New
Govern	Cybersecurity Supply Chain Risk Management	Optimized	=
Identify	Risk and Asset Management	Managed & Measurable	=
Protect	Configuration Management	Optimized	=
Protect	Identity and Asset Management	Consistently Implemented	=
Protect	Data Protection and Privacy	Managed and Measurable	=
Protect	Security Training	Optimized	▲
Detect	Information Security Continuous Monitoring	Optimized	=
Respond	Incident Response	Managed and Measurable	=
Recover	Contingency Planning	Optimized	=

#### *Cybersecurity Information Sharing Act of 2015 (CISA)*

The *Cybersecurity Information Sharing Act of 2015* (CISA) encourages federal agencies and private sector entities to share cybersecurity threat information. The Department is compliant with CISA and participates in CISA initiatives to improve threat detection and response.

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The background of the entire page is a dense, repeating pattern of stylized green leaves. The leaves are in various shades of green, from a deep forest green to a lighter, more vibrant green, creating a textured, organic feel. The pattern is symmetrical and fills the entire frame.

# FINANCIAL SECTION

## About the Financial Section

**In FY 2025, the Department prepared its Consolidated Balance Sheet as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to it. Preparation of this statement is an important part of the Department's financial management goal of providing accurate and reliable information for decision-making.**

### MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The Chief Financial Officer message summarizes the Department's FY 2025 accomplishments and audit opinion.

### CONSOLIDATED BALANCE SHEET AND RELATED NOTES

The **Consolidated Balance Sheet** summarizes the assets, liabilities, and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities from transactions with the public.

The **Notes to the Consolidated Balance Sheet** provide information to explain the basis of the accounting and presentation used to prepare the statement and to explain specific items in the statement. They also provide information to support how particular accounts have been valued and computed.

- Note 1.** Summary of Significant Accounting Policies
- Note 2.** Non-Entity Assets
- Note 3.** Fund Balance with Treasury
- Note 4.** Other Assets
- Note 5.** Loan Receivables, Net, and Loan Guarantee Liabilities
- Note 6.** Liabilities Not Covered by Budgetary Resources
- Note 7.** Debt Associated with Loans
- Note 8.** Subsidy Due to Treasury
- Note 9.** Other Liabilities
- Note 10.** Commitments and Contingencies

## REPORT OF THE INDEPENDENT AUDITORS

The results of the audit of the Department's Consolidated Balance Sheet for FY 2025 to comply with the *Chief Financial Officers Act of 1990*, as amended, are presented to be read in conjunction with the Financial Section in its entirety. The Department's Office of Inspector General contracted with the independent certified public accounting firm KPMG LLP to audit the Consolidated Balance Sheet of the Department as of September 30, 2025.

## Message From the Chief Financial Officer

I am honored to present the Department of Education's annual Agency Financial Report (AFR). The Department's mission is to "promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access." This year, both the Office of Finance and Operations (OFO) and Department as a whole, have demonstrated an unwavering commitment in supporting this mission by refining our efforts on how best to serve the American public.

In January 2025, following the Inauguration of President Donald J. Trump, all federal employees were required to return to work in-person, and by March 2025, the Department began undergoing a major workforce restructuring. These events, while difficult to implement and navigate, demonstrated the Department's perseverance and ability to prioritize critical requirements of meeting the Secretary's newly announced "Final Mission" to return the funding and functions of the Department more directly to States and local control. During this restructuring, a major review of existing and planned contract awards was also performed in concert with the Department of Government Efficiency (DOGE). A total of 69 contracts were descope while a total of 114 were cancelled altogether by the end of FY 2025. Streamlining the scope of the Department has been the first step of many in restructuring federal education.

Throughout the changes made this year, OFO continued to provide human capital, financial, acquisition, and grants management services across all Departmental offices. In addition to supporting these programs, OFO continued working with leaders across the agency to ensure effective financial stewardship of taxpayer dollars. Over the course of FY 2025, the Department made progress to address issues identified in the FY 2024 financial statement audit. As part of our effort, the agency also identified additional issues that need to be addressed during FY 2025, and provided support for the clearance of about 2,000 financial elements as a part of this audit.

This year, the Department received an unmodified or "clean" opinion on its FY 2025 Balance Sheet. The preceding year (FY 2024), the Department received a disclaimer of opinion on this statement. The Department remains committed to evaluating its internal controls for continued improvement opportunities as we work towards restoring the unmodified opinion on the remaining financial statements. The Department will develop and implement additional corrective action strategies to address the outstanding issues highlighted in the FY 2025 audit report.

As we move forward with this final mission in mind, we will continue to serve students, parents, teachers, and other key stakeholders with fidelity, and with a renewed sense of dedication and resilience.

Respectfully,



Jacqueline Clay  
Delegated the Duties of Assistant Secretary and Chief Financial Officer  
Office of Finance and Operations  
U.S. Department of Education  
January 22, 2026

**U.S. Department of Education**  
**Consolidated Balance Sheet**  
**As of September 30, 2025**

(Dollars in Millions)

	FY 2025
<b>ASSETS (Note 2)</b>	
Intragovernmental:	
Fund Balance with Treasury (Note 3)	\$ 191,377
Other Assets (Note 4)	2,290
Total Intragovernmental	193,667
Other than Intragovernmental:	
Loan Receivables, Net (Note 5)	
Direct Loan Program	1,253,560
Federal Family Education Loan (FFEL) Program	35,301
Other Credit Programs for Higher Education	3,455
Negative Loan Guarantee Liabilities (Note 5)	8,706
Cash and Other Monetary Assets	659
Other Assets (Note 4)	282
Total Other than Intragovernmental	1,301,963
<b>Total Assets</b>	<b>\$ 1,495,630</b>
<b>LIABILITIES (Note 6)</b>	
Intragovernmental:	
Debt Associated with Loans (Note 7)	
Direct Loan Program	\$ 1,287,923
FFEL Program	56,285
Other Credit Programs for Higher Education	1,552
Accounts Payable	1
Other Liabilities:	
Subsidy Due to Treasury (Note 8)	51,617
Guaranty Agency Funds Due to Treasury	659
Other Liabilities (Note 9)	1,371
Total Intragovernmental	1,399,408
Other than Intragovernmental:	
Accounts Payable	4,566
Other Liabilities:	
Accrued Grant Liabilities	5,105
Other Liabilities (Note 9)	526
Total Other than Intragovernmental	10,197
<b>Total Liabilities</b>	<b>\$ 1,409,605</b>
Commitments and Contingencies (Note 10)	
<b>NET POSITION</b>	
Unexpended Appropriations	\$ 91,903
Cumulative Results of Operations	(5,878)
<b>Total Net Position</b>	<b>\$ 86,025</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 1,495,630</b>

The accompanying notes are an integral part of this statement.

# Notes to the Consolidated Balance Sheet as of September 30, 2025

## Note 1. Summary of Significant Accounting Policies

### REPORTING ENTITY AND PROGRAMS

The U.S. Department of Education (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 is a component of the U.S. government. For this reason, some of the assets and liabilities reported by the Department may be eliminated for governmentwide reporting because they are offset by assets and liabilities of another U.S. government entity. The Consolidated Balance Sheet should be read with the realization that it is for a component of the U.S. government.

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 largest portions of the Department's financial activities relate to the execution of loan and grant programs 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 Direct Loan Program and the 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 Direct Loan Program offers four types of loans: Stafford, Unsubsidized Stafford, Parent Loan for Undergraduate Students (PLUS), and Consolidation Loans. 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 FFEL Program, authorized by the HEA, operates through state and private, nonprofit guaranty agencies that provided loan guarantees on loans made by private lenders to eligible students with reinsurance and interest subsidies provided by the Department. The *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010*, stated that no new FFEL loans would be made effective July 1, 2010. FFEL Program receivables include defaulted FFEL loans and acquired FFEL loans. Acquired FFEL loans include student loan assets acquired using temporary authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). 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 Department also administers other credit programs for higher education. These include the Federal Perkins Loan program, the Teacher Education Assistance for College and Higher Education (TEACH) Grant program, the Health Education Assistance Loan (HEAL) program, and facilities loan programs that include the Historically Black Colleges and Universities (HBCU) Capital Financing program, along with low-interest loans to institutions of higher education (IHE) for the building and renovating of their facilities. (See Note 5)

**Grant Programs.** The Department has more than 100 grant programs. The three largest grant programs are Title I of the *Elementary and Secondary Education Act*, Federal Pell Grant, and the *Individuals with Disabilities Education Act* (IDEA) grants. In addition, 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.

## PROGRAM OFFICES

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

- Federal Student Aid (FSA) administers 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 educational agencies (SEAs) and local educational agencies (LEAs) 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 LEAs 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 or youth with disabilities, as applicable, to enter postsecondary education and achieve competitive integrated employment.

Other offices that administer programs and provide leadership, technical assistance, and financial support to states, LEAs, and IHEs 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); and Office of English Language Acquisition (OELA). In addition, the Office for Civil Rights (OCR) works to ensure equal access to education through the vigorous enforcement of civil rights and the collection of data from public schools, promotes educational excellence throughout the nation, and serves all individuals facing discrimination.

## BASIS OF ACCOUNTING AND PRESENTATION

The Consolidated Balance Sheet was prepared to report the financial position of the Department, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The Consolidated Balance Sheet was prepared from the books and records of the Department, in accordance with Generally Accepted Accounting Principles (GAAP) accepted in the United States for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the OMB Circular A-136, *Financial Reporting Requirements*, as revised.

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 Balance Sheet.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

## ACCOUNTING FOR FEDERAL CREDIT PROGRAMS

The Department's accounting for its loan and loan guarantee programs is based on the requirements of the *Federal Credit Reform Act of 1990* (FCRA). The purpose of the FCRA is to record the lifetime subsidy cost (expense) of direct loans and loan guarantees, in present value terms, at the time the loan is disbursed (subsidy). 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 the U.S. Department of the Treasury (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).

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.
- 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 the subsidy cost of existing loans.

When a loan is placed in deferment or forbearance, loan repayment is temporarily suspended with the length of postponement different for each borrower. Interest accrues while a loan is in deferment or forbearance for all loan types except subsidized Direct Loans. Loans are canceled if a person dies, if a person meets disability requirements, or occasionally through the bankruptcy courts. Loans are also canceled through the Public Service Loan Forgiveness (PSLF) program, which forgives the remaining balance on a direct loan after 120 qualifying monthly payments are made. These payments must be made under a qualifying repayment plan while working full-time for a qualifying employer. In addition, the Department offers income-driven repayment plans under which borrowers may receive forgiveness of the remaining balance of their loans after 10, 20, 25, or 30 years under certain rules.

## 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 Consolidated Balance Sheet and discloses its non-entity assets in the notes. (See Note 2)

## FUND BALANCE WITH TREASURY

Fund Balance with Treasury includes amounts available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes cash receipts and cash disbursements for the Department. The Department's records are reconciled with Treasury's records. (See Note 3)

## ACCOUNTS RECEIVABLE

Accounts receivable are amounts due to the Department from other federal agencies (intragovernmental) and the public (other than intragovernmental). Other than intragovernmental receivables 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)

## ADVANCES TO OTHERS AND PREPAYMENTS

Advances to others are cash outlays made by the Department to another federal entity or to its grantees to cover a part or all of the recipient's anticipated expense. Prepayments are

payments made by the Department to cover expenses before those expenses are incurred. The Department records advances to others and prepayments as an asset, which is reduced when actual expenditures are recorded by the Department. (See Note 4)

## CASH AND OTHER MONETARY ASSETS

Cash and other monetary assets are the federal government's interest in the program assets held by state and nonprofit FFEL Program guaranty agencies (guaranty agencies' federal funds). Section 422A of the HEA required FFEL guaranty agencies to establish federal student loan reserve funds. Guaranty agencies' 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 of guaranty agencies' federal funds represents consolidated reserve balances of the 13 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. An annual valuation adjustment is made to adjust the Department's balances to comply with federal accounting principles and disclose funds held outside of Treasury.

Guaranty agencies' federal funds are classified as other than intragovernmental non-entity assets and are offset by a corresponding liability due to Treasury on the Department's Consolidated Balance Sheet. The funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The guaranty agencies' federal funds are the property of the United States and are reflected in the President's Budget. Payments made to the Department from guaranty agencies' federal funds through a statutory recall or agency closures represent capital transfers and are returned to Treasury's General Fund. (See Note 2)

## LOAN RECEIVABLES, NET AND LOAN GUARANTEE LIABILITIES

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 loan guarantee liabilities represent the net present value of all future cash flows from currently insured FFEL Program 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 Program loans are accounted for as assets and reported at their net present value, similar to direct loans, although they are legally not direct student loans. Credit program receivables, net includes defaulted FFEL Program 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 by the guaranty agencies 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.

Capitalization of interest occurs as a result of various initiatives, such as loan consolidations. As a result, interest receivable is reduced, and loan principal is increased. (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 intragovernmental leases.

FASAB SFFAS 54, *Leases*, requires that Federal reporting entities report a right-to-use lease asset and a lease liability for non-intragovernmental, non-short-term contracts or agreements when the entity has the right to obtain and control access to economic benefits or services from an underlying property, plant, or equipment asset for a period of time in exchange for consideration under the terms of the contract or agreement.

FASAB SFFAS 62, *Transitional Amendment to SFFAS 54*, provided reporting entities an option for a transitional accommodation to assist with implementation of this SFFAS 54, and the Department has elected to take this accommodation for FY 2025. SFFAS 62 amended the implementation section of SFFAS 54 by providing transitional accommodations to reporting entities implementing SFFAS 54 in the area of embedded leases. “Embedded leases” is a common industry term which generally describes contracts or agreements that contain lease component(s) and nonlease component(s), such as service components, and serve a primary purpose attributable to the nonlease component(s).

Under these amendments, reporting entities may elect not to assess whether contracts or agreements meeting the eligibility criteria for embedded leases are or contain lease component(s) as of October 1, 2023, as well as those subsequently entered into or

modified through the end of the accommodation period. The contracts or agreements for which this accommodation is applied are accounted for as nonlease contracts or agreements for their remaining term, unless they are subsequently modified after the end of the accommodation period. The Statement requires reporting entities electing the accommodation to prospectively apply the provisions of SFFAS 54 to lease components of new or modified contracts or agreements meeting the embedded leases eligibility criteria, depending on the end of the elected accommodation period.

## LIABILITIES

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. Liabilities are classified as covered by budgetary resources if budgetary resources are available to pay them. Credit program liabilities funded by permanent indefinite appropriations are also considered covered by budgetary resources.

Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not requiring appropriated budgetary resources include those related to deposit funds, Subsidy Due to Treasury General Fund for Future Liquidating Account Collections (pre-1992 loan guarantee programs), and Federal Perkins Loan program balances due to be repaid to the Treasury General Fund. (See Note 6)

## DEBT ASSOCIATED WITH LOANS

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 on 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)

## SUBSIDY DUE TO TREASURY

The Department must transfer to the Treasury General Fund all excess funding resulting from downward re-estimates of credit program loans that are subject to FCRA requirements. This excess funding is included in the liability for subsidy due to Treasury and will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from OMB. Subsidy due to Treasury also includes future liquidating account collections (estimated collections in excess of estimated outlays) for the Department's pre-1992 FFEL

and HEAL loans that, when collected, will also be transferred to the Treasury General Fund. (See Note 8)

## 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. Other than intragovernmental accounts payable include in-process grant and loan disbursements.

## ACCRUED GRANT LIABILITIES

The Department records grant expenses as grantees drawdown funding on their available grant balances. Some grant recipients incur allowable expenditures as of the end of an accounting period but have not yet drawn on their available balances to be reimbursed by the Department. The Department accrues liabilities for these allowable expenditures. The liability amounts are estimated using a combination of historical data and a statistical sample survey of current unliquidated balances. Some grantees drawdown funding in advance of incurring grant expenditures. A statistical estimate is made for these advance drawdowns and is recorded as other than intragovernmental advances. (See Note 4)

## 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. (See Notes 6 and 9)

**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.

**Federal Employees' Compensation Act.** The *Federal Employees' Compensation Act* (FECA) (Pub. L. 103-3) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The Department reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a two- to three-year period between payment by DOL and reimbursement to DOL by the Department. As a result, the Department recognizes an intragovernmental liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by the Department.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as an other than intragovernmental liability, not covered by budgetary resources. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value. (See Notes 6 and 9)

## NET POSITION

The components of net position are classified on the Department's Consolidated Balance Sheet as follows:

**Unexpended Appropriations.** Unexpended Appropriations is the portion of the Department's appropriations received that are represented by undelivered orders or are unobligated.

**Cumulative Results of Operations.** Cumulative Results of Operations represents the accumulated net difference since inception between (1) expenses and (2) revenues and financing sources.

## ALLOCATION TRANSFERS

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent activity (e.g. movement of unexpended appropriations which affect cumulative results of operations) performed by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

The Department is a party to allocation transfers as a parent entity to the Department of the Interior and receives allocation transfers as a child entity from the Department of Health and Human Services.

## TAXES

The Department is a federal entity and is not subject to federal, state, or local taxes. Therefore, no provision for income taxes is recorded.

## USE OF ESTIMATES

Department management is required to make certain estimates while preparing the Consolidated Balance Sheet in conformity with GAAP. These estimates are reflected in the assets, liabilities, and net position of the Consolidated Balance Sheet and may differ from actual results. The Department's estimates are based on management's best knowledge of current events, best available data, economic assumptions, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the Consolidated Balance Sheet include: allowance for subsidy for direct, defaulted guaranteed, and acquired loans; the liability for loan guarantees; and grant liability and advance accruals. (See Notes 4 and 5)

The Department's estimates for credit programs are calculated using a series of assumption models that are updated using a statistically valid sample of National Student Loan Data System (NSLDS®) data, data from the Debt Management and Collection System, federal tax information (FTI) from the IRS, and economic assumptions provided by OMB. Actual results may differ from those assumptions and estimates. Differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guarantees under guidelines in the FCRA. The Department recognizes the sensitivity of credit reform modeling. Slight changes in modeling methodology or data used to derive assumptions can produce largely varied results. The Department therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements. The Department updates its assumption models in accordance with its model update plan, which takes into consideration statutory or new program requirements, major changes to the model structure or methodology, and data updates. This level of granularity in the modeling methodology is essential to the financial reporting and budgeting processes so the Department can forecast costs of various program options when making policy decisions. (See Note 5)

### Note 2. Non-Entity Assets

(Dollars in Millions)

	2025	
	Intragovernmental	Other than Intragovernmental
<b>Non-Entity Assets</b>		
Fund Balance with Treasury	\$ 282	\$ -
Loans Receivable, Net	-	1,446
Cash and Other Monetary Assets	-	659
Accounts Receivable, Net	51,147	35
<b>Total Non-Entity Assets</b>	<b>51,429</b>	<b>2,140</b>
Total Entity Assets	193,385	1,299,823
Intra-agency Eliminations	(51,147)	-
<b>Total Assets</b>	<b>\$ 193,667</b>	<b>\$ 1,301,963</b>

The Department's FY 2025 total assets after intra-agency eliminations are predominantly entity assets (99.8 percent). Non-entity intragovernmental Accounts Receivable, Net primarily consists of receivables in Treasury General Fund receipt accounts for accrued downward re-estimates of subsidy due from the Direct Loan Program and FFEL Program



financing accounts. The corresponding liability to the General Fund for these non-entity assets is reflected in Subsidy Due to Treasury. (See Note 8)

Non-entity other than intragovernmental assets primarily consist of guaranty agency reserves (30.8 percent), reported as cash and other monetary assets, and Federal Perkins Loan program loan receivables (67.6 percent), reported as loan 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 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

(Dollars in Millions)

	2025
Appropriated Funds	\$ 95,443
Revolving Funds	95,576
Special Funds	17
Non-Budgetary: Trust Funds	1
All Other Funds	340
<b>Total Fund Balance with Treasury</b>	<b>\$ 191,377</b>

In FY 2025, \$1,126 million of unused funds from canceled appropriations was returned to Treasury. Such balances are excluded from the amount reported as Fund Balance with Treasury in accordance with Treasury guidelines.

### Note 4. Other Assets

(Dollars in Millions)

	2025	
	Intragovernmental	Other than Intragovernmental
Accounts Receivable, Net	\$ 4	\$ 192
Advances to Others and Prepayments	2,286	89
Property and Equipment, Net	-	1
<b>Total Other Assets</b>	<b>\$ 2,290</b>	<b>\$ 282</b>



Intragovernmental Advances to Others and Prepayments primarily consists of \$2,164 million in advance payments made by the Department to the Department of Labor as part of an interagency agreement to distribute Career, Technical, and Adult Education grant program funding to grant recipients.

Included in the other than intragovernmental accounts receivable are amounts owed because of criminal restitution orders that are to be collected by the Department of Justice on behalf of the Department. Amounts collected for these criminal restitutions are generally returned to the Treasury General Fund. Gross receivables and the allowance for uncollectible amounts as of September 30, 2025, related to criminal restitutions totaled \$157 million, and \$144 million, respectively.

## Note 5. Loan Receivables, Net and Loan Guarantee Liabilities

### Loans Receivable

(Dollars in Millions)

	2025			
	Principal	Accrued Interest	Allowance for Subsidy	Net
Direct Loan Program	\$ 1,397,672	\$ 135,358	\$ (279,470)	\$ 1,253,560
FFEL Program	72,675	25,897	(63,271)	35,301
Other Credit Programs for Higher Education	3,355	692	(592)	3,455
<b>Total Loans Receivable</b>	<b>\$ 1,473,702</b>	<b>\$ 161,947</b>	<b>\$ (343,333)</b>	<b>\$ 1,292,316</b>

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.

As the net loans receivable represents the net present value of future cash flows, it is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

What follows is additional analysis for each of the loan programs.

### DIRECT LOAN PROGRAM

The federal government makes loans directly to students and parents through participating IHEs under the Direct Loan Program. Direct loans are originated and serviced through contracts with private vendors.

Direct Loan Program loan receivables include defaulted and non-defaulted loans owned by the Department. Of the \$1,533.0 billion in gross loan receivables, as of September 30, 2025, \$61.4 billion (4.0 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer.

**Direct Loan Program Loan Disbursements by Loan Type**

(Dollars in Millions)

	2025
Stafford	\$ 16,055
Unsubsidized Stafford	45,965
PLUS	28,120
Consolidation	26,056
<b>Total Disbursements</b>	<b>\$ 116,196</b>

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 \$26.1 billion during FY 2025. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows associated with that cohort.

**Direct Loan Subsidy Rates—Cohort 2025**

	Interest Differential	Defaults	Fees	Other*	Total
Stafford	43.81%	3.00%	-1.06%	-9.74%	36.01%
Unsubsidized Stafford	38.50%	2.78%	-1.06%	-17.62%	22.60%
PLUS	15.97%	2.37%	-4.23%	-20.60%	-6.49%
Consolidation	46.08%	0.42%	0.00%	1.08%	47.58%
<b>Weighted Average of Total Obligations</b>	<b>36.75%</b>	<b>2.06%</b>	<b>-1.41%</b>	<b>-11.87%</b>	<b>25.53%</b>

\*The Other component reflects costs associated with loan cancellations and the interactive effects of payment plans on the components of subsidy.

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

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.

## FEDERAL FAMILY EDUCATION LOAN PROGRAM

FFEL was established in FY 1965 and is a guaranteed loan program. As a result of the *SAFRA Act*, no new FFEL Program 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 authority (acquired FFEL Program loans), consolidated into a direct loan, or otherwise satisfied, discharged, or canceled.

### FFEL Guaranteed Loans Outstanding

(Dollars in Billions)

	2025
Outstanding Principal of Guaranteed Loans, Face Value	\$ 56.6
Amount of Outstanding Principal Guaranteed	\$ 56.6

As of September 30, 2025, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately \$56.6 billion. Additionally, the FFEL Program guarantees outstanding interest balances. As of September 30, 2025, the interest balances outstanding for guaranteed loans held by lenders was approximately \$2.9 billion. The Department's total FFEL Program guarantees (principal and interest) are approximately \$59.5 billion as of September 30, 2025. Of the total guaranteed amount, the Department would expect to pay a smaller amount to the guaranty agencies. The guarantee rates range from 75 to 100 percent of the principal and interest balance depending on the type of claim, when the loan was made, and the guaranty agency's claim experience. For purposes of disclosing the Department's total risk exposure for FFEL guarantees, the highest reimbursement rate of 100 percent is assumed.

Defaulted and acquired FFEL Program loans are accounted for as assets as shown in the following table.

## FFEL Program Loan Receivables

(Dollars in Millions)

	2025			
	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
<b>DEFAULTED FFEL GUARANTEED LOANS</b>				
FFEL GSL Program (Pre-1992)	\$ 3,095	\$ 5,460	\$ (8,325)	\$ 230
FFEL GSL Program (Post-1991)	37,963	11,680	(42,286)	7,357
<b>Total Defaulted FFEL Program Guaranteed Loans</b>	<b>41,058</b>	<b>17,140</b>	<b>(50,611)</b>	<b>7,587</b>
<b>ACQUIRED FFEL LOANS</b>				
Loan Purchase Commitment	10,914	2,984	(6,444)	7,454
Loan Participation Purchase	19,594	5,350	(6,054)	18,890
ABCP Conduit	1,109	423	(162)	1,370
<b>Total Acquired FFEL Program Loans</b>	<b>31,617</b>	<b>8,757</b>	<b>(12,660)</b>	<b>27,714</b>
<b>FFEL Program Loan Receivables</b>	<b>\$ 72,675</b>	<b>\$ 25,897</b>	<b>\$ (63,271)</b>	<b>\$ 35,301</b>

The following schedule provides the ending balances of the Department's loan guarantee liability by loan program. The net loan guarantee liability for the Department's credit programs is negative as of September 30, 2025. This indicates that expected collections on anticipated future defaulted loans will be in excess of default disbursements, calculated on a net present value basis. In accordance with OMB Circular A-136, the Department has classified the negative estimated liability as an asset on the Consolidated Balance Sheet.

### Liabilities for Loan Guarantees

(Dollars in Millions)

	2025
Pre-1992 FFEL Program Loan Guarantee Liability	\$ 1
Post-1991 FFEL Program Loan Guarantee Liability	(8,966)
<b>FFEL Program Loan Guarantee Liability</b>	<b>(8,965)</b>
HEAL	259
<b>Total Ending Balance for Loan Guarantee Liability</b>	<b>\$ (8,706)</b>

## OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION

### Loans Receivables, Other Credit Programs for Higher Education

(Dollars in Millions)

	2025			
	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
Federal Perkins Loans	\$ 1,312	\$ 528	\$ (394)	\$ 1,446
TEACH Grant Program Loans	873	112	(366)	619
HEAL Program Loans	331	43	29	403
Facilities Loan Programs	839	9	139	987
<b>Total</b>	<b>\$ 3,355</b>	<b>\$ 692</b>	<b>\$ (592)</b>	<b>\$ 3,455</b>

**Federal Perkins Loan Program.** Loans made through the Federal Perkins Loan program were low-interest federal student loans for undergraduate and graduate students with exceptional financial needs. Schools made these Perkins loans to their students and are responsible for servicing the loans throughout the repayment term. Borrowers who undertake certain public, military, or teaching service employment are eligible to have all or part of their loans canceled.

The Federal Perkins Loan program was a revolving loan program where the loan repayments collected from former students were used to make new loans to current students. The Department provided most of the capital used by schools to make these loans to eligible students. Participating schools provided the remaining program funding. In some statutorily defined cases, funds were provided by the Department to reimburse schools for loan cancellations. The above schedule includes only Perkins loans that were assigned to the Department when schools discontinued their participation in the program. For these assigned Perkins loans, collections of principal, interest, and fees, net of amounts paid to cover contract collection costs totaled \$79 million in FY 2025.

The *Federal Perkins Loan Program Extension Act of 2015* (Extension Act) eliminated the authorization for schools to make new Perkins loan disbursements as of September 30, 2017, and ended all Perkins loan disbursements by June 30, 2018. Before the authority for new Perkins loans ended, collections made by the schools would go back into each school's Perkins fund to be used to make more loans. Schools are required to return to the Department the federal share of any excess beyond what is needed (excess liquid capital).

Schools are not required to liquidate and close out their programs now that no new Perkins loans are being made. Schools continue to take in collections and are required to return the federal share of the capital that is collected to the Department on an annual basis. Schools returned \$335 million to the Department in FY 2025 for the federal share of collected cash.

Beginning with the 2023 reporting year, as part of the wind-down of the Federal Perkins Loan Program, schools are required to assign to the Department all Perkins Loans that have been in default for more than two years for which there have been no current collections. While the mandatory assignment policy has driven more schools to liquidate, the majority of schools are continuing to service existing portfolios to recover the money they contributed to their Perkins funds and will do so for as long as it is feasible or until the eventual wind-down of their portfolios. Schools that liquidate and close out their programs must transfer any outstanding portfolio to the Department and liquidate any final cash. Most recent data from the 2025-26 Fiscal Operations Report and Application to Participate (FISAP) shows a \$7.2 million outstanding principal balance on Perkins loans held by schools and the Department's equity interest on this portfolio is \$6.0 million.

The amounts collected by the Department annually for defaulted Perkins loans and for the return of the federal share of schools' Perkins capital contributions are returned to the Treasury General Fund.

**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. The program is operated as a loan program under the FCRA for budget and accounting purposes since grants can be converted to direct loans.

#### TEACH Grant Program Subsidy Rates—Cohort 2025

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	75.31%	3.08%	0.00%	-29.93%	48.46%

\*The Other component reflects costs associated with loan cancellations and the interactive effects of payment plans on the components of subsidy.

**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 before 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 \$839 million in outstanding borrowing from the FFB to support loans made to HBCU institutions and \$976 million obligated to support near term lending as of September 30, 2025.

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

## Note 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2025	
	Intragovernmental	Other than Intragovernmental
<b>Liabilities Not Covered By Budgetary Resources</b>		
Unfunded Leave	\$ -	\$ 39
FECA Liabilities	2	10
<b>Total Liabilities Not Covered By Budgetary Resources</b>	<b>2</b>	<b>49</b>
<b>Liabilities Not Requiring Budgetary Resources</b>		
Subsidy Due to Treasury General Fund	470	-
Federal Perkins Loan Program	1,438	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	(78)	467
Custodial Liabilities	2	-
<b>Total Liabilities Not Requiring Budgetary Resources</b>	<b>1,832</b>	<b>467</b>
Total Liabilities Covered By Budgetary Resources	1,397,574	9,681
<b>Total Liabilities</b>	<b>\$ 1,399,408</b>	<b>\$ 10,197</b>

## Note 7. Debt Associated with Loans

(Dollars in Millions)

	2025
<b>Debt to the Bureau of Public Debt</b>	
Direct Loan Program	\$ 1,287,923
FFEL Program	56,285
Other Credit Programs for Higher Education	713
<b>Total Debt to the Bureau of Public Debt</b>	<b>1,344,921</b>
<b>Debt to the Federal Financing Bank</b>	
Other Credit Programs for Higher Education	839
<b>Total Debt Associated with Loans</b>	<b>\$ 1,345,760</b>

The Department borrows from Treasury's Bureau of the Public Debt and the FFB to fund the disbursement of new loans and the payment of credit program outlays and related costs. 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 95.7 percent of the Department's debt, as of September 30, 2025, is attributable to the Direct Loan Program.

Debt to the FFB represents the liability for full payment of principal and accrued interest for the FFB-financed HBCU Capital Financing program. The current ending balance reflects the aggregate of new bonds administered and repayments made on previously issued bonds.

## Note 8. Subsidy Due to Treasury

(Dollars in Millions)

	2025
Credit Program Downward Subsidy Re-Estimates	
Direct Loan Program	\$ 44,735
FFEL Program	6,412
<b>Total Credit Program Downward Subsidy Re-Estimates</b>	<b>51,147</b>
Future Liquidating Account Collections	
FFEL Program	470
<b>Total Future Liquidating Account Collections</b>	<b>470</b>
<b>Total Subsidy Due to Treasury General Fund</b>	<b>\$ 51,617</b>

## Note 9. Other Liabilities

(Dollars in Millions)

	2025	
	Intragovernmental	Other than Intragovernmental
Federal Perkins Loan Program	\$ 1,438	\$ -
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	(78)	467
Liability for Advances and Prepayments	2	-
Accrued Funded Payroll and Leave	-	9
Accrued Unfunded Annual Leave	-	39
Employer Contributions and Payroll Taxes Payable	5	1
FECA Liabilities	2	10
Custodial Liabilities	2	-
<b>Total Other Liabilities</b>	<b>\$ 1,371</b>	<b>\$ 526</b>

## Note 10. 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 SFFAS 5, *Accounting for Liabilities of the Federal Government*. The following commitments are amounts for contractual arrangements that may require future financial obligations.



## INTRAGOVERNMENTAL LEASES

The Department leases from the GSA all or a portion of 12 privately owned and 9 publicly owned buildings in 18 cities. The table below presents the estimated future minimum lease payments for these privately and publicly owned buildings.

### Future Minimum Intragovernmental Lease Payments

(Dollars in Millions)

	2025
2026	\$ 30
2027	31
2028	32
2029	33
2030	33
After 2030	34
<b>Total</b>	<b>\$ 193</b>

## GUARANTY AGENCIES

The Department may assist guaranty agencies experiencing financial difficulties. The Department has not done so in FY 2025 because the Department executed voluntary flexible agreements with the guaranty agencies effective October 1, 2024. The Department collaboratively negotiated these agreements to achieve the mutual goal of ensuring borrowers get greater outreach assistance to resolve their defaulted loans quickly while also providing stability for guaranty agencies—a key part of keeping the FFEL Program healthy as it continues its steady winddown. No provision has been made in the financial statements for potential liabilities.

## 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 impact on the Department's financial position. As appropriate, the Department would seek recovery of some costs from Treasury's Judgment Fund for any loss in litigation that may occur. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government if appropriated funds cannot be used.

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2025. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2025, is not expected to have a material impact on these financial statements.

# Report of the Independent Auditors



## UNITED STATES DEPARTMENT OF EDUCATION OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

January 22, 2026

The Honorable Linda McMahon  
Secretary of Education  
U.S. Department of Education  
400 Maryland Avenue SW  
Washington, D.C. 20202

Dear Secretary McMahon:

The enclosed Independent Auditors' Report (report) covers the consolidated balance sheet of the U.S. Department of Education (Department), as of September 30, 2025, and the related notes to the consolidated financial statement (the Department's 2025 consolidated financial statement), to comply with the Chief Financial Officers Act of 1990, as amended. The report should be read in conjunction with the Department's consolidated financial statement to fully understand the context of the information contained therein.

We contracted with the independent public accounting firm KPMG LLP (KPMG) to audit the Department's 2025 consolidated financial statement, to report on internal control over financial reporting, and to report on compliance with laws and other matters, including compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA). The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*.

In its audit of the Department, KPMG reported:

- the consolidated financial statement is presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.
- a material weakness in the internal control over financial reporting, described in Exhibit A, *Controls over the Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement*;
- three significant deficiencies in internal control over financial reporting, described in Exhibit B, *Information Technology Controls Need Improvement*, *Monitoring Controls over Service Organizations Need Improvement*, and *Entity Level Controls Need Improvement*;
- no instances in which the Department's financial management systems did not substantially comply with the three requirements of FFMIA; and
- no reportable noncompliance with provisions of laws tested or other matters.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

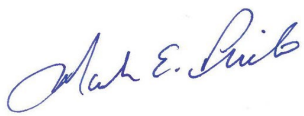
*Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.*

Page 2 – Independent Auditors' Report

KPMG is responsible for the attached auditor's report dated January 22, 2026, and the conclusions expressed therein. We do not express opinions on the Department's consolidated financial statement or internal control over financial reporting, or on whether the Department's financial management systems complied substantially with the three requirements of FFMIA, or conclusions on compliance and other matters.

We appreciate the cooperation given KPMG and my office during the audit. If you have any questions or would like to discuss the report, please contact me at (202) 453-6420.

Sincerely,

A handwritten signature in blue ink, reading "Mark E. Priebe".

Mark E. Priebe  
Acting Inspector General

Enclosure



KPMG LLP  
Suite 12000  
1801 K Street, NW  
Washington, DC 20006

## Independent Auditors' Report

Inspector General  
United States Department of Education

Secretary  
United States Department of Education:

### Report on the Audit of the Consolidated Financial Statement

#### *Opinion*

We have audited the consolidated balance sheet of the United States Department of Education (the Department), as of September 30, 2025, and the related notes to the consolidated balance sheet (the consolidated financial statement).

In our opinion, the accompanying consolidated financial statement presents fairly, in all material respects, the financial position of the Department as of September 30, 2025, in accordance with U.S. generally accepted accounting principles.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statement section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Other Matter - Interactive Data*

Management has elected to reference to information on websites or other forms of interactive data outside the fiscal year 2025 *Agency Financial Report* to provide additional information for the users of its consolidated financial statement. Such information is not a required part of the consolidated financial statement or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

#### *Responsibilities of Management for the Consolidated Financial Statement*

Management is responsible for the preparation and fair presentation of the consolidated financial statement in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statement that is free from material misstatement, whether due to fraud or error.

KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



#### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statement*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statement.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statement. Such information is the responsibility of management and, although not a part of the basic consolidated financial statement, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statement, and other knowledge we obtained during our audit of the basic consolidated financial statement. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



#### *Other Information*

Management is responsible for the other information included in the *Agency Financial Report*. The other information comprises the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the related notes to these statements, but does not include the consolidated balance sheet and our auditors' report thereon. Our opinion on the consolidated balance sheet does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statement, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated balance sheet, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

#### **Other Reporting Required by Government Auditing Standards**

##### *Report on Internal Control Over Financial Reporting*

In planning and performing our audit of the consolidated financial statement as of September 30, 2025, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Exhibit A, *Controls over the Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement* to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Exhibit B, *Information Technology Controls Need Improvement, Monitoring Controls over Service Organizations Need Improvement, and Entity Level Controls Need Improvement*, to be significant deficiencies.

##### *Report on Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Department's consolidated financial statement as of September 30, 2025, is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02.



We also performed tests of the Department's compliance with certain provisions referred to in Section 803(a) of the Federal Financial *Management Improvement* Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

*Department's Response to Findings*

*Government Auditing Standards* requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described in Exhibit C. The Department's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statement and, accordingly, we express no opinion on the response.

*Purpose of the Other Reporting Required by Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.  
January 22, 2026

**Material Weakness****A. Controls over the Reliability of Underlying Data Used in Credit Reform Estimates Needs Improvement****Background:**

The material weakness under this section is related to the Department's Direct student loan portfolio.

The Department is required to perform interest rate and technical re-estimates of the subsidy costs (commonly referred to as subsidy re-estimates) of its direct loan and loan guaranty programs annually as of September 30.

These subsidy re-estimates are calculated using an internally developed cash flow model, the Student Loan Model (SLM). The SLM utilizes assumptions based on internally sourced data elements from Information Technology (IT) systems. The future cash flow outputs generated from the SLM are input into the format required by the Office of Management and Budget (OMB) Credit Subsidy Calculator (CSC), a required present value discount tool for agencies with credit reform programs, to produce the subsidy re-estimates.

**Condition:**

Management did not design and implement sufficient controls to support the reliability of the underlying data and code used in key assumptions for the SLM cash flow model to develop the subsidy re-estimates.

**Cause/Effect:**

Management's risk assessment process did not sufficiently analyze the risks related to the reliability of the underlying data and code used in the subsidy cost estimates. Inadequate controls over the reliability of the underlying data and code used to develop the subsidy re-estimates increases the risk that the financial statements could be materially misstated.

**Criteria:**

The following criteria were considered in the evaluation of this condition:

- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Principle No. 10, Design Control Activities.
- FASAB Technical Release 6, Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act, Paragraph 20.

**Recommendation:**

We recommend that management design and implement controls that respond to the risks associated with the reliability of key underlying data and code used in developing the subsidy re-estimates. Such review should be documented and maintained.



### Significant Deficiencies

#### A. Information Technology Controls Need Improvement

The following control deficiencies in the areas of Information Technology (IT) logical access, security management, segregation of IT duties, application change management, and computer operations are related to Department systems.

##### Conditions:

In prior years, we reported a significant deficiency related to the Department's IT controls due to persistent unmitigated IT control deficiencies. During FY 2025, management demonstrated progress implementing corrective actions to remediate some prior-year deficiencies over logical access controls. However, management has not fully remediated prior-year deficiencies related to security management, logical access authentication and administration, separated and transferred user access removal, user access reviews and recertification, segregation of IT duties, application change management, and computer operations. In addition to these existing deficiencies, new IT control deficiencies were identified related to controls over security management, access controls, segregation of IT duties, change management controls, and computer operations for the core financial management system, administration of the network service directory, two financial and mixed support systems, and one identity and access management support system. Specifically, we noted the following:

1. Deficiencies in IT security management controls: Management did not effectively operate corrective action, remediation, and quality review controls for IT security weaknesses, specifically, Plan of Action and Milestone (POA&M) closure documentation did not always address the root cause of the deficiencies, thereby increasing the potential of IT control deficiencies reoccurring in the future.
2. Deficiencies in IT logical access controls: Access controls were not consistently performed and followed. Specifically, control deficiencies over logical access were noted for the authorization and approval of requested application access, including the completion of role-based trainings and security clearance reinvestigations; removal of terminated or inactive access; adherence to segregation of IT duties and least privilege concepts; performance of complete, accurate, and timely access reviews and recertifications, including maintaining related evidence to support the reviews; and password controls and system security settings did not meet the Department's requirements.
3. Deficiencies in IT application change management controls: The application change management policies and controls were not fully designed and documented or were not consistently followed in accordance with Department policy and sufficient evidence was not provided to support testing approvals for certain application changes.
4. Deficiencies in IT computer operations controls: Controls over computer operations were not properly designed and implemented. Specifically, control deficiencies over centralized tracking of all job processing and scheduling tool changes; changes that were made directly in the production environment; and adherence to Department's requirements for the use, logging, and monitoring of generic and shared accounts for the job scheduling tool.

**Cause/Effect:**

Management has not performed effective risk assessments and there was a lack of effective monitoring controls over the effectiveness of designed control activities by the Department to ensure:

1. System deficiencies have a documented POA&M and are tracked in the required security management tool, and corrective actions to remediate prior-year conditions and associated root causes are fully implemented.
2. Logical access systems and support processes consistently:
  - Adhere to documented agency-wide policies and procedures;
  - Establish logical access control;
  - Adhere to segregation of duties and least privilege processes and principles;
  - Ensure requests and related evidence for new, modified, or separated or inactive users are retained and documented completely and accurately;
  - Ensure complete and accurate access reviews are performed to detect and mitigate the risk of unauthorized accounts, access that is not commensurate with job responsibilities or least privilege, and access permissions not being revoked timely; and
  - Design password controls and system security settings to meet the Department's requirements.
3. The established application change process is fully documented and followed for all types of changes.
4. The established process for job processing changes is followed, the requirements for the use and monitoring of generic/shared accounts controls for the job scheduling tool are followed and enforced, and the established computer operations processes detect and/or prevent unauthorized changes to the job processing tool and schedules.

Ineffective IT controls increase the risk of unauthorized use, disclosure, disruption, modification, or destruction of information, and information systems that could impact the integrity and reliability of information processed in the associated applications which may lead to misstatements of the balance sheet.

**Criteria:**

The following criteria were considered in the evaluation of these conditions:

- The Green Book, Principle No. 2, *Exercise Oversight Responsibility*, Principle No. 3, *Establish Structure, Responsibility, and Authority*, Principle No. 4, *Demonstrate Commitment to Competence*, Principle No. 5, *Enforce Accountability*, Principle No. 6, *Define Objectives and Risk Tolerances*, Principle No.10, *Design Control Activities*, Principle No. 11, *Design Activities for the Information System*, Principle No.12, *Implement Control Activities*, Principle No. 13, *Use Quality Information*, Principle No.16, *Internal Control System Monitoring*, Principle No.17, and *Evaluate Issues and Remediate Deficiencies*.
- Federal Information Processing Standards (FIPS) 200, *Minimum Security Requirements for Federal Information and Information Systems*.
- National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 5, Release 5.1.1, specifically security control requirements PM-4 *Plan of Action and Milestone Process*, AC-2 *Account*

*Management, AC-5 Separation of Duties, AC-6 Least Privilege, AC-7 Unsuccessful Logon Attempts, AT-3 Role-based Training, AT-4 Training records, IA-2 Identification and Authentication (Organizational Users), PS-3 Personnel Screening, and CM-3 Configuration Change Control.*

**Recommendations:**

We recommend that management:

1. Evaluate, design, and implement security management controls to ensure that corrective actions remediate the risk and address the root cause of findings and quality reviews over the POA&M closure documentation are conducted to confirm that the noted deficiencies are fully addressed to prevent future reoccurrences.
2. Evaluate, design, and implement logical access controls and provide training and oversight over access provisioning, removal and/or deactivation of access, periodic reviews and recertifications of access, and adherence to password and security setting requirements, segregation of duties, and least privileged principles.
3. Evaluate, design, and implement change management controls to ensure the Department's system change management process identifies and categorizes the types of changes that impact the system, data, and configurations in addition to defining and documenting the change descriptions and requirements for testing, approvals, documentation, audit trails, and retention for each system change.
4. Evaluate, design, and implement computer operations controls to develop and implement formal procedures addressing controls over changes to production jobs and schedules and the monitoring of actions taken by the generic/shared job processing account in the job scheduling tool.

## **B. Monitoring Controls over Service Organizations Need Improvement**

The Department has agreements with numerous service organizations to handle essential functions related to the student loan portfolio. These service organizations provide the Department with System and Organization Controls (SOC) reports on a regular cadence to ensure that management can perform monitoring and review in accordance with the relevant federal accounting standards. These SOC reports contain listings of complementary user entity controls (CUECs) which are critical to ensure the Department's servicers' controls work as intended.

### **Condition:**

Controls at the Department ensuring complete and timely monitoring of SOC reports are not operating effectively.

### **Cause/Effect:**

Management's risk assessment process did not sufficiently analyze the risks associated with the SOC reports. Management's ineffective controls over the review of SOC reports and the timely implementation of controls to address the CUECs increases risks of incomplete or inaccurate loan receivable information, data, and transactions which could result in incomplete and inaccurate financial statements.

### **Criteria:**

The following criteria was considered in the evaluation of this condition:

- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book) Principle 5, *Enforce Accountability*; Principle 11, *Design Activities for the Information System*, and Principle 16, *Perform Monitoring Activities*.

### **Recommendations:**

We recommend that management ensure that controls are operating effectively over the complete and timely review of SOC reports to ensure the scope adequately covers the controls in place at the service organization, including the CUECs presented in such reports. Furthermore, management should implement and execute controls designed to address those CUECs in a timely manner.

### C. Entity Level Controls Need Improvement

The Department is continually seeking ways to improve accountability in achieving the entity's mission. A key factor in improving accountability in achieving an entity's mission is to implement an effective internal control system. The control environment sets the tone of an organization by influencing the control consciousness of its personnel. It is also the foundation for all components of internal control, providing discipline and structure. The Department needs to address weaknesses in its entity-wide control environment related to monitoring activities.

#### Condition:

The Department's entity level controls were not sufficiently designed to ensure that corrective action plans are implemented and internal control deficiencies are remediated in a timely manner.

#### Cause/Effect:

Insufficient monitoring of remediation activities prevented the Department from ensuring that corrective action plans are implemented and control deficiencies are remediated timely. The conditions noted above contributed to the control deficiencies described earlier and could lead to other weaknesses in internal control over financial reporting.

#### Criteria:

The following criteria were considered in the evaluation of this condition:

- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Principle 16, *Perform Monitoring Activities* and Principle No.17, and *Evaluate Issues and Remediate Deficiencies*.

#### Recommendations:

We recommend that management implement key monitoring controls to ensure that corrective action plans are implemented to remediate control deficiencies identified in a timely manner. In addition, increase oversight, review, and accountability over the process among various offices and directorates within the Department.

## Management's Response

## Exhibit C



**UNITED STATES DEPARTMENT OF EDUCATION**  
OFFICE OF FINANCE AND OPERATIONS

January 16, 2026

MEMORANDUM

TO: Keith Cummins  
Acting Deputy Assistant Inspector General for Audit  
Office of Inspector General

FROM: Jacqueline Clay  
Delegated the Duties of the Assistant Secretary  
and Chief Financial Officer

Thomas N. Flagg  
Chief Information Officer

SUBJECT: DRAFT INDEPENDENT AUDITORS' REPORT  
Fiscal Year 2025 Financial Statement  
U. S. Department of Education  
ED-OIG/A24FS0168

We appreciate the opportunity to provide input on the draft audit report and would like to thank the Office of Inspector General audit team for their partnership and support during the annual audit.

The Department concurs with the findings and will take the appropriate actions to address the audit recommendations. The agency takes its fiscal responsibilities seriously and will make it a priority to implement business processes and internal controls to resolve the issues raised in the audit feedback, as we continue to strive to return to the positive trend of receiving a full unmodified opinion on the annual Agency Financial Report(s) in the future.

Please contact Mark Washington, Deputy Assistant Secretary, and Delegated Deputy Chief Financial Officer, Office of Finance and Operations at [mark.washington@ed.gov](mailto:mark.washington@ed.gov) with any questions or additional comments.

400 MARYLAND AVE., S.W., WASHINGTON, DC 20202  
[www.ed.gov](http://www.ed.gov)

*The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.*



# OTHER INFORMATION (UNAUDITED)

## About the Other Information Section

The Other Information section includes:

**Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources (Unaudited)**

The **Consolidated Statement of Net Cost (Unaudited)** shows, by program, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the Department less exchange revenues earned by those programs.

The **Consolidated Statement of Changes in Net Position (Unaudited)** presents the Department's beginning and ending net position by two components—Unexpended Appropriations and Cumulative Results of Operations. It summarizes the change in net position by major transaction category. The ending balances of both components of the net position are also reported on the Consolidated Balance Sheet.

The **Combined Statement of Budgetary Resources (Unaudited)** presents the budgetary resources available to the Department, the status of these resources, and the outlays of budgetary resources.

The **Notes to the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources (Unaudited)** provide information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed.

- Note 11.** Other Accounting Policies
- Note 12.** Property and Equipment
- Note 13.** Credit Program Subsidy Expense and Reconciliations of Loans Receivable, Allowance for Subsidy, and Liabilities for Loan Guarantees
- Note 14.** Roll-Forward of Debt Associated with Loans
- Note 15.** Net Cost of Operations
- Note 16.** Statement of Budgetary Resources
- Note 17.** Reconciliation of Net Cost to Net Outlays
- Note 18.** Reclassification of Statement of Net Cost and Statement of Operations and Changes in Net Position for Financial Report Compilation Process
- Note 19.** Other Matters



**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

This section contains the Combining Statements of Budgetary Resources for the year ended September 30, 2025.

**OFFICE OF INSPECTOR GENERAL'S (OIG'S) MANAGEMENT AND PERFORMANCE CHALLENGES FOR FISCAL YEAR 2025**

The Management and Performance Challenges Report provides a summary of what the Office of Inspector General (OIG) believes are the Department's biggest challenges for FY 2025. The OIG identified the following four challenges: (1) Oversight and Monitoring of Student Financial Assistance Programs, (2) Oversight and Monitoring of Grantees, (3) Data Quality and Reporting, and (4) Information Technology Security. The full report is available at the **OIG website**.

**SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES**

The Summary of Financial Statement Audit and Management Assurances provides information about the material weaknesses reported by the Department or through the audit process.

***PAYMENT INTEGRITY INFORMATION ACT REPORTING***

This section summarizes the U.S. Department of Education's (Department's) efforts to maintain payment integrity and to develop effective controls designed to prevent, detect, and recover improper payments. It also includes information regarding the Department's high-risk programs.

**CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION**

This section reports on the Department's annual inflation adjustments to civil monetary penalties as required under the *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015*.

***GRANTS OVERSIGHT AND NEW EFFICIENCY ACT OF 2016 (GONE ACT) REPORTING***

This section provides a high-level summary of the Department's expired, but not closed, federal grants and cooperative agreements.

# The Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources (Unaudited)

U.S. Department of Education  
Consolidated Statement of Net Cost  
For the Year Ended September 30, 2025  
(Dollars in Millions)

	FY 2025 (Unaudited)
<b>PREKINDERGARTEN THROUGH GRADE 12 STUDENTS</b>	
Gross Costs	\$ 62,747
Earned Revenue	(121)
<b>Net Program Costs</b>	<b>\$ 62,626</b>
<b>HIGHER EDUCATION</b>	
<b>Direct Loan Program</b>	
Gross Costs	\$ (89,886)
Earned Revenue	(54,413)
<b>Net Cost (Surplus) of Direct Loan Program</b>	<b>\$ (144,299)</b>
<b>FFEL Program</b>	
Gross Costs	\$ (11,907)
Earned Revenue	(1,816)
<b>Net Cost (Surplus) of FFEL Program</b>	<b>\$ (13,723)</b>
<b>Other Credit Programs for Higher Education</b>	
Gross Costs	\$ (28)
Earned Revenue	(535)
<b>Net Cost (Surplus) of Other Credit Programs for Higher Education</b>	<b>\$ (563)</b>
<b>Non-credit Programs</b>	
Gross Costs	\$ 49,949
Earned Revenue	(13)
<b>Net Cost of Non-Credit Programs</b>	<b>\$ 49,936</b>
<b>Net Program Costs (Surplus)</b>	<b>\$ (108,649)</b>
<b>Total Program Gross Costs</b>	<b>\$ 10,875</b>
<b>Total Program Earned Revenue</b>	<b>(56,898)</b>
<b>Net Cost (Surplus) of Operations (Notes 15 and 17)</b>	<b>\$ (46,023)</b>

The accompanying notes are an integral part of these statements.

**U.S. Department of Education**  
**Consolidated Statement of Changes in Net Position**  
**For the Year Ended September 30, 2025**

(Dollars in Millions)

	FY 2025 (Unaudited)	
	Unexpended Appropriations	Cumulative Results of Operations
<b>Beginning Balances</b>	<b>\$ 111,524</b>	<b>\$ (27,030)</b>
Appropriations Received	163,571	-
Appropriations Transferred - In/Out	2	-
Other Adjustments (Rescissions, etc.)	(1,423)	-
Appropriations Used	(181,771)	181,771
Nonexchange Revenue	-	12
Imputed Financing from Costs Absorbed by Others	-	89
Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other	-	(206,743)
Net Cost of Operations	-	46,023
<b>Net Change</b>	<b>\$ (19,621)</b>	<b>\$ 21,152</b>
<b>Net Position</b>	<b>\$ 91,903</b>	<b>\$ (5,878)</b>

The accompanying notes are an integral part of these statements.

**U.S. Department of Education**  
**Combined Statement of Budgetary Resources**  
**For the Year Ended September 30, 2025**

(Dollars in Millions)

	FY 2025 (Unaudited)	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>BUDGETARY RESOURCES</b>		
Unobligated Balance from Prior Year Budget Authority (Net) (Note 16)	\$ 26,273	\$ 31,632
Appropriations (Discretionary and Mandatory)	162,742	176
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	271,230
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	207	90,676
<b>Total Budgetary Resources</b>	<b>\$ 189,222</b>	<b>\$ 393,714</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
New Obligations and Upward Adjustments (Total)	\$ 178,669	\$ 333,227
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	3,362	-
Unapportioned, Unexpired Accounts	256	60,487
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 3,618</b>	<b>\$ 60,487</b>
Expired Unobligated Balance, End of Year	6,935	-
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 10,553</b>	<b>\$ 60,487</b>
<b>Total Status of Budgetary Resources</b>	<b>\$ 189,222</b>	<b>\$ 393,714</b>
<b>OUTLAYS, NET, AND DISBURSEMENTS, NET</b>		
Outlays, Net (Discretionary and Mandatory)	\$ 187,736	
Distributed Offsetting Receipts (-) (Note 16)	(153,021)	
<b>Agency Outlays, Net (Discretionary and Mandatory) (Notes 16 and 17)</b>	<b>\$ 34,715</b>	
<b>Disbursements, Net (Total) (Mandatory)</b>		<b>\$ 155,447</b>

The accompanying notes are an integral part of these statements.

# Notes to the Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources for the Year Ended September 30, 2025 (Unaudited)

## Note 11. Other Accounting Policies

### BASIS OF ACCOUNTING AND PRESENTATION

These financial statements were prepared to report the 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 United States 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. For FY 2025, the Department elected to present these financial statements as unaudited and include them in the Other Information section. 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.

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.

### SUBSIDY COST AND BUDGETARY ACCOUNTING FOR FEDERAL CREDIT PROGRAMS

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.

Subsidy cost is an estimate of the present value cost of providing direct loans but excludes the administrative costs of issuing and servicing the loans. The Department estimates subsidy costs using a set of econometric and financial models, as well as cash flow models.

The Department estimates subsidy costs annually for new loans disbursed in the current year; updates to the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates to previous cost estimates based on new legislation or other government actions that change the terms of existing loans (loan modifications) that alter the estimated subsidy cost and the present value of outstanding loans. Loan modifications can also include modification adjustment gains and losses to account 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 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.

To account for the change in the net present value of the loan portfolio over time, the subsidy cost is amortized each year. 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. Amortization of subsidy is calculated as the difference between interest received from borrowers and Treasury (on uninvested funds) and interest paid to Treasury on borrowings.

The Department records an obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools’ receipt of aid applications. The Department advances funds to schools based on these estimates.

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 obligation estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 8.2 percent of the amount obligated for new loan awards will not be disbursed.

## BUDGETARY TERMS

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to the Department by law and help ensure compliance with the law.

Budgetary resources are amounts that are available to incur and liquidate obligations in a given year. The Department’s budgetary resources include unobligated balances of resources from prior years and new resources, which include appropriations, authority to borrow from Treasury, and spending authority from collections. Obligations are legally binding agreements that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

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 if 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 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 the FFEL and Direct Loan 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 President's Budget presumes all programs continue in accordance with congressional budgeting rules.

Outlays are the liquidation of obligations that often takes the form of an electronic funds transfer. Outlays are reported on the Statement of Budgetary Resources (SBR) net of offsetting collections and distributed offsetting receipts.

Offsetting collections and offsetting receipts are generally amounts collected from (1) business-like transactions with the public or (2) intragovernmental transfers. Offsetting collections usually may be used by the Department once received without further legislation whereas offsetting receipts must be appropriated to be used.

Offsetting receipts and offsetting collections both "offset" or reduce outlays. Offsetting collections reduce outlays at the expenditure account level, whereas offsetting receipts generally reduce outlays at the agency or Government-wide level. Offsetting receipts can be either "distributed" or "undistributed," with distributed offsetting receipts shown

on the SBR reducing agency outlays and undistributed offsetting receipts reducing Government-wide outlays (and not shown on the SBR).

Budgetary transactions are included as outlays or receipts in the Budget and ultimately affect the budget deficit or surplus whereas non-budgetary amounts are a means of financing and do not affect the deficit or surplus. Non-budgetary amounts include the non-budgetary financing account amounts for loan and loan guarantee programs shown on the SBR. Financing accounts reflect program cash flows as distinct from credit “program” accounts, which are budgetary and reflect the subsidy cost of the programs.

### IMPUTED COSTS

Services are received from other federal entities at no cost or at a cost less than the full cost to the Department. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Department are recognized as imputed costs in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of services other than those related to employee benefits are not included in the Department’s financial statements.

**Retirement Plans and Other Retirement Benefits.** 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 in the Department’s Statement of Net Cost. These OPM imputed costs are offset by imputed financing sources from costs absorbed by others in the Department’s Statement of Changes in Net Position.

### NET COST

As required by the *GPRA Modernization Act of 2010*, the Department’s programs have been aligned with the goals presented in the Department’s *Strategic Plan*.

Net cost consists of gross costs less earned revenue. Major components of the Department’s net costs include credit program subsidy expense, credit program interest revenue and expense, and grant expenses. Administrative overhead costs are allocated to loan and non-credit programs based on number of applications processed, number of loans serviced, dollar amount of loan originations, cost of school compliance actions, and the cost to collect defaulted loans.

**Credit Program Subsidy Expense.** Subsidy expense is an estimate of the present value cost of providing loans, excluding the administrative costs of issuing and servicing the loans. To estimate subsidy expense, the Department must project lifetime cash flows associated with loans disbursed in a specific fiscal year (i.e., the loan cohort). The Department projects these lifetime cash flows using a set of econometric and financial models, as well as cash flow models. The Department estimates subsidy expenses annually for new loans disbursed in the current year; updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates previous cost estimates based on changes to terms of existing loans (loan modifications). Loan modifications include actions resulting from new legislation or from the exercise of administrative discretion under existing law, which directly or indirectly alters the



estimated subsidy cost of outstanding direct loans (or direct loan obligations). The change in book value of direct loans resulting from a modification and the cost of modification will normally differ due to the use of different discount rates or the use of different measurement methods. Any difference between the change in book value and the cost of modification is recognized as a modification adjustment transfer gain or a modification adjustment transfer loss.

**Credit Program Interest Revenue and Expense.** The Department recognizes other than intragovernmental interest revenue when interest is accrued on Direct Loan Program loans, defaulted and acquired FFEL Program loans, and outstanding principal for other loan programs. 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 the unused fund balances with Treasury in the financing accounts.

Federal interest expense is recognized monthly on the outstanding borrowing from Treasury (debt) used to finance direct loan and loan guarantee programs. Accrued interest to Treasury is paid on September 30. The interest rate for federal interest expense is the same as the rate used for federal interest revenue.

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue 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.

## 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.

## ALLOCATION TRANSFERS

Allocation transfers are an arrangement established by statute that allow an agency to delegate authority and financial operations to other Federal agencies. Treasury establishes a separate subsidiary account (allocation account) under the parent fund account to provide for the reporting of obligations and outlays incurred by the child entity. All financial activity related to this allocation transfer (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations, and budget apportionments are derived. The Department has established a child relationship with the Department of the Interior for transactions related to the Bureau of Indian Affairs, and receives allocation transfers, as the child, from the Department of Health and Human Services.

## 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 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, best available data, economic assumptions, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position include: allocation of Department administrative overhead costs; and subsidy expense for direct, defaulted guaranteed, and acquired loans. (See Notes 13 and 15)

## Note 12. Property and Equipment

Changes in property and equipment balances were as follows:

### Property and Equipment

(Dollars in Millions)

	2025 (Unaudited)		
	Acquisition Value	Accumulated Depreciation	Net
Balance Beginning of the Year	\$ 164	\$ (162)	\$ 2
Dispositions	(1)	-	(1)
<b>Balance At End of Year</b>	<b>\$ 163</b>	<b>\$ (162)</b>	<b>\$ 1</b>

### Note 13. Credit Program Subsidy Expense and Reconciliations of Loans Receivable, Allowance for Subsidy, and Liabilities for Loan Guarantees

The net loans receivable increased by \$ 211.2 billion during FY 2025 (as a result of activity identified in the table below).

#### Reconciliation of Loans Receivable, Net

(Dollars in Millions)

	2025 (Unaudited)				
	Direct Loan Program	Defaulted FFEL Guaranteed Loans	Acquired FFEL Loans	Other Credit Programs for Higher Education	Total
<b>Beginning Balance of Loans Receivable, Net</b>	<b>\$ 1,041,295</b>	<b>\$ 11,233</b>	<b>\$ 25,548</b>	<b>\$ 2,998</b>	<b>\$ 1,081,074</b>
Add Loan Disbursements:					
New Loan Disbursements	90,140	-	-	378	90,518
Consolidations	26,056	-	-	-	26,056
Add Defaulted Loan Claim Payments	-	2,226	-	-	2,226
Less Principal, Interest, and Fee Payments Received:					
Principal	(59,334)	(955)	(763)	(118)	(61,170)
Interest	(18,613)	(263)	(512)	(45)	(19,433)
Fees	(1,826)	-	1	-	(1,825)
Add Interest Accruals	52,650	2,499	1,489	113	56,751
Less Loans Written Off:					
Principal	(29,853)	(699)	(941)	(55)	(31,548)
Interest	(1,651)	(107)	(65)	(7)	(1,830)
Allowance for Subsidy	31,504	806	1,006	62	33,378
Add Amortization of Net Interest:					
Interest Revenue on Uninvested Funds	(7,515)	-	(109)	(9)	(7,633)
Interest Revenue from the Public	(52,650)	-	(1,489)	(124)	(54,263)
Administrative Fees	-	-	1	-	1
Interest Expense on Borrowing	37,620	-	853	55	38,528
Positive Subsidy Transfers	(29,168)	-	-	(57)	(29,225)
Negative Subsidy Transfers	1,622	-	-	-	1,622
Upward Subsidy Re-Estimate	(17,355)	-	(31)	(10)	(17,396)
Downward Subsidy Re-Estimate	43,735	-	2,725	142	46,602
Loan Modifications	147,247	-	-	9	147,256
Other:					
Other Adjustments to Allowance for Subsidy	(718)	(3,468)	156	(4)	(4,034)
Other Non-Cash Reconciling Items	374	(3,685)	(155)	127	(3,339)
<b>Ending balance of Loans Receivable, Net</b>	<b>\$ 1,253,560</b>	<b>\$ 7,587</b>	<b>\$ 27,714</b>	<b>\$ 3,455</b>	<b>\$ 1,292,316</b>

When Department-held loans are written off, the unpaid principal and interest are removed from the gross amount of loans receivable, along with an offsetting amount charged to the allowance for subsidy. Prior to the write-off transaction, the estimated uncollectible amounts are provided for in the subsidy cost allowance through the subsidy cost estimate, re-estimates, or loan modifications. Therefore, the write-off transactions do not affect the net loan receivable or expenses.

Other adjustments to the allowance for subsidy for defaulted FFEL Program guaranteed loans shown in the table above includes the Department's allocation of current year subsidy re-estimates and modifications to the allowance for subsidy for Department-held defaulted FFEL Program guaranteed loans.

What follows is additional analysis for each of the loan programs.

## DIRECT LOAN PROGRAM

### Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2025 (Unaudited)
<b>Beginning Balance of Allowance for Subsidy</b>	<b>\$ 431,965</b>
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	27,546
Adjustments	
Loan Modifications	(147,247)
Fees Received	1,826
Loans Written Off	(31,504)
Subsidy Allowance Amortization	22,545
Other Activities	718
<b>Ending Balance of Allowance for Subsidy Before Re-Estimates</b>	<b>305,849</b>
Net Upward/(Downward) Subsidy Re-Estimates	(26,379)
<b>Ending Balance of Allowance for Subsidy</b>	<b>\$ 279,470</b>

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 external risk factors that 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 related 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 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

high percentage of borrowers in income-drive repayment 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 that displays the interrelated risks facing the Direct Loan Program. The Department utilizes the best data available with modeling techniques that have been examined over time by several outside entities. Management obtains confidence over the estimates by using several different tools to analyze cost estimates. Re-estimates on the loan portfolio are performed twice a year ensuring that the most up to date data and models are used.

Loans written off result from borrowers having died, becoming disabled, or having a loan approved for discharge in bankruptcy or other type of discharge, including borrower defense discharges. 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.

### Direct Loan Program Subsidy Expense

(Dollars in Millions)

	2025 (Unaudited)
<b>Subsidy Expense for Direct Loans Disbursed in the Current Year</b>	
Interest Rate Differential	\$ 42,550
Defaults, Net of Recoveries	2,726
Fees	(1,868)
Other	(15,862)
<b>Total Subsidy Expense for Direct Loans Disbursed in the Current Year</b>	<b>27,546</b>
<b>Modifications and Re-Estimates</b>	
Loan Modifications	
Modification Adjustment Transfer Gain	(16,793)
Modification Adjustment Transfer Loss	176
Loan Modifications	(130,630)
<b>Total Loan Modifications</b>	<b>(147,247)</b>
Net Upward/(Downward) Subsidy Re-Estimates	
Interest Rate Re-Estimates	13,142
Technical and Default Re-Estimates	(39,522)
<b>Total Net Upward/(Downward) Subsidy Re-Estimates</b>	<b>(26,380)</b>
<b>Total Modifications and Re-Estimates</b>	<b>(173,627)</b>
<b>Direct Loan Subsidy Expense</b>	<b>\$ (146,081)</b>

**Subsidy Expense for Direct Loans Disbursed in the Current Year.** The two major components of the total subsidy expense for direct loans disbursed in the current year (subsidy transfers) are Interest Rate Differential and Other components. Interest Rate Differential is attributable to the difference between the borrowers' interest payments due to the Department and the Department's estimated cost to finance the direct loan on a present value basis. The Other components of subsidy transfers primarily consists of contract collection costs, program review collections, fees, and loan forgiveness.

**Loan Modifications.** Loan modifications for the Direct Loan Program for FY 2025 included the following:

- *One Big Beautiful Bill Act* (OBBBA). The OBBBA was signed into law on July 4, 2025. Modification costs reflect the sections of the bill that impact the current portfolio of loans (cohorts 1994-2025). Sections 82001 and 82004 of the OBBBA provided that the Department may only offer borrowers two options for repayment of federal student loans: a standard repayment plan and an income-based repayment plan. Sections 85001 and 85002 of the OBBBA delayed until July 1, 2025, Department regulations pertaining to borrower defense to repayment and closed school discharges. These changes resulted in a downward modification cost of \$131.3 billion for the Direct Loan Program. There was a net negative \$16.6 billion modification adjustment transfer associated with this modification, bringing the total FY 2025 modification cost (savings) to \$147.9 billion.
- Temporary Expanded Public Service Loan Forgiveness (TEPSLF). From FY 2018 to FY 2022, Congress provided budgetary resources to support loan forgiveness of up to \$1.2 billion in loan volume for borrowers whose service would qualify them for PSLF, but who were in the wrong repayment plan for a portion of their qualified payments. The Department executed a preliminary modification to forgive the first \$0.1 billion in loan volume during FY 2018, with a plan to execute the remainder once sufficient data was available for a refined estimate. During FY 2025, the Department executed a modification to forgive the remaining balance. These actions resulted in an upward modification cost of \$0.7 billion.

**Net Upward/Downward Subsidy Re-Estimates for All Prior-Year Loan Cohorts.** The Direct Loan Program subsidy re-estimate decreased subsidy expense in FY 2025 by \$26.4 billion. Re-estimated costs only include cohorts that are 90 percent disbursed (i.e., cohort years 1994–2024). The re-estimate reflects the assumption updates and other changes described below.

In addition to the major assumption updates described below, the re-estimate reflects several other assumptions updates, including loan volume, enter repayment, and teacher loan forgiveness.

- Non-IDR Discharges. Non-IDR discharge costs decreased as a result of a regular data update made by the Department to reflect discharges through FY 2024, and PSLF and IDR waiver updates through FY 2025. Updates to this assumption included an increase to borrower defense claim amounts to capture refunds made to borrowers. Decreases in non-IDR discharge costs were partially offset by a *Sweet v. McMahon* borrower defense claim post-class adjustment based on FSA's estimate of post-class claims that are being currently processed. The combined effect of these updates led to a net downward re-estimate of \$5.4 billion.
- IDR Model Changes. The Department made IDR model changes that included standard event updates to use updated default, prepayments, and collection rates. The Department made changes to include the Repayment Assistance Plan (RAP) in the IDR model and to sunset some other income-driven repayment plans as of FY 2027 based on changes first introduced in the OBBBA loan modification. The Department also updated the IDR model to calibrate income and family size calculation to use the latest data from the Federal Tax Information (FTI) datamart, where available. The combined effect of these updates led to a net downward re-estimate of \$25.6 billion.
- Deferment and Forbearance. The deferment and forbearance assumptions were updated using new unemployment projections as well as new data from FSA. Deferment and

forbearance data for periods during FY 2025 and earlier were calibrated to actual loan data. As deferment and forbearance offset prepayments in their effect on payments, this calibration led to savings that offset the cost of updates to the prepayment assumption. The effect of these changes led to a net downward re-estimate of \$14.6 billion.

- **Collections.** The Department updated the collections assumption using updated data from the Debt Management and Collections System. The combined effect of these updates led to a net downward re-estimate of \$0.8 billion.
- **Default.** The default assumption was updated to increase projected defaults in FY 2026 based on recent delinquency data. This included re-distribution of loans projected to have defaulted during the *CARES Act* and Fresh Start period. The effect of these changes led to a net upward re-estimate of \$5.6 billion.
- **Prepayment.** The Department's update to the prepayment assumption included a data update based on historical data from FSA for loan consolidation payoffs that occurred during fiscal years 2022 through 2024. The effect of prepayment assumption updates led to a net upward re-estimate of \$11.7 billion.
- **PSLF.** The Department's update to the PSLF assumption included a data update based on historical data from FSA for loan cohorts up to 2014. The effect of PSLF assumption updates led to a net upward re-estimate of \$3.9 billion.
- **2024 Cohort Assumption Changes.** The technical re-estimate cannot reflect the impacts of certain assumption changes applicable to the current year loan cohort until the following fiscal year per OMB guidance. The current year's re-estimate includes a net upward adjustment of \$0.8 billion for these current-year assumption changes attributable to the FY 2024 cohort.
- **Additional OBBBA Effects.** The current year re-estimate included additional updates made by the Department for the effects of OBBBA that were not recorded in the OBBBA loan modification calculation. The combined effect of these updates led to a net downward re-estimate of \$5.3 billion.
- **Discount Rates.** The rates are used to calculate the NPV of the cash flows to create subsidy rates. Adjustments to the 2022, 2023, and 2024 cohorts were calculated. All other prior cohorts are actual. The combined effect of these changes led to a net upward re-estimate of \$13.1 billion.
- **Interactive Effects.** The re-estimate includes a net downward re-estimate of \$1.0 billion attributed to the interactive effects of the assumption changes described above. Each assumption described above is run independently. The interactive effect is a result of combining all assumptions together to calculate the final re-estimate.
- **Interest on the Re-Estimate.** Interest on re-estimates is the amount of interest that would have been earned or paid by each cohort on the subsidy re-estimate if the re-estimated subsidy had been included as part of the original subsidy estimate. The interest on the re-estimate calculated on the overall subsidy re-estimate resulted in a net downward re-estimate of \$4.0 billion.

**Direct Loan Program Interest Expense and Revenues**

(Dollars in Millions)

	2025 (Unaudited)
Interest Expense on Treasury Borrowing	\$ 37,620
<b>Total Interest Expense</b>	<b>\$ 37,620</b>
Interest Revenue From the Public	52,650
Interest Revenue on Uninvested Funds	7,515
Amortization of Subsidy	(22,545)
<b>Total Revenues</b>	<b>\$ 37,620</b>

**FEDERAL FAMILY EDUCATION LOAN PROGRAM****Reconciliation of Liabilities for Loan Guarantees**

(Dollars in Millions)

	2025 (Unaudited)
<b>Beginning Balance of Post-1991 FFEL Program Loan Guarantee Liability</b>	<b>\$ 9,670</b>
Interest Supplements Paid	(1,282)
Claim Payments to Lenders	(2,226)
Fees Received	446
Interest on Accumulation on the Liability Balance	(692)
Other Activities	(3,699)
Net Upward Subsidy Re-Estimates	(11,183)
<b>Ending Balance of Post-1991 FFEL Program Loan Guarantee Liability</b>	<b>(8,966)</b>
Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees	1
<b>FFEL Program Liabilities for Loan Guarantees</b>	<b>(8,965)</b>
HEAL	259
<b>Liabilities for Loan Guarantees</b>	<b>\$ (8,706)</b>

Other activity includes negative special allowance collections, collections on defaulted FFEL Program loans, guaranty agency expenses, and loan cancellations due to death, disability, or bankruptcy.



**Allowance for Subsidy Reconciliation for Acquired FFEL Program Loans**

(Dollars in Millions)

	2025 (Unaudited)			
	Loan Purchase Commitment	Loan Participation Purchase	ABCP Conduit	Total
<b>Beginning Balance of Allowance for Subsidy</b>	\$ 7,686	\$ 7,936	\$ 150	\$ 15,772
<b>Adjustments</b>				
Subsidy Allowance Amortization	313	405	26	744
Loans Written Off	(373)	(620)	(13)	(1,006)
Other Activities	(55)	(100)	(1)	(156)
<b>Ending Balance of Allowance for Subsidy Before Re-Estimates</b>	\$ 7,571	\$ 7,621	\$ 162	\$ 15,354
Net Upward Subsidy Re-Estimates	(1,127)	(1,567)	-	(2,694)
<b>Ending Balance of Allowance for Subsidy</b>	\$ 6,444	\$ 6,054	\$ 162	\$ 12,660

**FFEL Program Subsidy Expense**

(Dollars in Millions)

	2025 (Unaudited)
<b>Upward/(Downward) Subsidy Re-Estimates</b>	
FFEL Loan Guarantee Program	\$ (11,183)
Loan Purchase Commitment	(1,127)
Loan Participation Purchase	(1,567)
<b>Total FFEL Program Subsidy Re-Estimates</b>	<b>(13,877)</b>
<b>FFEL Program Subsidy Expense</b>	<b>\$ (13,877)</b>

**Net Upward/Downward Subsidy Re-Estimates.** The total FFEL Program subsidy re-estimate decreased subsidy expense in FY 2025 by \$13.9 billion. The net downward re-estimates in the FFEL Program were due primarily to an update to the consolidated loan holder fee assumption in the FFEL Program guaranteed program that resulted in a net downward re-estimate of \$3.6 billion, and interest on the re-estimate calculated on the overall subsidy re-estimate that resulted in a net downward re-estimate of \$8.3 billion.

**OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION****TEACH Grant Program.**

**Loan Modifications.** Loan modifications for the TEACH Grant Program for FY 2025 included the following:

- *One Big Beautiful Bill Act* (OBBBA). Sections 82001 and 82004 of the OBBBA provided that the Department may only offer borrowers two options for repayment of federal student loans: a standard repayment plan and an income-based repayment plan. Sections 85001 and 85002 of the OBBBA delayed until July 1, 2025, Department regulations pertaining to borrower defense to repayment and closed school discharges. These changes resulted in a downward modification cost of \$8.0 million for the TEACH Grant Program. There was a net negative \$1.3 million modification adjustment transfer associated with this modification, bringing the total FY 2025 modification cost (savings) to \$9.3 million.

Note 14. **Roll-Forward of Debt Associated with Loans**

(Dollars in Millions)

	2025 (Unaudited)				
	Beginning Balance	Borrowing	Repayments	Accrued Interest	Ending Balance
<b>Debt to the Bureau of Public Debt</b>					
Direct Loan Program	\$ 1,098,623	\$ 258,533	\$ (69,233)	\$ -	\$ 1,287,923
FFEL Program	56,073	971	(759)	-	56,285
Other Credit Programs for Higher Education	631	103	(21)	-	713
<b>Total Debt to the Bureau of Public Debt</b>	<b>1,155,327</b>	<b>259,607</b>	<b>(70,013)</b>	<b>-</b>	<b>1,344,921</b>
<b>Debt to the Federal Financing Bank</b>					
Other Credit Programs for Higher Education	559	282	(13)	11	839
<b>Total Debt Associated with Loans</b>	<b>\$ 1,155,886</b>	<b>\$ 259,889</b>	<b>\$ (70,026)</b>	<b>\$ 11</b>	<b>\$ 1,345,760</b>

The \$258.5 billion new Direct Loan Program borrowing activity for the year was designated for funding new loan disbursements and downward modifications. Principal repayments during FY 2025 for the Direct Loan Program totaled \$69.2 billion.

During FY 2025, TEACH Grant Program net borrowing was used for the advance of new grants and repayments of principal made to Treasury.

## Note 15. Net Cost of Operations

The following tables present detailed cost information by program type and major program office.

### Gross Costs and Earned Revenue by Program

(Dollars in Millions)

	2025 (Unaudited)				
	FSA	OESE	OSERS	Other	Total
<b>PREKINDERGARTEN THROUGH GRADE 12 STUDENTS</b>					
Gross Cost					
Grants	\$ -	\$ 42,588	\$ 16,446	\$ 2,818	\$ 61,852
Other	-	66	4	825	895
Earned Revenue	-	-	-	(121)	(121)
<b>Net Program Costs</b>	<b>-</b>	<b>42,654</b>	<b>16,450</b>	<b>3,522</b>	<b>62,626</b>
<b>HIGHER EDUCATION</b>					
<u>Direct Loan Program</u>					
Gross Cost					
Credit Program Interest Expense	37,620	-	-	-	37,620
Subsidy Expense	(129,288)	-	-	-	(129,288)
Administrative Expenses	1,782	-	-	-	1,782
Earned Revenue					
Subsidy Expense	(16,793)	-	-	-	(16,793)
Interest & Administrative Fees	(60,165)	-	-	-	(60,165)
Subsidy Amortization	22,545	-	-	-	22,545
<b>Net Cost (Surplus) of Direct Loan Program</b>	<b>(144,299)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(144,299)</b>
<u>FFEL Program</u>					
Gross Cost					
Credit Program Interest Expense	2,403	-	-	-	2,403
Subsidy Expense	(13,877)	-	-	-	(13,877)
Subsidy Amortization (Guaranteed Loans)	(692)	-	-	-	(692)
Guaranty Agencies	4	-	-	-	4
Administrative Expenses	255	-	-	-	255
Earned Revenue					
Interest & Administrative Fees	(2,455)	-	-	-	(2,455)
Subsidy Amortization (Acquired FFEL Loans)	744	-	-	-	744
Guaranty Agencies	(105)	-	-	-	(105)
<b>Net Cost (Surplus) of FFEL Program</b>	<b>(13,723)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(13,723)</b>
<u>Other Credit Programs for Higher Education</u>					
Gross Cost					
Credit Program Interest Expense	19	-	-	36	55
Subsidy Expense	8	-	-	(90)	(82)
Administrative Expenses	(1)	-	-	-	(1)
Earned Revenue					
Subsidy Expense	(1)	-	-	-	(1)
Interest & Administrative Fees	(102)	-	-	(31)	(133)
Subsidy Amortization	26	-	-	(5)	21
Other	(422)	-	-	-	(422)
<b>Net Cost (Surplus) of Other Credit Programs for Higher Education</b>	<b>(473)</b>	<b>-</b>	<b>-</b>	<b>(90)</b>	<b>(563)</b>
<u>Non-Credit Programs</u>					
Gross Cost					
Grants	39,032	203	4,762	5,354	49,351
Other	285	-	25	288	598
Earned Revenue	-	-	-	(13)	(13)
<b>Net Cost of Non-Credit Programs</b>	<b>39,317</b>	<b>203</b>	<b>4,787</b>	<b>5,629</b>	<b>49,936</b>
<b>Net Program Costs (Surplus)</b>	<b>(119,178)</b>	<b>203</b>	<b>4,787</b>	<b>5,539</b>	<b>(108,649)</b>
<b>Total Program Gross Costs</b>	<b>(62,450)</b>	<b>42,857</b>	<b>21,237</b>	<b>9,231</b>	<b>10,875</b>
<b>Total Program Earned Revenue</b>	<b>(56,728)</b>	<b>-</b>	<b>-</b>	<b>(170)</b>	<b>(56,898)</b>
<b>Net Cost (Surplus)</b>	<b>\$ (119,178)</b>	<b>\$ 42,857</b>	<b>\$ 21,237</b>	<b>\$ 9,061</b>	<b>\$ (46,023)</b>

## Credit Program Interest Expense and Revenues

(Dollars in Millions)

	2025 (Unaudited)						
	Gross Interest Expense	Subsidy Amortization	Net Interest Expense	Gross Interest and Administrative Fee Revenue		Subsidy Amortization	Net Revenue
	Intragovernmental	Other than Intragovernmental		Intragovernmental	Other than Intragovernmental	Other than Intragovernmental	
Direct Loan Program	\$ 37,620	\$ -	\$ 37,620	\$ 7,515	\$ 52,650	\$ (22,545)	\$ 37,620
FFEL Program	2,403	(692)	1,711	966	1,489	(744)	1,711
Other Credit Programs for Higher Education	55	-	55	9	124	(21)	112
<b>Total</b>	<b>\$ 40,078</b>	<b>\$ (692)</b>	<b>\$ 39,386</b>	<b>\$ 8,490</b>	<b>\$ 54,263</b>	<b>\$ (23,310)</b>	<b>\$ 39,443</b>

Interest expense equals interest revenue plus administrative fees accrued for all credit programs due to subsidy amortization. Subsidy amortization is required by the FCRA and accounts for the difference between interest expense and revenue 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.

## Grant Expenses by Appropriation

(Dollars in Millions)

2025 (Unaudited)	
<b>PREKINDERGARTEN THROUGH GRADE 12</b>	
Education Stabilization Fund	\$ 12,897
Education for the Disadvantaged	20,634
Special Education - IDEA Grants	16,446
School Improvement Programs	6,472
Impact Aid	1,644
Innovation and Improvement	1,245
English Language Acquisition	904
Career, Technical, and Adult Education	452
Hurricane Education Recovery	69
Institute of Education Sciences	217
Other	872
<b>Subtotal</b>	<b>61,852</b>
<b>HIGHER EDUCATION</b>	
Student Financial Assistance	
Federal Pell Grants	37,272
Federal Work-Study Program	1,056
Federal Supplemental Educational Opportunity Grants	704
Rehabilitation Services	4,293
Higher Education	3,283
Career, Technical, and Adult Education	1,685
Special Education - IDEA Grants	165
Hurricane Education Recovery	29
Institute of Education Sciences	49
Other	815
<b>Subtotal</b>	<b>49,351</b>
<b>Total Grant Costs</b>	<b>\$ 111,203</b>

The Department has more than 100 grant programs. Descriptions of major grant program areas are as follows:

### Student Financial Assistance

- **Federal Pell Grant**—Federal Pell Grants usually are awarded only to undergraduate students who display exceptional financial need and have not earned a bachelor's, graduate, or professional degree. Federal Pell Grants are the single largest source of grant aid for postsecondary education.
- **Federal Work-Study Program**—Provides funds by formula to enable eligible institutions to offer employment to students based on financial needs. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. Hourly earnings under this program must be at least the federal minimum wage. Federal funding, in most cases, pays 75 percent of a student's hourly wage, with the remaining 25 percent paid by the employer.
- **Federal Supplemental Educational Opportunity Grant**—Provides funds by formula to enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered directly by the financial aid office at each participating school.

**Education for the Disadvantaged**—Primarily consists of Title I, Part A grants which provide financial assistance through State Educational Agencies (SEAs) to Local Educational Agencies (LEAs) and public schools with high numbers or percentages of poor children to help ensure that all children meet challenging state academic content and student academic achievement standards. Also provides funds to states to support educational services to children of migratory farmworkers and fishers, and to neglected or delinquent children and youth in state-run institutions, attending community day programs, and correctional facilities.

**Special Education**—Consists primarily of grants authorized under IDEA. IDEA authorizes formula awards to states to assist them in providing a free appropriate public education in the least restrictive environment for eligible children with disabilities ages 3 through 21 and early intervention services for eligible infants and toddlers birth through age 2 and their families. IDEA also authorizes discretionary grants for technical assistance and dissemination, educational technology and media, personnel preparation and development and parent-training, and information to support the implementation of IDEA.

**School Improvement Programs**—Provides funds to SEAs to make competitive subgrants to LEAs that demonstrate the greatest need for the funds and the strongest commitment to use the funds to provide adequate resources to substantially raise the achievement of students in their lowest-performing schools.

**Rehabilitation Services**—Provides funds to states and other agencies to support vocational rehabilitation and other services to individuals with disabilities to maximize their employment, independence, and integration into the community and the competitive labor market.

**Higher Education**—Includes Institutional Service grants designed to improve academic quality, institutional management and fiscal stability, and strengthen physical plants and endowments of institutions of higher education, with an emphasis on institutions that enroll large proportions of minority and financially disadvantaged students. Also includes Student Service grant programs supporting low-income, first-generation students and individuals with disabilities as they progress through the academic pipeline from middle school to graduate school, in addition to programs focused on college readiness, campus-based childcare, and graduate fellowships. Also includes International and Foreign Language Education grant and fellowship programs that strengthen foreign language instruction, area/international studies teaching and research, professional development for educators, and curriculum development at the K–12, graduate, and postsecondary levels.

**Career, Technical, and Adult Education**—Includes programs that are related to adult education and literacy, career and technical education, community colleges, and correctional education.

**Impact Aid**—Provides funds to LEAs to replace the lost local revenue that would otherwise be available to educate children of federal workers that live on government property, which is exempt from local property taxes that finance education.

**Innovation and Improvement**—Includes support for nontraditional programs that improve student achievement and attainment; supports the development of educational television and digital media programs targeted at preschool and early elementary school children and their families to promote early learning and school readiness, with a particular interest in reaching low-income children; and supports LEAs and their partners in implementing, evaluating, and refining tools and approaches for developing the noncognitive skills of middle school students to increase student success.

**English Language Acquisition**—Provides funds primarily by formula to states to improve services for English learners. Also provides discretionary funds to support national activities, including professional development to increase the supply of high-quality teachers of English learners and a national clearinghouse on English language acquisition.

**Hurricane Education Recovery**—Provides one-time emergency-relief grants, funded by supplemental appropriations acts enacted in response to specific events, to support schools and students directly affected by natural disasters. Assists students displaced or disrupted by such disasters as well as eligible agencies and institutions that require funding to cover unexpected expenses and return to normal operations.

**Institute of Education Sciences**—Provides funding to support research and development activities that provide parents, teachers, and schools with evidence-based information on effective educational practices, and research to build the evidence base on improving special education and early intervention services and outcomes for infants, toddlers, and children with disabilities.

## Note 16. Statement of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2025, budgetary resources were \$582.9 billion, and net agency outlays were \$34.7 billion.

### Net Adjustments to Unobligated Balances Brought Forward, October 1

(Dollars in Millions)

	2025 (Unaudited)	
	Budgetary	Non-budgetary Credit Reform Financing Accounts
<b>Prior Year Unobligated Balance, End of Year (Total)</b>	<b>\$ 12,622</b>	<b>\$ 49,830</b>
Recoveries of Prior Year Unpaid Obligations	14,879	62
Actual Repayments of Debt, Prior-Year Balances	-	(18,415)
Actual Capital Transfers to the Treasury General Fund	(105)	-
Canceled Authority	(1,126)	-
Downward Adjustments of Prior-Year Paid Delivered Orders	1	155
Other Differences	2	-
<b>Unobligated Balance from Prior Year Budget Authority (Net)</b>	<b>\$ 26,273</b>	<b>\$ 31,632</b>

During the year ended September 30, 2025, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2024. These adjustments included, among other things, recoveries of prior year unpaid obligations that resulted from downward adjustments of undelivered orders that were obligated in a prior fiscal year.

### Unused Borrowing Authority

(Dollars in Millions)

	2025 (Unaudited)
<b>Beginning Balance - Unused Borrowing Authority</b>	<b>\$ 49,472</b>
Current Year Borrowing Authority	271,230
Funds Drawn from Treasury	(259,889)
Other	302
<b>Ending Balance - Unused Borrowing Authority</b>	<b>\$ 61,115</b>

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**

(Dollars in Millions)

	2025 (Unaudited)	
	Intragovernmental	With the Public
Unpaid	\$ 201	\$ 176,785
Paid	2,294	613
<b>Undelivered Orders</b>	<b>\$ 2,495</b>	<b>\$ 177,398</b>

Undelivered orders represent the amount of goods and/or services ordered that have not been actually or constructively received. Paid amounts include any orders that may have been prepaid or advanced but for which delivery or performance has not yet occurred.

**Distributed Offsetting Receipts**

(Dollars in Millions)

	2025 (Unaudited)
Negative Subsidies and Downward Re-estimates of Subsidies:	
Direct Loan Program	\$ 143,372
FFEL Program	9,076
HEAL Program	2
TEACH Grant Program	31
Facilities Loan Programs	117
<b>Total Negative Subsidies and Downward Re-Estimates of Subsidies</b>	<b>152,598</b>
Repayment of Perkins Loans and Capital Contributions	453
Other	(30)
<b>Distributed Offsetting Receipts</b>	<b>\$ 153,021</b>

Distributed offsetting receipts are amounts that the Department collects that are used to offset or reduce the Department's budget outlays. The Department's outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts.

Most 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, downward modifications, and negative subsidies.



## Reconciliation of the SBR to the Budget of the United States

(Dollars in Millions) (Unaudited)

	Budgetary Resources	New Obligations and Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
<b>Combined Statements of Budgetary Resources</b>	<b>\$ 513,591</b>	<b>\$ 451,139</b>	<b>\$ 5,226</b>	<b>\$ 267,920</b>
Expired Funds	(6,725)	(760)	-	-
Distributed Offsetting Receipts	-	-	-	5,226
Other	(9)	(1)	1	-
<b>Budget of the United States Government<sup>1</sup></b>	<b>\$ 506,857</b>	<b>\$ 450,378</b>	<b>\$ 5,227</b>	<b>\$ 273,146</b>

<sup>1</sup> Amounts obtained from the Appendix, Budget of the United States Government, FY 2026

The FY 2027 President's Budget, which presents the actual amounts for the year ending September 30, 2025, has not been published as of the issue date of these financial statements. The FY 2027 President's Budget is scheduled for release in February 2026 and will be made available on OMB's website. The table above reconciles the FY 2024 SBR to the FY 2026 President's Budget (FY 2024 actual amounts) for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays.

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 new obligations and upward adjustments are estimated and disclosed in the President's Budget to approximate the gross activities of the combined federal fund. Amounts reported on the SBR for the federal fund are compiled by combining all guaranty agencies' annual reports to determine a net valuation amount for the federal fund.

## Budgetary Status of Fund Balance with Treasury

(Dollars in Millions)

Status of Funds	2025 (Unaudited)
Unobligated Balance	\$ 70,381
Obligated Balance, Not Disbursed	186,096
Appropriated Authority Not Yet Converted to Fund Balance with Treasury	(4,324)
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 16)	(61,115)
Other	339
<b>Total Fund Balance with Treasury</b>	<b>\$ 191,377</b>

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 unobligated balance (\$70.4 billion) differs from the unobligated balance on the SBR (\$71.0 billion) due to the Guaranty Agencies' Federal Funds (\$659 million).

## Note 17. Reconciliation of Net Cost to Net Outlays

(Dollars in Millions)

	2025 (Unaudited)		
	Intragovernmental	Other than Intragovernmental	Total
<b>Net Cost</b>	<b>\$ 32,092</b>	<b>\$ (78,115)</b>	<b>\$ (46,023)</b>
<b>Components of Net Cost Not Part of Budgetary Outlays:</b>			
Year-End Credit Reform Subsidy Accrual Re-Estimates	-	45,526	45,526
Loan Modification Adjustment Transfers	-	16,617	16,617
Property and Equipment Disposals and Revaluations	-	(1)	(1)
Increase/(Decrease) in Assets:			
Loans Receivables, Net (Non-FCRA)	-	107	107
Other Assets	2,077	78	2,155
(Increase)/Decrease in Liabilities:			
Accounts Payable	-	(318)	(318)
Loan Guarantee Liabilities (Non-FCRA)	-	3	3
Other Liabilities	(67)	4,408	4,341
Financing Sources:			
Imputed Costs	(89)	-	(89)
<b>Total Components of Net Cost Not Part of Budgetary Outlays</b>	<b>1,921</b>	<b>66,420</b>	<b>68,341</b>
<b>Components of Budget Outlays Not Part of Net Cost:</b>			
Effect of Prior-Year Credit Reform Subsidy Re-Estimates	-	12,401	12,401
<b>Total Components of Budget Outlays Not Part of Net Cost</b>	<b>-</b>	<b>12,401</b>	<b>12,401</b>
<b>Miscellaneous Items:</b>			
Non-Entity Activity	26	(16)	10
Non-Exchange Revenues	(12)	-	(12)
Other	-	(2)	(2)
<b>Total Miscellaneous Items</b>	<b>14</b>	<b>(18)</b>	<b>(4)</b>
<b>Budgetary Agency Outlays, Net</b>			<b>\$ 34,715</b>

This reconciliation explains the relationship between the Department's net cost and its net outlays. Reconciling items result from transactions that did not result in a current period outlay but did result in a current period cost, and current period outlays that did not result in a current period cost.

Disbursements for new FCRA loans and collections of principal and interest on existing FCRA loans are recorded in non-budgetary credit reform financing accounts. These disbursements and collections are reported on the SBR as disbursements, net, and not as agency outlays, net. Since these disbursements and collections affect neither net cost of operations nor agency outlays, net, they are excluded from this reconciliation as are any increases or decreases in the FCRA loan receivable balances.

The two major reconciling differences, both associated with the Department's FCRA loan programs, are for Year-End Credit Reform Subsidy Accrual Re-Estimates (current-year subsidy accrual costs) and Effect of Prior-Year Credit Reform Subsidy Re-Estimates (current-year budget subsidy costs).

- Current-year subsidy accrual costs are the portion of the current-year loan subsidy re-estimates not impacting the current year outlays.
- Current-year budget subsidy costs are current year indirect appropriations provided to fund subsidy costs accrued in the prior year. This includes the portion of the current year's executed President's Budget re-estimates not included in this year's net cost subsidy expense

### Note 18. **Reclassification of Statement of Net Cost and Statement of Operations and Changes in Net Position for Financial Report Compilation Process**

To prepare the Financial Report (FR) of the U.S. government, Treasury requires agencies to submit an adjusted trial balance, which is a listing of accounts that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System to develop a Reclassified Statement of Net Cost and a Reclassified Statement of Operations and Changes in Net Position for each agency, all of which show how agency amounts are related to particular FR statement line items. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The two schedules in this note show the Department's financial statements and the Department's reclassified statements before elimination of intragovernmental balances and before aggregation of repeated FR line items. The term "Non-Federal" is used in this note to refer to federal government amounts that result from transactions with non-federal entities. These include transactions with individuals; businesses; nonprofit entities; and state, local, and foreign governments.

#### **Reclassification of Statement of Net Cost to Line Items Used for the Governmentwide Statement of Net Cost for the Year Ended September 30, 2025**

(Dollars in Millions)

FY 2025 Department Statement of Net Cost (Unaudited)		Line Items Used to Prepare FY 2025 Governmentwide Statement of Net Cost	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
<b>Total Gross Cost</b>	\$ 10,875	\$ (29,688)	Non-Federal Gross Cost
		158	Benefit Program Costs
		89	Imputed Costs
		215	Buy/Sell Cost
		40,078	Borrowing and Other Interest Expense
		23	Other Expenses (Without Reciprocals)
<b>Total Gross Cost</b>	<b>\$ 10,875</b>	<b>\$ 10,875</b>	<b>Department Total Gross Cost</b>
<b>Total Earned Revenue</b>	\$ (56,898)	\$ (48,355)	Non-Federal Earned Revenue
		(53)	Buy/Sell Revenue (Exchange)
		(8,490)	Borrowing and Other Interest Revenue (Exchange)
<b>Total Earned Revenue</b>	<b>(56,898)</b>	<b>(56,898)</b>	<b>Department Total Earned Revenue</b>
<b>Net Cost</b>	<b>\$ (46,023)</b>	<b>\$ (46,023)</b>	<b>Net Cost</b>

# Reclassification of Statement of Net Cost to Line Items Used for the Governmentwide Statement of Net Cost for the Year Ended September 30, 2025

(Dollars in Millions)

FY 2025 Department Statement of Changes in Net Position (Unaudited)		Line Items Used to Prepare FY 2025 Governmentwide Statement of Operations and Changes in Net Position	
Financial Statement Line	Amounts	Amounts	Reclassified Financial Statement Line
Unexpended Appropriations			
Beginning Balance	\$ 111,524	\$ 111,524	Net Position, Beginning of Period
Appropriations Received	163,571	162,148	Appropriations Received as Adjusted (Rescissions and Other Adjustments)
Other Adjustments (Rescissions, etc.)	(1,423)		
Appropriations Transferred	2	2	Non-Expenditure Transfers-out of Unexpended Appropriations and Financing Sources
Appropriations Used	(181,771)	(181,771)	Appropriations Used
<b>Unexpended Appropriations, Ending Balance</b>	<b>91,903</b>	<b>91,903</b>	
Cumulative Results of Operations			
Beginning Balance	(27,030)	(27,030)	Net Position, Beginning of Period
Appropriations Used	181,771	181,771	Appropriations Expended
Nonexchange Revenue	12	12	Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange
Imputed Financing from Costs Absorbed by Others	89	89	Imputed Financing Sources
Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other	(206,743)	(170,034)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
		(36,853)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		3	Other Taxes and Receipts
		141	Other Budgetary Financing Sources
Net Cost	46,023	46,023	Net Cost
<b>Cumulative Results of Operations, Ending Balance</b>	<b>\$ (5,878)</b>	<b>\$ (5,878)</b>	
<b>Net Position</b>	<b>\$ 86,025</b>	<b>\$ 86,025</b>	<b>Net Position, End of Period</b>

## Note 19. 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.

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## Required Supplementary Information (Unaudited)

### U.S Department of Education Combining Statement of Budgetary Resources For the Year Ended September 30, 2025

(Dollars in Millions)  
(Unaudited)

	Federal Student Aid		Office of Elementary and Secondary Education
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance from Prior Year Budget Authority (Net) (Note 16)	\$ 21,114	\$ 31,528	\$ 2,494
Appropriations (Discretionary and Mandatory)	106,088	176	27,361
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	271,013	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	157	90,629	(1)
<b>Total Budgetary Resources</b>	<b>\$ 127,359</b>	<b>\$ 393,346</b>	<b>\$ 29,854</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
New Obligations and Upward Adjustments (Total)	\$ 121,772	\$ 332,898	\$ 27,408
Unobligated Balance, End of Year:			
Apportioned, Unexpired Accounts	1,106	-	834
Unapportioned, Unexpired Accounts	282	60,448	-
<b>Unexpired Unobligated Balance, End of Year</b>	<b>\$ 1,388</b>	<b>\$ 60,448</b>	<b>\$ 834</b>
Expired Unobligated Balance, End of Year	4,199	-	1,612
<b>Unobligated Balance, End of Year (Total)</b>	<b>\$ 5,587</b>	<b>\$ 60,448</b>	<b>\$ 2,446</b>
<b>Total Status of Budgetary Resources</b>	<b>\$ 127,359</b>	<b>\$ 393,346</b>	<b>\$ 29,854</b>
<b>OUTLAYS, NET</b>			
Outlays, Net (Discretionary and Mandatory)	\$ 111,225		\$ 43,538
Distributed Offsetting Receipts (-) (Note 16)	(152,934)		-
<b>Agency Outlays, Net (Discretionary and Mandatory) (Note 16 &amp; 17)</b>	<b>\$ (41,709)</b>		<b>\$ 43,538</b>
<b>Disbursements, Net (Total) (Mandatory)</b>		<b>\$ 155,083</b>	

Office of Special Education and Rehabilitative Services		Other		Combined		Total
Budgetary	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts		
\$ 558	\$ 2,107	\$ 104	\$ 26,273	\$ 31,632	\$ 57,905	
20,059	9,234	-	162,742	176	162,918	
-	-	217	-	271,230	271,230	
(6)	57	47	207	90,676	90,883	
<b>\$ 20,611</b>	<b>\$ 11,398</b>	<b>\$ 368</b>	<b>\$ 189,222</b>	<b>\$ 393,714</b>	<b>\$ 582,936</b>	
\$ 20,048	\$ 9,441	\$ 329	\$ 178,669	\$ 333,227	\$ 511,896	
150	1,272	-	3,362	-	3,362	
-	(26)	39	256	60,487	60,743	
<b>\$ 150</b>	<b>\$ 1,246</b>	<b>\$ 39</b>	<b>\$ 3,618</b>	<b>\$ 60,487</b>	<b>\$ 64,105</b>	
413	711	-	6,935	-	6,935	
<b>\$ 563</b>	<b>\$ 1,957</b>	<b>\$ 39</b>	<b>\$ 10,553</b>	<b>\$ 60,487</b>	<b>\$ 71,040</b>	
<b>\$ 20,611</b>	<b>\$ 11,398</b>	<b>\$ 368</b>	<b>\$ 189,222</b>	<b>\$ 393,714</b>	<b>\$ 582,936</b>	
\$ 21,098	\$ 11,875		\$ 187,736		\$ 187,736	
-	(87)		(153,021)		(153,021)	
<b>\$ 21,098</b>	<b>\$ 11,788</b>		<b>\$ 34,715</b>		<b>\$ 34,715</b>	
		<b>\$ 364</b>		<b>\$ 155,447</b>	<b>\$ 155,447</b>	

# Memorandum from the Office of the Inspector General (Unaudited)



## UNITED STATES DEPARTMENT OF EDUCATION OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

January 22, 2026

TO: The Honorable Linda McMahon  
Secretary of Education

FROM: Mark Priebe  
Acting Inspector General

SUBJECT: Management Challenges for Fiscal Year 2026

In compliance with the Reports Consolidation Act of 2000, the U.S. Department of Education (Department) Office of Inspector General (OIG) reports annually on the most serious management and performance challenges the Department faces, its progress in addressing those challenges, and further actions that it could take to enhance its effectiveness.

The Government Performance and Results Modernization Act of 2010 defines major management challenges as programs or management functions that are vulnerable to waste, fraud, abuse, and mismanagement, and where a failure to perform well could seriously affect the ability of the Department to achieve its mission or goals. To identify management challenges, the OIG examines audit, inspection, flash review, and investigative work; reviews corrective actions that the Department has not completed; assesses ongoing audit, inspection, flash review, and investigative work to identify significant vulnerabilities; and analyzes new programs and activities that could pose significant challenges.

For fiscal year (FY) 2026, we identified five management challenges the Department faces as it continues its efforts to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access to education. These challenges are (1) change management, (2) oversight and monitoring of grantees, (3) oversight and monitoring of student financial assistance programs, (4) data quality and reporting, and (5) information technology security.

We provided our draft report to Department officials and considered their comments in developing the final report. This report will be posted on our website at <https://oig.ed.gov/reports/list>.

We look forward to working with the Department to address the FY 2026 management challenges in the coming year. If you have any questions or would like to discuss these issues, please contact me at (202) 453-6420.

Attachment(s)



# Office of Inspector General's (OIG) Management and Performance Challenges for Fiscal Year 2026

## Fiscal Year 2026 Management Challenges Facing the U.S. Department of Education

### WHAT ARE MANAGEMENT CHALLENGES?

The Government Performance and Results Modernization Act of 2010 defines major management challenges as programs or management functions that are vulnerable to waste, fraud, abuse, and mismanagement, and where a failure to perform well could seriously affect the ability of the U.S. Department of Education (Department) to achieve its mission or goals. In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) reports annually on the most serious management and performance challenges the Department faces, its progress in addressing those challenges, and further actions that it could take to enhance its effectiveness.

### WHAT WE DID

To identify management challenges, we examined audit, inspection, flash review, and investigative work that was completed or part of a body of work that was completed between October 1, 2022, and September 30, 2025; reviewed corrective actions that the Department has not completed; assessed ongoing audit, inspection, flash review, and investigative work to identify significant vulnerabilities; and analyzed new programs and activities that could pose significant challenges.

### WHAT WE FOUND

For fiscal year (FY) 2026, we identified five management challenges the Department faces as it continues its efforts to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access to education. These challenges are (1) change management, (2) oversight and monitoring of grantees, (3) oversight and monitoring of student financial assistance programs, (4) data quality and reporting, and (5) information technology (IT) security.

### PROGRESS IN ADDRESSING CHALLENGES

In response to a draft of this report, the Department stated that it has continued to advance efforts aligned with these challenge areas while carrying out its statutory responsibilities. The Department stated that it implemented numerous changes to deliver the earliest-ever release of the Free Application for Federal Student Aid, strengthened program integrity controls for how institutions of higher education (IHE) deliver student aid that prevented approximately \$1 billion in improper disbursements, continued to strengthen its enterprise information security capabilities, and took steps to improve the reliability of student loan subsidy cost estimates. We recognize the significance of some of these actions and encourage the Department to continue assessing and mitigating related risks and monitoring the effectiveness of its controls.

## Management Challenge 1—Change Management

On February 11, 2025, the President signed Executive Order 14210, “Implementing the President’s ‘Department of Government Efficiency’ Workforce Optimization Initiative,” with the stated goal of commencing a critical transformation of the Federal bureaucracy to restore accountability to the American public and a requirement that agencies develop agency reorganization plans and identify opportunities for consolidation or elimination. Two weeks later, on February 26, 2025, the President signed Executive Order 14219, “Implementing the President’s ‘Department of Government Efficiency’ Cost Efficiency Initiative,” with a focus on transforming Federal spending on contracts, grants, and loans to ensure transparency in government spending and accountability for government employees. Less than one month after this, and a little over a week after the initiation of a large-scale reduction in force (RIF) at the Department, the President signed Executive Order 14242, “Improving Education Outcomes by Empowering Parents, States, and Communities,” directing the Secretary of Education (Secretary) to take all necessary steps to facilitate the closure of the Department, to the maximum extent appropriate and permitted by law, and to return authority over education to the States and local communities while ensuring the effective and uninterrupted delivery of services, programs, and benefits on which Americans rely.

The Department has many statutorily required responsibilities, which, in part, include managing and overseeing a student loan portfolio of more than \$1.6 trillion; awarding and administering over \$76 billion in discretionary program funds to a wide range of eligible recipients, including local educational agencies (LEA), State educational agencies (SEA), IHEs, individuals, nonprofits, and other organizations; and monitoring such recipients’ use of funds and progress in meeting project and program objectives. At the beginning of FY 2025, the Department had an administrative budget of about \$2.8 billion and around 4,100 employees, along with contractors that provide outsourced business operations, to perform these and its other functions. During FY 2025, in response to the President’s executive orders and policy direction, the Department revised many of its priorities and made changes to its organizational structure, staffing, and operations to reflect those new priorities.

In FY 2026 and beyond, it is critical that the Department strategically plan for and effectively manage these and other major operational changes that it may decide to undertake. Significant changes that the Department has already made, in part, include

- consolidating or eliminating dozens of principal and program office subcomponents—including many that were performing statutory or other oversight functions—as well as several regional offices;
- substantially reducing its workforce—by about 50 percent thus far, from around 4,100 to just over 2,000 employees—through RIFs, the deferred resignation program, voluntary early retirement authority, and the voluntary separation incentive program;
- partnering with other Federal agencies, including the U.S. Departments of Labor, Interior, Health and Human Services, and State, to obtain services supporting the administration of Department grant programs—including nearly all of the approximately \$35 billion in formula and discretionary grant program funding currently administered by the Office of Elementary and Secondary Education

(OESE) and the Office of Postsecondary Education (OPE)—and for performing certain other required activities;

- terminating billions of dollars in grants and contracts—most notably, for teacher training grants administered by OESE and large-scale research studies administered by the Institute of Education Sciences (IES); and
- shifting more of its administrative and oversight responsibilities for Federal programs to the States when awarding new discretionary grants.

The Department will also need to effectively manage changes in how it administers the Federal student assistance programs resulting from enactment of the One Big Beautiful Bill Act (OBBBA). The OBBBA made significant changes to the Federal student assistance programs, with many of those changes becoming effective July 1, 2026. Accordingly, the Department will need to quickly implement or oversee the implementation of many programmatic changes by modifying or drafting new regulations, revising its operational processes, or both. Those programmatic changes include

- introducing a new Workforce Pell program,
- creating new accountability measures for IHEs,
- eliminating Direct PLUS Loans for graduate and professional students,
- introducing new annual and aggregate loan limits for student and parent borrowers,
- prorating Direct Loan amounts based on a student's enrollment status,
- introducing the Repayment Assistance Plan, and
- phasing out most of the existing repayment plans.

### WHY THIS IS A CHALLENGE

The Department is currently in a state of significant transition, with several major changes underway relating to its organizational structure, staffing, operations, and priorities. Change of this magnitude can result in challenges associated with employee resistance, fatigue, and uncertainty—such as decreased productivity, operational disruption, and lost efficiency—and have an impact on the organization's ability to respond to stakeholder questions and concerns.

The Department has historically faced challenges related to its oversight and monitoring of grantees and the student financial assistance programs. Reduced staffing and resources and other significant organizational changes may make it much more difficult for the Department to effectively meet those challenges and continue to perform its statutory and mission-critical activities, especially if it does not have in place a robust process for managing these changes and plans for building and maintaining institutional knowledge that may have been lost when key staff departed. It is critical that the Department effectively articulate and communicate to employees planned changes and their rationale, employees' roles and responsibilities in helping to implement them, and how these changes will better enable the Department to achieve its mission and support America's students. The Department should also establish key performance measures to gauge the success of its efforts and provide transparency and accountability for its actions.

## Management Challenge 2—Oversight and Monitoring of Grantees

The Department is responsible for administering education programs that Congress authorized and the President signed into law. This responsibility includes awarding program funds to a wide range of eligible recipients, including LEAs, SEAs, IHEs, individuals, nonprofits, and other organizations; and monitoring their use of funds and progress in meeting program objectives. The Department is also responsible for ensuring that programs are administered fairly and that grants are executed in conformance with both authorizing statutes and laws prohibiting discrimination in Federally funded activities, collecting data and conducting research on education, and helping to focus attention on education issues of national importance. The funding for many grant programs flows through primary recipients (such as SEAs) to subrecipients (such as LEAs or other entities). The primary recipients must oversee and monitor the subrecipients' activities to ensure compliance with Federal requirements.

The Department administers programs that touch every area and level of education, serving students from early learning through adult education. Its grant programs annually serve more than 17,000 public school districts and more than 55 million students attending more than 98,000 public and 30,000 private schools. One of the key programs that the Department administers is Title I, Part A (20 U.S.C. sections 6311–6339), which provides financial assistance to LEAs and schools with high numbers or high percentages of children from low-income families, to help ensure that all children meet challenging State academic standards. In FY 2025, this program provided about \$18.4 billion to serve an estimated 26 million students in nearly 90 percent of school districts and about 60 percent of all public schools. Another key program is the Individuals with Disabilities Education Act, Part B Grants to States (20 U.S.C. sections 1411–1419), which provided about \$14.2 billion in FY 2025 to help States and school districts meet the special educational needs of an estimated 7.5 million students with disabilities.

### WHY THIS IS A CHALLENGE

Effective monitoring and oversight are essential to ensure that grantees meet grant requirements and achieve program goals and objectives. Our recent audits related to various grant programs identified weaknesses in grantee oversight and monitoring that included concerns with SEA and LEA controls and Department oversight processes. For example, in our audits of several States' implementation of their Department-approved statewide accountability systems, we found that States were not always identifying schools that should have been identified for support and improvement and provided with additional funds and services in accordance with their approved plans, and were sometimes identifying schools that should not have been identified for and provided with the same.<sup>6</sup> Our audit of another State's administration of the pandemic-related Emergency Assistance to Nonpublic Schools program found that it used \$20 million to provide

<sup>6</sup> Mississippi Department of Education's Implementation of Selected Components of Mississippi's Statewide Accountability System (ED-OIG/A22IL0091, issued March 2024), Oregon Department of Education's Implementation of Selected Components of Oregon's Statewide Accountability System (ED-OIG/A23IL0142, issued September 2024), Connecticut State Department of Education's Implementation of Selected Components of Connecticut's Statewide Accountability System (ED-OIG/A24IL0199, issued September 2025), and West Virginia Department of Education's Implementation of Selected Components of West Virginia's Statewide Accountability System (ED-OIG/A24IL0200, issued September 2025).

services and assistance to ineligible nonpublic schools.<sup>7</sup> At the Department, we found that staff did not screen School-Based Mental Health Services program grant applications to ensure that they met all application requirements before entering them into the peer review process and did not always implement post-award activities as designed, including program monitoring plans and reviews of grantees' annual performance reports.<sup>8</sup>

Going forward, the Department may face challenges in the following areas as relates to its oversight and monitoring of grantees.

- **Oversight of Activities Performed by Grantees with Department-Approved Waivers.** With some restrictions, the Elementary and Secondary Education Act (ESEA) (section 8401(a)(1)) authorizes the Secretary to waive any statutory or regulatory requirement related to the administration of the ESEA. In July 2025, OESE issued a dear colleague letter inviting SEAs, LEAs, schools, and Tribal leaders to seek creative and effective waivers for improving student academic achievement and maximizing the impact of Federal funds. The Department encouraged State and local leaders to think creatively about how Federal funds may be best leveraged to respond to parents' concerns about the quality of education delivered in America's public schools and outlined existing areas of flexibility under the ESEA and the waiver process.
- Creative and non-traditional approaches to implementing activities under the ESEA could potentially lead to improved student academic achievement at the State and local levels, if designed and implemented properly. However, increased flexibility and alternative ways for grantees to implement ESEA activities could result in less funding and support for disadvantaged and vulnerable groups of students. It could also result in a significant increase in Department resources—time, money, staffing—needed to effectively oversee and monitor those activities. Department oversight and monitoring of the grant funds and activities impacted by those waivers could be challenging because Department program reviewers will need to evaluate grantee compliance against criteria that are likely to differ by grantee and that may also be new and unfamiliar to the reviewers.
- **Oversight of Grant Program Services Obtained Through Interagency Agreements.** In May 2025, the Department executed an interagency agreement (IAA) with the U.S. Department of Labor to obtain services for administration and management activities for the adult education and family literacy programs and career and technical education programs that were previously performed by the Department's Office of Career, Technical, and Adult Education. In November 2025, the Department announced that it executed six additional IAAs with four Federal agencies (Labor, Health and Human Services, Interior, and State) to obtain services for a significant portion of the K–12 and postsecondary education programs work historically performed by the Department—namely, OESE and OPE. Under these agreements, the receiving agencies will provide grant administration services to the Department in managing and overseeing Department programs, including conducting monitoring activities to ensure program compliance and providing technical assistance to grantees. However, the Department will maintain all

<sup>7</sup> Wisconsin Department of Public Instruction's Administration and Oversight of Emergency Assistance to Nonpublic Schools Grant Funds (ED-OIG/A24NY0195, issued September 2025).

<sup>8</sup> OESE's Processes for Awarding School-Based Mental Health Services Grant Program Grants and Monitoring Grantee Performance (ED-OIG/A24IL0156, issued March 2025).

statutory responsibilities and continue overseeing the education programs subject to the IAAs, including coordinating audit resolution and closure, monitoring internal controls and risk assessments for impacted programs, and reviewing grantees' annual performance and fiscal reports.

In executing these partnerships, the Department has described its goals as streamlining Federal education activities, reducing administrative burdens, and refocusing programs and activities to better serve students and grantees. The OIG has consistently made recommendations aimed at improving program efficiency and effectiveness and is supportive of such efforts. However, this substantial change in operations, whereby two partner agencies will now be responsible for carrying out and coordinating on activities related to grantee oversight and monitoring that were previously performed by just one agency—coupled with the significant loss of staff at the Department over the past year and the elimination of certain subcomponents that provided program offices with monitoring and technical assistance support—is likely to present its own set of challenges. It will be critically important for the Department to ensure that program expertise is transferred and that there is continuous communication between the agencies to avoid any gaps in grantee oversight and monitoring or duplication of effort.

### **Management Challenge 3—Oversight and Monitoring of Student Financial Assistance Programs**

Within the Department, Federal Student Aid (FSA) administers the Federal student assistance programs and OPE develops Federal postsecondary education policy and regulations for these programs. OPE also administers the review process for accrediting agencies to ensure that the Department recognizes only agencies that are reliable authorities for evaluating the quality of education and training that postsecondary institutions offer.

FSA oversees the delivery of more than \$120 billion annually in Federal student assistance, in the form of loans, grants, and Federal work study, to more than 9.9 million postsecondary students and their families. FSA directly manages or oversees a loan portfolio of more than \$1.6 trillion, representing about 217 million student loans to more than 45 million borrowers. FSA also oversees approximately 5,400 postsecondary institutions that participate in the Federal student assistance programs. In FY 2025, FSA performed these functions with an administrative budget of about \$2.1 billion (\$1.7 billion of which is for contracts as noted below) and less than 900 employees—approximately 40 percent fewer staff than it had in FY 2024—along with contractors that provide outsourced business operations.

#### **WHY THIS IS A CHALLENGE**

The Department must provide effective oversight and monitoring of the Federal student assistance programs to help ensure organizational goals can be achieved, that the programs are operating effectively and efficiently, and are not subject to fraud, waste, and abuse. The Department's responsibilities include coordinating and monitoring the activity of many Federal, State, nonprofit, and private entities involved in Federal student aid delivery, within a statutory framework established by Congress and a regulatory framework established by the Department. These entities include postsecondary institutions, contracted servicers, accrediting agencies, guaranty agencies, and lenders.



The following are some examples of challenges that the Department faces regarding oversight and monitoring of the Federal student assistance programs.

- **Implementation of Provisions in the OBBBA.** As noted under Management Challenge 1, the OBBBA made significant changes to the Federal student assistance programs. Many of these changes are effective July 1, 2026. The Department will need to implement these programmatic changes through regulations or changes to its operations and FSA will need to oversee and monitor program participants' implementation of these changes. These changes include
  - the creation of the Workforce Pell program, making students enrolled in short-term programs eligible for Pell grants;
  - the creation of accountability measures for institutions, specifically programs that result in low earning outcomes for students will not be eligible to participate in the Direct Loan program;
  - the elimination of Direct PLUS Loans for graduate and professional students,
  - the introduction of annual and aggregate limits for Direct loans for graduate and professional students;
  - the introduction of annual and aggregate limits for parent borrowers of Direct PLUS Loans, lifetime maximum aggregate limits for student borrowers, and institutionally-determined loan limits for a program;
  - the proration of Direct Loan amounts for a student enrolled on a less than full-time basis; and
  - the creation of the Repayment Assistance Plan, a new income-based repayment plan for borrowers, the phase out of existing repayment plans, and a requirement that student loan borrowers repay their loans under either a standard repayment plan or the Repayment Assistance Plan.
- **Oversight of Institutional and Program Eligibility.** Under the Higher Education Act (HEA), FSA is responsible for assessing the eligibility of institutions and programs to participate in Federal student assistance programs and assessing the administrative capability and financial responsibility of institutions by conducting program reviews. Our work has identified weaknesses in FSA's oversight of institutions participating in Federal student assistance programs—weaknesses that could be exacerbated by the significant loss of staff across FSA's eight School Participation Divisions.<sup>9</sup>
- **Contract Oversight.** More than \$1.7 billion of FSA's annual administrative budget is devoted to contracting for loan servicing, systems, and other activities to support Federal student assistance programs. Department policy requires every contract be monitored to provide assurance that the contractor performs the work called for in the contract and to develop a clear record of accountability for performance. Our work and the work of the Government Accountability Office has identified weaknesses in FSA's oversight of its contractors.

<sup>9</sup> The Importance of Strengthening Internal Controls in FSA: FYs 2019-2024 (issued December 2024).

- **Student Eligibility and Fraud.** FSA and participating institutions implement controls to assess student eligibility for Federal student assistance. Despite such controls over student eligibility, fraud rings consisting of large, loosely affiliated groups of criminals continue to fraudulently obtain Federal student aid. We have found that FSA could strengthen its preventive controls to better protect Federal student aid funds and the public from fraudulent activity—for example, in 2024, making recommendations for FSA to take additional actions related to the verification of user identities when granting access to FSA systems, including online submissions of the Free Application for Federal Student Aid.<sup>10</sup>

## Management Challenge 4—Data Quality and Reporting

The Department collects, analyzes, and reports on data for many purposes that include enhancing the public's ability to access high-value education-related information, reporting on programmatic and operational performance, informing management decisions, and improving education in the United States. The Department collects information from numerous sources, including States, which compile information relating to public school districts; public schools; postsecondary institutions, including colleges, universities, and institutions offering technical and vocational education at or beyond the high school level; and surveys of private schools, public elementary and secondary schools, IHEs, students, teachers, and principals.

In addition, the Department and FSA issue annual reports to inform Congress, the President, other external stakeholders, and the American people on how these organizations used Federal resources. These annual reports enable stakeholders to assess the organizations' performance relative to their missions and to determine whether the organizations' have been accountable for the resources entrusted to them.

### WHY THIS IS A CHALLENGE

The Department, its grantees, and its subrecipients must have effective controls to ensure that reported data are accurate and complete. The Department relies on program data to evaluate program performance and inform management decisions. Quality and reliable data are critical and necessary when monitoring grantees' performance, which is one of the Department's key responsibilities. Within the Department, IES compiles a wide range of statistics and develops products to ensure that educational programs conform to high standards of quality, integrity, and accuracy. In FY 2025, however, IES reduced its workforce by nearly 90 percent. Further, under the IAAs, other agencies will be taking on increasing responsibilities for collecting and assessing grantee performance and fiscal data as part of their monitoring efforts, and, with proper oversight by the Department, will need to ensure that systems and controls are in place to assure the reliability of these data.

We have identified findings and made recommendations regarding data quality and reporting in several recent reports. For example, in our audits of the overall effectiveness of the Department's Charter School Program grants and its oversight of Grants to Charter Management Organizations, we found that the Charter School Program office's processes did not result in grantees reporting clear, reliable, and timely information that

<sup>10</sup> FSA's Actions to Mitigate Risks Associated with the FSA ID Account Creation Process (ED-OIG/F23IT0138, issued July 2024).



the Department needed to assess grantees' individual performance and evaluate the overall effectiveness of the program.<sup>11</sup> Our inspection of Section 117 of the HEA (foreign gift) reporting requirements found that FSA did not have any monitoring plans, policies, or procedures in place for its oversight of Section 117 reporting, and that although it was accurately posting the data it received from IHEs through its reporting portal onto its public-facing website, it could improve the reporting portal to assist in identifying and reducing data input errors.<sup>12</sup>

The following are some other examples of challenges that the Department faces regarding data quality and reporting.

- Reliability of Loan Program Subsidy Data.** The design and implementation of controls over the reliability of the underlying data used in the Federal student loan programs' subsidy reestimates has been identified as a material weakness in each annual financial statement audit since FY 2018. In addition, the Department and FSA have received disclaimers of opinion on their financial statements in each of their annual financial statement audits since FY 2022.<sup>13</sup> The basis for the disclaimers were errors identified in the underlying data used in the subsidy re-estimates calculation for the Federal student loan programs. Subsidy re-estimates are periodic revisions of the estimated costs to the government of extending or guaranteeing the Federal student loans. Subsidy re-estimates are important for transparency and accountability in Federal student loan programs, helping to manage financial risks and ensure the efficient use of funds.
- Reliability of Postsecondary Institution Data.** The Department's publicly available postsecondary institution data (College Scorecard, College Navigator, and Integrated Postsecondary Education Data System (IPEDS) Data Center) are used to analyze trends in postsecondary education and help students attending postsecondary schools, prospective students, and their parents compare postsecondary schools and make informed school enrollment decisions. Our recent work on the quality of data reported through the Department's IPEDS surveys found that some schools did not always report verifiable data on students' cost of attendance and financial aid and the schools' graduation rates to the Department.<sup>14</sup> As a result, prospective students and their parents might make enrollment decisions based on such unreliable information.

<sup>11</sup> Effectiveness of Charter School Programs in Increasing the Number of Charter Schools (ED-OIG/A21IL0034, issued September 2022) and Department's Processes for Overseeing Charter School Program Grants to Charter Management Organizations for the Replication and Expansion of High-Quality Charter Schools (ED-OIG/A18IL0009, issued August 2023).

<sup>12</sup> FSA's Oversight of Section 117 Reporting Requirements (ED-OIG/I24DC0166, issued February 2025).

<sup>13</sup> FY 2022 Department Financial Statement Audit (ED-OIG/A22FS0064, issued January 2023), FY 2023 Department Financial Statement Audit (ED-OIG/A23FS0127, issued November 2023), and FY 2024 Department Financial Statement Audit (ED-OIG/A24FS0168, issued November 2024).

<sup>14</sup> Quality of Data Reported through the Department's IPEDS Surveys by NUC University (ED-OIG/I24IL0174, issued April 2025) and Quality of Data Reported through the Department's IPEDS Surveys by Joliet Junior College (ED-OIG/I24IL0210, issued September 2025).

## Management Challenge 5—Information Technology Security

The Federal Information Security Modernization Act (FISMA) requires the OIG to assess the effectiveness of the Department's information security program. FISMA mandates that this evaluation include (1) testing the effectiveness of information security policies, procedures, and practices of a representative subset of the agency's information systems; and (2) an assessment of the effectiveness of the information security policies, procedures, and practices of the agency. The Department's Office of the Chief Information Officer (OCIO) monitors and evaluates contractor provided IT services through a service-level agreement framework and develops and maintains common business solutions required by multiple program offices. In addition to OCIO, FSA has its own chief information officer, whose primary responsibility is to promote the effective use of technology to achieve FSA's strategic objectives through sound technology planning and investments, integrated technology architectures and standards, effective systems development, and production support.

Since FY 2023, we have assessed the Department's overall IT security program and practices as effective, with nearly all FISMA domains meeting the requirements needed to operate at a Level 4 (Managed and Measurable) or Level 5 (Optimized) maturity rating.<sup>15</sup> The Department has taken several actions in recent years aimed at improving IT security and expanding related operational capabilities. For instance, it has placed an emphasis on strengthening its management of value added technologies and evolving its cybersecurity capabilities and on the strategic use of information management resources to support its mission. Its goals include strengthening the Department's ability to protect and safeguard data housed within its systems; optimizing its risk posture; and maturing its ability to identify, protect, detect, respond, and recover from cybersecurity threats. The Department further identified implementation of a full Zero-Trust Architecture—a security model based on the principle of least privilege for users and devices—as a priority corrective action in response to previous management challenges reports, working to ensure that it remains on the forefront of emerging information security strategies and solutions and that controls are continually integrated into its security program.

### WHY THIS IS A CHALLENGE

The Department has made significant progress in strengthening its IT security program, but it could see this progress halted and possibly even reversed because of the substantial loss of staff within OCIO specifically and across the Department more generally. From early discussions regarding our FY 2026 FISMA audit, the OIG understands that OCIO personnel are down around 70 percent from FY 2025. This is in stark contrast to a priority corrective action that the Department identified in its response to this same challenge last year—specifically, that it planned to establish and protect dedicated lines of funding and personnel for its enterprise cyber and IT program. If the Department is unable to hire qualified individuals to fill key positions in its security program, there is increased risk that processes and controls that have been put in place to protect the security of the Department's resources will diminish. This could increase the susceptibility

<sup>15</sup> FY 2023 Department FISMA Audit (ED-OIG/A23IT0118, issued September 2023), FY 2024 Department FISMA Audit (ED-OIG/A24IT0153, issued August 2024), and FY 2025 Department FISMA Audit (ED-OIG/A25IT0212, issued July 2025).

of the Department's operations to fraud, waste, abuse, and cyber threats and result in more findings and recommendations in its annual security audits and inspections.

Further, the Department may lack the capacity to implement corrective actions for existing findings and recommendations, thereby exposing it to continuing information security weaknesses. While the Department's overall IT security program and practices were assessed to be effective in FYs 2023, 2024, and 2025 based on review of the required FISMA metrics, recommendations were made in several areas where the Department could strengthen IT controls. Until the Department improves in these areas, it cannot ensure that its overall information security program adequately protects its systems and resources from compromise and loss. In addition, the Department's technology environment is constantly evolving, bringing new threats and cybersecurity requirements. As technology environments evolve, it is important that the Department continues to ensure that it implements the respective security controls to protect its information and resources.

The Department's systems house millions of sensitive records on students, parents, and others, and are used to process billions of dollars in education funding. These systems are primarily operated and maintained by contractors and are accessed by thousands of authorized people (including Department employees, contractor employees, and other third parties such as school financial aid administrators). Given the notable increase in occurrences of high-profile data breaches (both in the public and private sectors) and advanced cybersecurity attacks, the importance of safeguarding the Department's information and information systems cannot be overstated. Protecting this complex IT infrastructure from constantly evolving cyber threats is an enormous responsibility and challenge. Without adequate management and operational and technical security controls, the Department's IT systems and information are vulnerable to attacks, both internal and external. Unauthorized access could result in lost data confidentiality and integrity, limited system availability, and reduced system reliability.

## Department Comments




### UNITED STATES DEPARTMENT OF EDUCATION

#### OFFICE OF FINANCE AND OPERATIONS

January 16, 2026

TO: Mark Priebe  
Acting Inspector General  
U.S. Department of Education

FROM: Jacqueline Clay   
Principal Deputy Assistant Secretary  
Delegated the Duties of the Assistant Secretary  
Office of Finance and Operations

SUBJECT: Response to Office of Inspector General Draft Report,  
“Fiscal Year 2026 Management Challenges Facing the U.S. Department of Education”

The Department appreciates the opportunity to provide comments on the Office of Inspector General’s (OIG) draft report, *Fiscal Year 2026 Management Challenges Facing the U.S. Department of Education*, and thanks OIG for its communication during FY 2025.

OIG’s perspective on risks and vulnerabilities affecting Department programs and operations is valued. The challenges identified in the draft report are generally consistent with the Department’s understanding of key risk areas. OIG’s identification of *Change Management* as a challenge area, based on observations related to transition issues and operational impacts, is also acknowledged.

Over the past year, the Department has continued to advance efforts aligned with these challenge areas while carrying out its statutory responsibilities. For example, in the area of change management, the Department implemented numerous changes to deliver the earliest-ever release of the Free Application for Federal Student Aid (FAFSA). With respect to oversight, the Department strengthened program integrity controls for how institutions of higher education deliver student aid that prevented approximately \$1 billion in improper disbursements. In addition, the Department has continued to strengthen enterprise information security capabilities, and OIG has assessed the Department’s overall IT security program and practices as effective in recent years, with nearly all Federal Information Security Modernization Act domains meeting Level 4 (Managed and Measurable) or Level 5 (Optimized) maturity ratings. In the area of data quality, the Department has taken steps to improve the reliability of student loan subsidy cost estimates, an area identified by OIG as a longstanding risk, with progress expected to be reflected in forthcoming audit results.

In prior years, efforts were undertaken to address OIG-identified management challenges, including identifying corrective actions and monitoring progress. Over the past year, the Department has continued to invest resources in solidifying and strengthening program monitoring, and has improved its communications with the OIG, proactively identifying and raising cases of potential waste, fraud, and abuse seen in the programs, and working cooperatively with OIG and other state-level resources to address them, as needed. Approaches to coordination have varied over time, and OIG observations are readily considered within the Department’s approaches to its broader management and oversight activities.

OIG’s work in highlighting management challenges and providing an independent perspective on risks affecting Department programs and operations is recognized.

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*The Department of Education’s mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.*

## Summary of Financial Statement Audit and Management Assurances

The following tables provide a summarized report on the Department's financial statement audit and its management assurances. For more details, the auditors' report can be found beginning on page 84 and the Department's management assurances on page 43.

### SUMMARY OF FINANCIAL STATEMENT AUDIT

**Audit Opinion:** Unmodified

**Restatement:** No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	1	0	0	0	1

### SUMMARY OF MANAGEMENT ASSURANCES

#### Effectiveness of Internal Control Over Financial Reporting—*Federal Managers' Financial Integrity Act (FMFIA) 2*

**Statement of Assurance:** Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	1	0	0	0	0	1

#### Effectiveness of Internal Control Over Operations—FMFIA 2

**Statement of Assurance:** Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

#### Conformance with Financial Management System Requirements—FMFIA 4

**Statement of Assurance:** Federal Systems conform to financial management system requirements

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Nonconformances	2	0	2	0	0	0

#### Compliance with Federal Financial Management Improvement Act of 1996 (FFMIA)

	Agency	Auditor
1. System Requirements	No Lack of Compliance Noted	No Lack of Compliance Noted
2. Federal Accounting Standards	No Lack of Compliance Noted	No Lack of Compliance Noted
3. U.S. Standard General Ledger at Transaction Level	No Lack of Compliance Noted	No Lack of Compliance Noted

## Payment Integrity Information Act Reporting

Program outlays are classified into three payment type categories: proper payments, improper payments, and unknown payments. According to OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, an improper payment is a payment that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The term improper payment includes any payment to an ineligible recipient; any payment for an ineligible good or service; any duplicate payment; any payment for a good or service not received, except for those payments where authorized by law; any payment that is not authorized by law; and any payment that does not account for credit for applicable discounts. OMB Circular A-123, Appendix C also defines an unknown payment as a payment that could either be proper or improper, but its propriety cannot be determined because of insufficient or lack of documentation. Low reported amounts of improper and unknown payments are reliable indicators of payment integrity.

The Department prioritizes payment integrity by implementing policies and controls over payment activities, aiming to minimize improper and unknown payments to ensure that the billions of dollars in federal funds it disburses annually are considered proper. Accordingly, the Department maintains a robust internal control framework that includes controls designed to help prevent, detect, and recover improper and unknown payments. In designing controls, the Department attempts to strike the right balance between making timely and accurate payments and ensuring that controls put in place are not too costly or overly burdensome and thereby deter intended beneficiaries from obtaining funds they are entitled to receive. Additionally, the Department must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and institutions, because they further distribute funds received from the Department to subordinate organizations and individuals. Due to these third-party controls being outside of the Department's operational management, they present a higher risk to the Department, as evidenced by its root cause analysis. When control deficiencies are detected, either within the Department or at external entities, the Department seeks to identify their root causes, develop corrective action plans, and track corrective actions through to completion. Finally, to further promote payment integrity, the Department's Payment Integrity Monitoring Application (PIMA) helps identify anomalies in grants payment data, supporting investigations to validate improper payments, and address root causes.

### DESCRIPTION OF RISK-SUSCEPTIBLE AND HIGH-PRIORITY PROGRAMS

In FY 2025, the Federal Pell Grant, William D. Ford Federal Direct Loan, and the Education Stabilization Fund (ESF) programs were designated as programs that are "susceptible to significant improper payments" (referred to as Phase 2 per OMB Circular A123, Appendix C guidance). The Federal Pell Grant program remains an **OMB-designated high-priority program**. The William D. Ford Federal Direct Loan program was last considered a high-priority program in FY 2022 but based on FY 2025 improper payment and unknown payment results, the Direct Loan program is considered a high-priority program for FY 2025.

The Department continues to emphasize payment integrity and minimizing improper and unknown payments in these important programs as required by OMB guidance. In FY 2025, the Department used statistically valid sampling and estimation methodologies to estimate the improper payment rates for the Federal Pell Grant, Direct Loan, and ESF programs. The methodologies used for each of these programs are described in detail on the Department's **improper payments website**.

For a detailed breakdown of information on improper and unknown payment estimates, root causes, and corrective actions for the Federal Pell Grant, Direct Loan, and ESF programs in FY 2025 and prior years, please visit <https://paymentaccuracy.gov>.

### Federal Pell Grant Program

The Federal Pell Grant Program, authorized under Title IV of the *Higher Education Act of 1965* (HEA), provides need-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education. Grant funds can be disbursed directly to the school to be applied towards a student's costs, directly to the student, or a combination of both. A student is eligible to receive a Federal Pell Grant if the student meets the requirements of an eligible student under 34 Code of Federal Regulations (CFR) Part 668. Students may use their grants at any participating postsecondary institution as established by 34 CFR Part 690 and further updated by the *Higher Education Reconciliation Act of 2005* (HERA) and the *Higher Education Opportunity Act of 2008* (Public Law 110-315) (HEOA).

### William D. Ford Federal Direct Loan Program

The Direct Loan Program, added to 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. A student is eligible to receive a Direct Loan if the student enrolls in a school that provides Direct Loans, and the student meets the requirements of an eligible student under 34 CFR Part 668. Eligible students may receive a Direct Loan in accordance with the annual and aggregate loan limits as established by 34 CFR Part 685.203 and further updated by HERA and HEOA.

### Education Stabilization Fund Program (ESF)

The Education Stabilization Fund was established by the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) in March 2020, with subsequent allocations to the Fund codified through the *Coronavirus Response and Relief Supplemental Appropriations Act* (CRRSA Act) and the *American Rescue Plan* (ARP Act). The ESF is an investment of over \$263 billion and is composed of relief funds that support state and institutional efforts to prevent, prepare for, and respond to the coronavirus impacts on our nation's students. Programs created under the ESF investment include Education Stabilization Fund Discretionary Grants; Governor's Emergency Education Relief Fund; Elementary and Secondary School Emergency Relief Fund, Homeless Children and Youth, Emergency Assistance to Non-Public School, Outlying Areas, Bureau of Indian Education; and Higher Education Emergency Relief Fund.



## RISK ASSESSMENTS

As required by OMB Circular A-123, Appendix C, the Department assesses the risk of improper payments at least once every three years for each program and activity with annual outlays over \$10 million that do not report an improper payment estimate. In FY 2025, the Department conducted improper payment risk assessments of 67 non-FSA grant programs and two administrative activities. Additionally, the Department last conducted risk assessments of all FSA-managed programs in FY 2023, identifying no new programs as susceptible to significant improper payments. As per OMB A-123C requirements, the next risk assessment for FSA-managed programs is scheduled for FY 2026.

## SAMPLING AND ESTIMATION METHODOLOGY PLAN (S&EMP)

### Federal Pell Grant and Direct Loan Programs

In FY 2025, the Department used a statistically valid S&EMP to estimate improper and unknown payments for the Federal Pell Grant and Direct Loan programs. This statistical methodology uses a random sample of annual compliance audits, with associated final audit determination letters, if applicable, that cover approximately 5,280 eligible schools. A small number of schools may apply for and receive a waiver or exemption from the compliance audit requirements. FSA accounts for these disbursements through a statistically valid sampling process. In addition to the compliance audits and related data, the methodology also uses the results of tests of FFEL to Direct Loan consolidations and Direct Loan refunds.

### Education Stabilization Fund

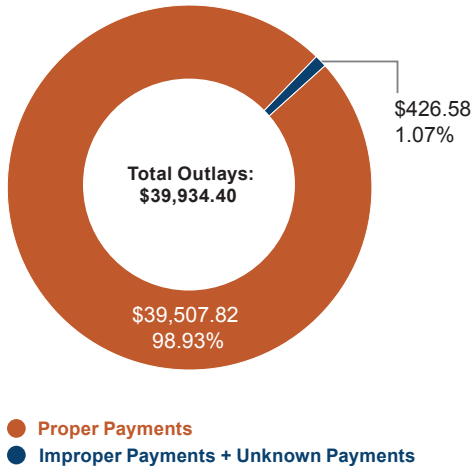
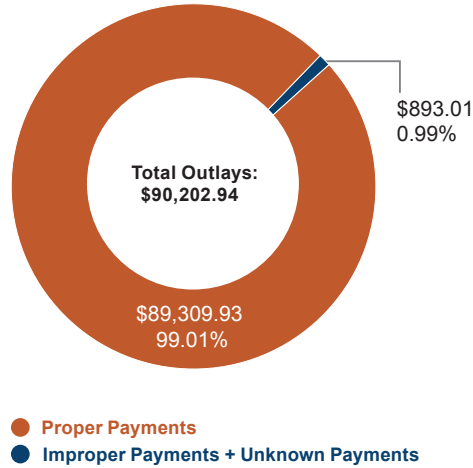
In FY 2025, the Department used a statistically valid S&EMP to estimate improper and unknown payments for its risk-susceptible program, the ESF program. This statistical methodology employs a two-stage sample design. In the first stage, the drawdowns per program were stratified into four groups. The first stratum is comprised of sub-grantees with 10,001 or more drawdowns, the second is comprised of sub-grantees with between 5,001 and 10,000 drawdowns, the third is comprised of sub-grantees with between 501 and 5,001 drawdowns, and the fourth is comprised of sub-grantees with between 1 and 500 drawdowns.

For each stratum, samples were drawn using a Probability Proportional to Size (PPS) technique. This approach assigns higher selection probabilities to larger drawdowns to enhance estimate precision while reducing sample size requirements. The PPS selection was performed with replacement, allowing individual drawdowns to be selected multiple times. After selecting the drawdowns, the Department requested that State Educational Agencies or institutions of higher education provide a list of all payments associated with each sampled drawdown. A plain language description of the methodology and results for each program is available on the Department's **improper payments website**.



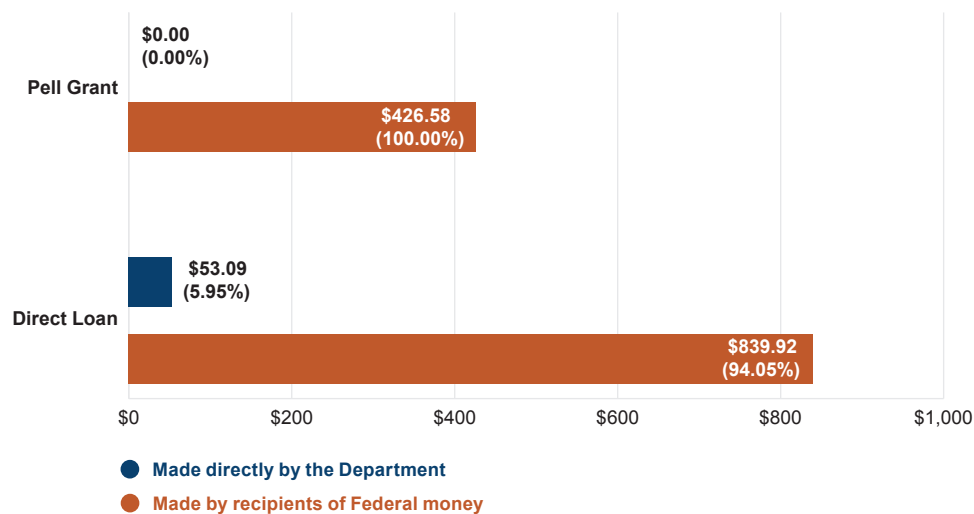
## IMPROPER PAYMENT ESTIMATES

## Federal Pell Grant and Direct Loan Programs

Figure 11. FY 2025 Pell Grant Estimates  
(Dollars in Millions)Figure 12. FY 2025 Direct Loan Estimates  
(Dollars in Millions)

Note: The source of the FY 2025 Federal Pell Grant and Direct Loan outlay amounts is FSA's Financial Management System (FMS).

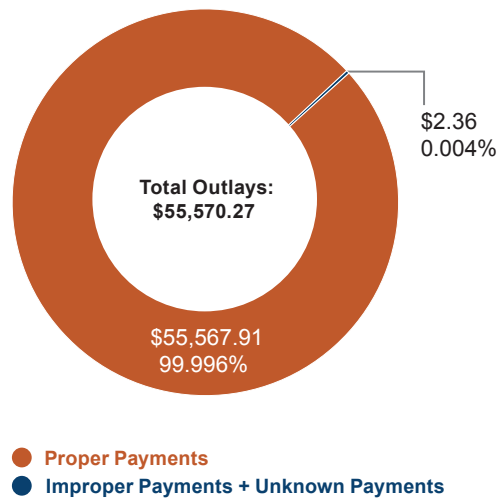
Figure 13 summarizes the estimated improper payments made directly by the Department and the amount of improper payments made by recipients of federal money. For additional details, please refer to the **Root Cause Categories** section.

Figure 13. FY 2025 Sources of Improper Payments & Unknown Payments  
(Dollars in Millions)

### Education Stabilization Fund

As shown in Figure 14, the FY 2025 study of ESF payments revealed an exceptionally low estimated improper payment rate of just 0.004%, with no unknown payments. All improper payments identified were overpayments, with a majority due to rounding errors and a small portion due to inadequate documentation from grantees. This result highlights the ESF program's strong internal controls and effective oversight mechanisms, ensuring that funds are accurately disbursed to the intended recipients.

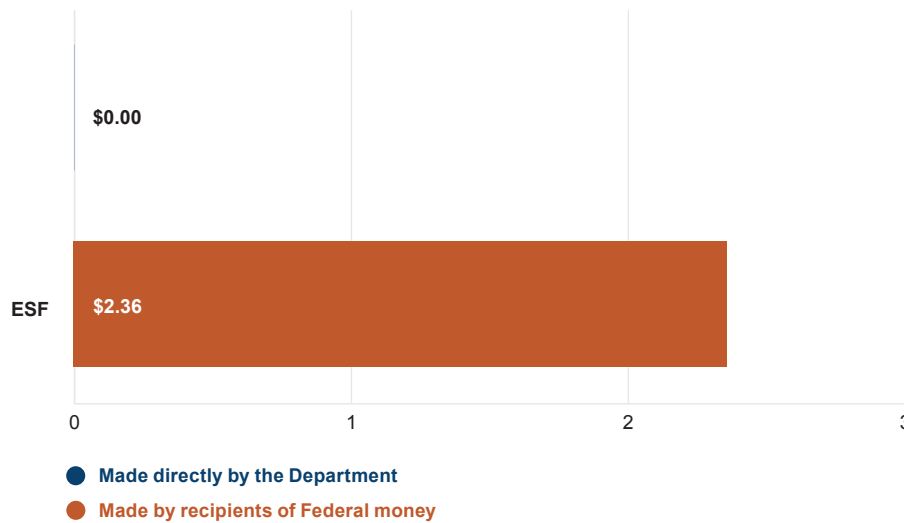
**Figure 14. FY 2025 ESF Estimates**  
(Dollars in Millions)



The FY 2025 ESF outlay amounts originate from the Department's Grants Management System (G5).

Figure 15 provides a summary of the estimated improper payments made directly by the Department, as well as those made by recipients of federal funds. For additional details, please refer to the **Root Cause Categories** section.

**Figure 15. FY 2025 Sources of Improper Payments & Unknown Payments  
(Dollars in Millions)**



Readers can obtain more detailed information on reporting improper payment and unknown payment estimates in FY 2025 and prior years at <https://paymentaccuracy.gov>.

### MONETARY LOSS AND NON-MONETARY LOSS

This section outlines the portion of the improper payment estimates attributed to monetary loss and non-monetary loss, as defined by OMB.

- **Monetary loss to the Federal Government:** An amount that should not have been paid and in theory should/could be recovered.
- **Non-monetary loss to the Federal Government:** Either an underpayment or a payment to the correct recipient for the correct amount where the payment process fails to follow applicable regulation and/or statute.

### Federal Pell Grant and Direct Loan Programs

Of the estimated monetary loss for the Federal Pell Grant and Direct Loan programs, the majority is outside of the agency's control. As explained previously, the Department must rely heavily on controls established by external entities that receive Department payments, including federal, state, and private organizations and institutions, because they further distribute the funds they receive from the Department to subordinate organizations and individuals. These "third-party" controls are outside of the Department's operational control. Examples of root causes outside of the Department's operational control are defined further in the following section. The amounts of monetary and non-monetary loss for the Federal Pell Grant and Direct Loan programs are reported in Table 1.

**Table 1: FY 2025 Monetary and Non-Monetary Loss for Federal Pell Grants and Direct Loans**

Program	Reporting Category	Amount (Dollars in Millions)	Percentage of Improper Payment Estimate
Federal Pell Grants	Estimated Monetary Loss to the Government	\$337.67	79.16%
	Estimated Non-Monetary Loss to the Government	\$83.01	19.46%
	Estimated Unknown Improper Payments	\$5.91	1.38%
	<b>Total</b>	<b>\$426.59</b>	<b>100.00%</b>
Direct Loans	Estimated Monetary Loss to the Government	\$208.27	23.32%
	Estimated Non-Monetary Loss to the Government	\$681.34	76.30%
	Estimated Unknown Improper Payments	\$3.40	0.38%
	<b>Total</b>	<b>\$893.01</b>	<b>100.00%</b>

Program	Reporting Category	Amount (Dollars in Millions)	Percentage of Monetary Loss
Federal Pell Grants	Estimated Monetary loss Within Agency Control	\$0.00	0.00%
	Estimated Monetary loss Outside Agency Control	\$337.67	100.00%
	<b>Total</b>	<b>\$337.67</b>	<b>100.00%</b>
Direct Loans	Estimated Monetary loss Within Agency Control	\$12.22	5.87%
	Estimated Monetary loss Outside Agency Control	\$196.05	94.13%
	<b>Total</b>	<b>\$208.27</b>	<b>100.00%</b>

**Education Stabilization Fund**

Table 2 presents the amounts of monetary loss and non-monetary loss for the ESF program.

As previously mentioned, the Department must depend significantly on controls set by external entities that received payments from the Department. These entities include federal, state, and private organizations and institutions, which further distribute the funds to subordinate organizations and individuals. Consequently, these “third-party” controls not within the Department’s operational control.

**Table 2: FY 2025 Monetary and Non-Monetary Loss for ESF**

Program	Reporting Category	Amount (Dollars in Millions)	Percentage of Improper Payment Estimate
ESF	Estimated Monetary loss to the Government	\$2.36	100.00%
	Estimated Non-Monetary loss to the Government	\$0.00	0.00%
	Estimated Unknown improper payments	\$0.00	0.00%
	<b>Total</b>	<b>\$2.36</b>	<b>100.00%</b>

Program	Reporting Category	Amount (Dollars in Millions)	Percentage of Monetary Loss
ESF	Estimated Monetary loss Within Agency Control	\$0.00	0.00%
	Estimated Monetary loss Out-side Agency Control	\$2.36	100.00%
	<b>Total</b>	<b>\$2.36</b>	<b>100.00%</b>

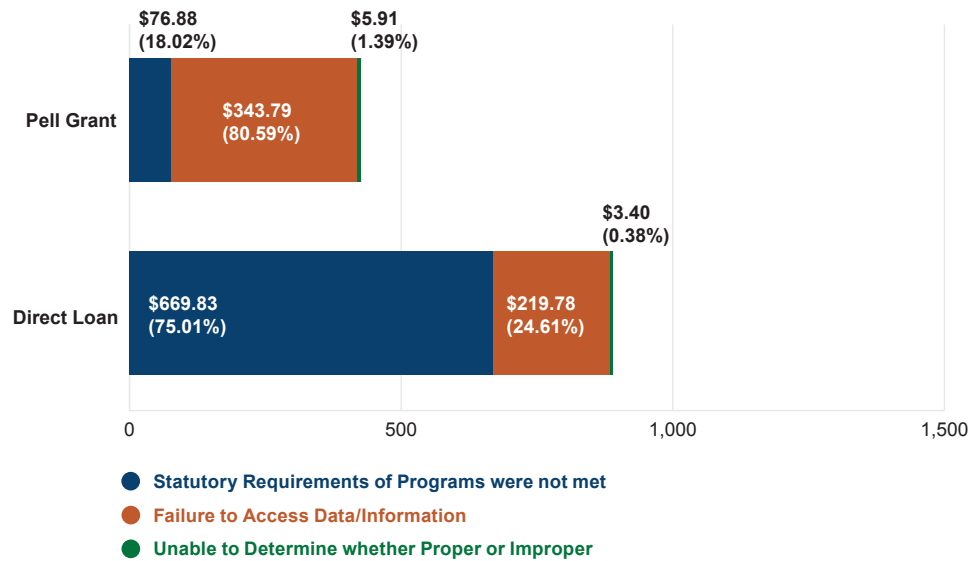
### ROOT CAUSE CATEGORIES

The five root cause categories of error as defined in OMB Circular A-123, Appendix C (OMB Memorandum M-21-19) are: “Statutory Requirements of Program Were Not Met,” “Failure to Access Data/Information,” “Inability to Access Data/Information,” “Data/Information Needed Does Not Exist,” and “Unable to Determine Whether Proper or Improper.”

### Federal Pell Grant and Direct Loan Programs

For the Federal Pell Grant and Direct Loan programs, specific root causes associated with the “Statutory Requirements of Program Were Not Met” category include, but are not limited to, a school’s failure to perform or properly complete verification, a school’s failure to provide disbursement or return notifications to the student in a timely manner, professional judgment deficiencies, excess cash held by institution and not returned timely, untimely credit balance return to the Department, and inadequate documentation for meeting Satisfactory Academic Progress (SAP) standards. Specific root causes associated with the “Failure to Access Data/Information” category include, but are not limited to, misreported income, incorrect academic level or enrollment status used, a school’s failure to observe annual eligibility limits, a school’s failure to properly complete verification, incorrect financial aid determination, and incorrect decision to complete return of Title IV funds calculation. Specific root causes associated with the “Unable to Determine Whether Proper or Improper” category may include, but are not limited to, inadequate tracking of student last date of attendance or withdrawal date, failure to resolve conflicting income information during verification, and lack of evidence to support a school completed required verification of information reported by an applicant on their *Free Application for Federal Student Aid*® (FAFSA®).

**Figure 16. FY 2025 Root Causes of Improper Payments  
(Dollars in Millions)**



### Education Stabilization Fund

Figure 17 below presents the ESF program's estimated improper payments by root cause type. Some ESF payments were found to have minor rounding discrepancies due to either Excel rounding errors or inherent issues in the recipients' payment systems. These rounding discrepancies prevented a precise one-to-one match of payment data. As a result, the program reports an estimated improper payment rate of 0.004%.

**Figure 17. FY 2025 Root Causes of Improper Payments  
(Dollars in Millions)**

ESF		
Root Cause	Amount (\$M)	% of Total
Statutory Requirements of Programs Were Not Met	\$0.00	0.00%
Failure to Access Data/Information	\$0.00	0.00%
Inability to Access Data/Information	\$0.00	0.00%
Data/Information Needed Does Not Exist	\$2.36	100.00%
Unable to Determine whether Proper or Improper	\$0.00	0.00%
<b>Total</b>	<b>\$2.36</b>	<b>100.00%</b>

### CORRECTIVE ACTIONS

#### Federal Pell Grant and Direct Loan Programs

The Department has established an integrated system of complementary oversight functions to help prevent, detect, and recover improper payments, and ensure compliance by all participating parties. FSA's Office of Institutions of Higher Education Oversight and Enforcement (IHE O&E) conducts program reviews of eligible schools to assess institutions' compliance with Title IV regulations. This office evaluates a school's compliance with federal requirements, assesses liabilities for errors in performance, and

identifies actions the school must take to make the Title IV, HEA programs, or the recipients, whole for any funds that were improperly managed and to prevent the same problems from recurring. A school with serious violations may be placed on heightened cash monitoring (HCM) for disbursements, lose funding for specific programs, or be terminated from participation in all Title IV programs for noncompliance.

IHE O&E monitors annual compliance audits of schools. A school that participates in any Title IV program must at least annually have a compliance audit of its administration of that program unless an allowable waiver or exemption has been granted or, for Single Audit filers, the Title IV programs (major program) have been determined low risk. Independent auditors perform the compliance audits to monitor schools' administration of FSA programs. If any internal control deficiencies or instances of noncompliance are reported, the school must develop a corrective action plan that addresses the audit report findings. Auditors are required to evaluate whether the school has taken appropriate corrective action to address findings and recommendations from prior audits. IHE O&E also performs audit resolution. This includes reviewing and evaluating the effectiveness of a school's corrective action and mitigation efforts for noted exceptions in audit reports.

FSA continued to work with Treasury to implement the authorities provided in the *FUTURE Act*. FSA implemented the authorities provided in the *FUTURE Act* and *FAFSA Simplification Act* to significantly improve data authentication by enabling FSA to automatically receive certain federal tax information (FTI) from the IRS through a direct-data exchange with applicant approval and enabling customers to automatically report their income for the total and permanent disability (TPD) discharge post-monitoring, income-driven repayment (IDR), and FAFSA processes. Implementation improved reporting through, for example, modifying and simplifying the questions that students and their families have to answer on the FAFSA form.

The corrective actions listed below are specific to the root causes of improper payments identified from the FY 2025 improper payment fieldwork, and are tailored to reflect the unique processes, procedures, and risks involved with the Federal Pell Grant and Direct Loan programs.

**Table 3. Pell Grant and Direct Loan Improper Payment Corrective Actions**

Corrective Action	Description of Actions Taken in FY 2025 and Planned for FY 2026	OMB Root Cause Category
Continue to implement and monitor usage of the FUTURE Act Direct Data Exchange (FA-DDX) to import U.S. income and tax information to the FAFSA form.	In FY 2025, FSA took steps to further implement and monitor the usage of the FUTURE Act Direct Data Exchange (FA-DDX) for importing U.S. income and tax information into the FAFSA form. FSA enhanced the FA-DDX system's reliability and security, working closely with the IRS to resolve technical challenges and roll out system updates. The agency improved the FAFSA interface to streamline the data import process, provided updated training and guidance for administrators and students, and monitored usage to ensure efficient performance and user satisfaction. FSA made available the 2026–27 FAFSA form for applicants that includes the updates described to reduce burden on applicants and Financial Aid Administrators. In FY 2026, FSA will continue to monitor usage of the FUTURE Act Direct Data Exchange (FA-DDX) to import U.S. income and tax information to the FAFSA form and refine the FAFSA process to ensure minimal burden on applicants and Financial Aid Administrators for release of the 2027-28 FAFSA form.	Failure to Access Data/Information
Publish and deliver guidance, training, and other resources for institutions processing financial aid that address (1) verification errors; (2) administrative and process errors; and (3) documentation errors frequently made by schools.	In FY 2025, FSA published and delivered various free trainings, guidance, and resources for school financial aid administrators to target the root causes of improper payments and other frequently identified compliance issues. For example, FSA published the 2024–2025 FSA Handbook and FSA Assessments, which provide guidance on FAFSA and verification requirements. FSA also published updates to questions and answers about verification requirements to help clarify verification requirements and reduce the risk of verification deficiencies. FSA also held the FSA training conference for Financial Aid Professionals, which received positive feedback from financial aid administrators. The FSA training conference has been the largest conference for the financial aid community, and one of the largest in the federal government.  In FY 2026, FSA will continue to publish and deliver various free trainings, guidance, and resources for school financial aid administrators to target the root causes of improper payments and unknown payments and other frequently identified compliance issues. For example, FSA will continue to publish the FSA Handbook, FSA Assessments, and updates to questions and answers about verification requirements to help clarify verification requirements and reduce the risk of verification deficiencies. FSA is coordinating internally to ensure relevant offices within FSA participate in the planning for the FY 2026 FSA training conference to ensure key objectives and milestones are met. FSA will host the FY 2026 FSA training conference in Washington D.C. in March 2026.	(1) Failure to Access Data/Information (2) Statutory Requirements of Program Were Not Met
Evaluate schools' compliance with federal student aid requirements, assess liabilities for errors in performance, and identify actions schools must take to make the Title IV, HEA programs (Federal Pell Grant and Direct Loan program), or the recipients, whole for any funds that were improperly managed as part of the program review, Single Audit, and/or audit process conducted in accordance with the Guide For Audits of Proprietary Schools and For Compliance Attestation Engagements of Third-Party Servicers Administering Title IV Programs.	In FY 2025, FSA evaluated schools' compliance with federal student aid requirements through oversight activities, such as program reviews and compliance audits, and assessed liabilities for errors in performance. For improper payments identified through oversight activities, such as compliance audits and program reviews, FSA established accounts receivable and pursued collection for those deemed collectible, including applicable overpayments. For additional information on actions taken to recover overpayments, please see <a href="https://paymentaccuracy.gov">paymentaccuracy.gov</a> .  In FY 2026, FSA will continue to evaluate schools' compliance with federal student aid requirements through oversight activities, such as program reviews and compliance audits, and will assess liabilities for errors in performance. For future improper payments identified through oversight activities, such as compliance audits and program reviews, FSA will continue to establish accounts receivable and pursue collection for those deemed collectible, including applicable overpayments.	(3) Unable to Determine Whether Proper or Improper

**Education Stabilization Fund**

OMB Circular A-123, Appendix C, does not require the Department to implement corrective actions for the ESF program due to the exceptionally low estimated improper payment rate of just 0.004 percent.



## Civil Monetary Penalty Adjustment for Inflation

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015*, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. To improve compliance with the act, and in response to multiple audits and recommendations, agencies should report annually in the Other Information section the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate.

### Location for Penalty Update Details:

<https://www.federalregister.gov/documents/2025/01/21/2025-01419/adjustment-of-civil-monetary-penalties-for-inflation>

**Table 4.**

Penalty	Authority	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level
Failure to provide information for cost of higher education	20 USC 1015(c)(5)	01-25-24	01-21-25	48,119
Failure to provide information regarding teacher-preparation programs	20 USC 1022d(a)(3)	01-25-24	01-21-25	40,080
Violation of Title IV of the HEA	20 USC 1082(g)	01-25-24	01-21-25	71,545
Violation of Title IV of the HEA	20 USC 1094(c)(3)(B)	01-25-24	01-21-25	71,545
Failure to disclose information to minor children and parents	20 USC 1228c(c)(2)(E)	01-25-24	01-21-25	2,111
Improper lobbying for government grants and contracts	31 USC 1352(c)(1) and c(2)(A)	01-25-24	01-21-25	25,132 to 251,322
False claims and statements	31 USC 3802(a)(1) and (a)(2)	01-25-24	01-21-25	14,308

## Grants Oversight and New Efficiency Act of 2016 (GONE Act) Reporting

The **Grants Oversight and New Efficiency Act of 2016 (GONE Act)** required agencies to report on expired grants and cooperative agreements. Although the statutory reporting requirement has ended, OMB Circular A-136 continues to require agencies to provide information on expired awards and undisbursed balances in the Other Information section of the Agency Financial Report.

As of September 30, 2025, the Department reported 4,429 expired grants and cooperative agreements with zero dollar balances in the 2 to 3 year category and 3 in the 4 to 5 year category. The Department also reported 1,575 expired awards with undisbursed balances totaling \$558.5 million in the 2 to 3 year category. These amounts are higher than those reported in the FY 2024 AFR.

**Table 6. Expired Grant and Cooperative Agreement Awards**

Category	2–3 Years	3–5 Years	> 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	4,429	3	-
Number of Grants/Cooperative Agreements with Undisbursed Dollar Balances	1,575	-	-
Total Amount of Undisbursed Balances	\$558,482,948	\$0	\$0

Source: G5, grants management system linked to the Department's general ledger system. Data reflected a performance end date of September 30, 2023. **Note:** Annual GONE Act reporting reflects expired awards tied to the performance period used for that reporting cycle. As a result, the population of expired awards and associated balances varies from year to year.



# APPENDICES

## Appendix A: Selected Department Web Links and Education Resources

### COLLEGE COST LISTS

The Department provides college affordability and transparency lists under the *Higher Education Opportunity Act of 2008*. Each list is broken out into nine different sectors to allow students to compare costs at similar types of institutions, including career and technical programs. <https://collegecost.ed.gov/affordability>

### COLLEGE FINANCING PLAN

The College Financing Plan is a consumer tool that participating institutions use to notify students about their financial aid packages. It is a standardized form that is designed to simplify the information that prospective students receive about costs and financial aid so that they can easily compare institutions and make informed decisions about where to attend school. <https://www2.ed.gov/policy/highered/guid/aid-offer/index.html>

### COLLEGE NAVIGATOR

College Navigator consists of the latest data from the Integrated Postsecondary Education Data System, and the core postsecondary education data collection program for the National Center for Education Statistics, as well as data from Federal Student Aid on cohort default rates, the Office of Postsecondary Education on campus safety and accreditation, and information on veterans from the Veterans Benefits Administration. <https://nces.ed.gov/collegenavigator/>

### COLLEGE PREPARATION CHECKLIST

This Department tool gives prospective college students step-by-step instructions on how to prepare academically and financially for education beyond high school. Each section is split into subsections for students and parents, explaining what needs to be done and which publications or websites might be useful to them. <https://studentaid.gov>

These additional resources within the checklist assist students in finding scholarships and grants:

<https://studentaid.gov/resources/prepare-for-college/checklists>

<https://studentaid.gov/sa/types/grants-scholarships/finding-scholarships>

## COLLEGE SCORECARD

The Department's College Scorecard makes it easier to find out more about a college's affordability and value. The College Scorecard continues to be a tool that provides clear, accessible, and reliable data on college cost, graduation, debt, and post-college earnings. The College Scorecard continues to move the field forward in informing college choices with the help of technology and open data, making it possible for anyone—a student, a school, a policymaker, or a researcher—to decide which factors to evaluate. <https://collegescorecard.ed.gov/>

## CONDITION OF EDUCATION AND DIGEST OF EDUCATION STATISTICS

The Condition of Education is a congressionally mandated annual report that summarizes developments and trends in education using the latest available statistics. The report presents statistical indicators containing text, figures, and data from early learning through graduate-level education, as well as labor force outcomes and international comparisons. <https://nces.ed.gov/programs/coe/>

The primary purpose of the Digest of Education Statistics is to provide a compilation of statistical information covering the broad field of American education from prekindergarten through graduate school. The digest includes a selection of data from many sources, both government and private, and draws especially on the results of surveys and activities carried out by the National Center for Education Statistics. <https://nces.ed.gov/programs/digest/>

## EDUCATION RESOURCES INFORMATION CENTER

The Department offers Education Resources Information Center (ERIC)—the world's largest free, digital library of education research. It is composed of more than 2 million bibliographic records and nearly 500,000 full-text materials indexed from 1966 to the present. Each ERIC bibliographic record contains an abstract of a journal article or grey literature document (for example, a technical report or conference paper), along with such indexed information as author, title, and publication date. <https://eric.ed.gov>

## FEDERAL PROGRAM INVENTORY

The *GPR Modernization Act of 2010*, **PL. 111-352**, requires that the Office of Management and Budget (OMB) establish a single website with a central inventory of all federal programs, including the purpose of each program and its contribution to the mission and goals of the Department. The initial Federal Program Inventory was published in May 2013. The Department described each program within 27 budgetary accounts, as well as how the programs support the Department's broader strategic goals and objectives.

Since that time, Congress passed the *Digital Accountability and Transparency Act of 2014* (DATA Act) requiring new public reporting requirements, which impact the definition of programs used in this guidance. OMB is currently working with agencies to merge the implementation of the DATA Act and the Federal Program Inventory requirements to the extent possible to avoid duplicate efforts. In December 2020, OMB launched an exploratory pilot as the next step towards creating a coherent and comprehensive inventory. This site provides the history of the Federal government's efforts to create an inventory as well as key insights, data from the pilot, and planned next steps. <https://fpi.omb.gov/>

## GOVERNMENT ACCOUNTABILITY OFFICE

The Government Accountability Office (GAO) supports Congress in meeting its constitutional responsibilities and helps improve the performance and accountability of the federal government for the benefit of the American people. <https://www.gao.gov/agencies/department-education>

## GRANTS INFORMATION AND RESOURCES

In addition to student loans and grants, the Department offers other discretionary grants. These are awarded using a competitive process, and formula grants use formulas determined by Congress with no application process. This site lists Department discretionary grant competitions previously announced, as well as those grant competitions planned for later announcement, for new awards organized according to the Department's principal program offices. <http://www2.ed.gov/fund/grant/find/edlite-forecast.html>

For more information on the Department's programs, see <https://www.ed.gov/grants-and-programs>

## NATIONAL ASSESSMENT OF EDUCATIONAL PROGRESS

The National Assessment of Educational Progress (NAEP) assesses samples of students in grades 4, 8, and 12 and at ages 9, 13, and 17 in various academic subjects. Results of the assessments are reported for the nation and, for some subjects and grades, states and selected large urban school districts that participate in the Trial Urban District Assessment (TUDA) in terms of comparable scale scores and achievement levels—*NAEP Basic*, *NAEP Proficient*, and *NAEP Advanced*. <https://nces.ed.gov/nationsreportcard/>

## OFFICE OF INSPECTOR GENERAL

The Office of Inspector General (OIG) conducts independent and objective audits, investigations, inspections, and other activities to promote the efficiency, effectiveness, and integrity of the Department's programs and operations. <https://oig.ed.gov/>

For a list of recent reports, go to <https://oig.ed.gov/reports/list>

## ONE-STOP SHOPPING FOR STUDENT LOANS

The Department provides a site where students can manage their loans. <http://studentaid.gov/>

## PERFORMANCE DATA

*EDFacts* is a Department initiative to put performance data at the center of policy, management, and budget decisions for all K–12 educational programs. *EDFacts* centralizes performance data supplied by K–12 state educational agencies with other data assets within the Department, such as financial grant information, to enable better analysis and use in policy development, planning, and management. <http://www.ed.gov/about/inits/ed/edfacts/index.html>

## PROJECTIONS OF EDUCATION STATISTICS TO 2030

The Projections of Education Statistics provides projections for key education statistics, including enrollment, graduates, teachers, and expenditures in elementary and secondary public and private schools, as well as enrollment and degrees conferred at degree-granting postsecondary institutions. <https://nces.ed.gov/programs/pes/>

## REGIONAL EDUCATIONAL LABORATORY PROGRAM

The Department administers the Regional Education Laboratory (REL) program to support the use of research and evidence to help states and school districts improve their education programs and, ultimately, student performance. To do this, each regional REL contractor works with teachers, administrators, and policy makers to identify “high-leverage” problems of practice and to build the research capacity of local stakeholders. Each REL develops partnerships with state- and local-level education agencies to gather and analyze data, conduct evaluations, and provide technical assistance that addresses these “high-leverage” problems. <https://ies.ed.gov/use-work/regional-educational-laboratories-rel>

## RESOURCES FOR ADULT, CAREER, AND TECHNICAL EDUCATION

The Department continues to support state and local efforts to implement high-quality secondary and postsecondary career and technical education programs under the nation’s \$1.3 billion investment in funding under the *Carl D. Perkins Career and Technical Education Act* (Perkins V). Among the Department’s efforts is hosting the Perkins Collaborative Resource Network (PCRN) website that provides a one-stop shop for information, resources, and data pertaining to Perkins V CTE programs. The PCRN website provides individual state profiles containing Perkins V State Plans, fiscal information, and accountability data; tools and resources from Department-sponsored national activities investments; and a Perkins V data explorer where users can run reports on trends in student participation and outcomes in CTE programs. <https://cte.ed.gov>

To support the *Workforce Innovation and Opportunity Act* (WIOA), the Department offers professional development resources through the Literacy Information and Communication System (LINCS). This initiative seeks to expand evidence-based practice in the field of adult education and literacy. LINCS serves as the Office of Career, Technical, and Adult Education’s (OCTAE) primary outreach and dissemination mechanism to adult educators and provides high-quality, on-demand educational opportunities to practitioners of adult education and literacy, so those practitioners can help adult learners successfully transition to postsecondary education and 21st-century jobs. LINCS is comprised of: the LINCS Resource Collection, which provides online access to high-quality, evidence-based materials and instructional resources; the LINCS Community, a virtual professional learning space where adult educators can engage in discussions focused on critical topics to the field of adult education; a Learning Portal that offers anytime, anywhere professional development courses; a Professional Development Center that provides technical assistance to states in meeting the state leadership requirements set forth in WIOA; and the Learner Center, which provides access to federally developed or federally reviewed resources to assist adult learners in reaching their learning goals. <http://lincs.ed.gov/>

### WHAT WORKS CLEARINGHOUSE PRACTICE GUIDES FOR EDUCATORS

The Department offers practice guides and other resources that help educators address everyday challenges faced in classrooms and schools. Developed by a panel of nationally recognized experts, practice guides consist of actionable recommendations and strategies for overcoming potential roadblocks. The practice guides also provide indication of the strength of evidence supporting each recommendation. The guides themselves are subjected to rigorous external peer review. Users can sort by subject area, academic level, and intended audience to find the most recent, relevant, and useful guides.

**<https://whatworks.ed.gov>**



## Appendix B: Glossary of Acronyms and Abbreviations

ABCP Conduit	Asset-Backed Commercial Paper Conduit
AFR	<i>Agency Financial Report</i>
AP	Acquisition Plan
APGs	Agency Priority Goals
APR	Annual Performance Report
ARP	<i>American Rescue Plan Act of 2021</i>
BIE	Bureau of Indian Education
BPO	Business Process Operations
CARES	<i>Coronavirus Aid, Relief, and Economic Security Act of 2020</i>
CISA	<i>Cybersecurity Information Sharing Act of 2015</i>
COVID-19	Coronavirus Disease 2019
CPSS	Contracts and Purchasing Support System
CRRSAA	<i>Coronavirus Response and Relief Supplemental Appropriations Act of 2021</i>
CSRS	Civil Service Retirement System
DATA Act	<i>Digital Accountability and Transparency Act of 2014</i>
Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
DEIA	Diversity, equity, inclusion, and accessibility
DOL	U.S. Department of Labor
ECASLA	<i>Ensuring Continued Access to Student Loans Act of 2008</i>
EDCAPS	Education Central Automated Processing System
ERIC	Education Resources Information Center
ERM	Enterprise Risk Management
ESF	Education Stabilization Fund
FAFSA®	<i>Free Application for Federal Student Aid®</i>

FASAB	Federal Accounting Standards Advisory Board
FCRA	<i>Federal Credit Reform Act of 1990</i>
FECA	<i>Federal Employees' Compensation Act</i>
FERS	Federal Employees Retirement System
FFB	Federal Financing Bank
FFEL	Federal Family Education Loan
FFMIA	<i>Federal Financial Management Improvement Act of 1996</i>
FISMA	<i>Federal Information Security Modernization Act of 2014</i>
FMFIA	<i>Federal Managers' Financial Integrity Act of 1982</i>
FMSS	Financial Management Support System
FSA	Federal Student Aid
FUTURE Act	<i>Fostering Undergraduate Talent by Unlocking Resources for Education Act</i>
FY	Fiscal Year
G5	Grants Management System
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GEER	Governor's Emergency Education Relief
GONE Act	<i>Grants Oversight and New Efficiency Act of 2016</i>
GPRA	<i>Government Performance and Results Act of 1993</i>
GSA	General Services Administration
HBCUs	Historically Black Colleges and Universities
HEA	<i>Higher Education Act of 1965</i>
HEAL	Health Education Assistance Loan
HEERF	Higher Education Emergency Relief Fund
HHS	U.S. Department of Health and Human Services
HTTPS	Hypertext Transfer Protocol Secure
IDEA	<i>Individuals with Disabilities Education Act</i> ®
IDR	Income-Driven Repayment
IES	Institute of Education Sciences

IHE	Institutions of Higher Education
IPP	Invoice Processing Platform
IPERA	<i>Improper Payments Elimination and Recovery Act of 2010</i>
IPERIA	<i>Improper Payments Elimination and Recovery Improvement Act of 2012</i>
IRS	Internal Revenue Service
IT	Information Technology
K-12	Kindergarten through grade 12
LEAs	Local Educational Agencies
LINCS	Literacy Information and Communication System
MSIs	Minority Serving Institutions
NAEP	National Assessment of Educational Progress
NCES	National Center for Education Statistics
Next Gen FSA	Next Generation Federal Student Aid
NIST	National Institute of Standards and Technology
NSLDS®	National Student Loan Data System
OBBA	<i>One Big Beautiful Bill Act</i>
OCIO	Office of the Chief Information Officer
OCR	Office for Civil Rights
OCTAE	Office of Career, Technical, and Adult Education
OELA	Office of English Language Acquisition
OESE	Office of Elementary and Secondary Education
OFM	Office of Financial Management
OFO	Office of Finance and Operations
OGC	Office of the General Counsel
OGM	Office of Grants Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPE	Office of Postsecondary Education
OPEPD	Office of Planning, Evaluation, and Policy Development

OPM	Office of Personnel Management
OS	Office of the Secretary
OSERS	Office of Special Education and Rehabilitative Services
P–12	Prekindergarten Through 12th Grade
Pell	Federal Pell Grant
PEPS	Postsecondary Education Participants System
PIIA	<i>Payment Integrity Information Act of 2019</i>
PIMA	Payment Integrity Monitoring Application
PIV	Personal Identity Verification
PLUS	Parent Loan for Undergraduate Students
POC	Principal Office Component
PPS	Probability Proportional to Size
President’s Budget	<i>Budget of the United States Government</i>
PSLF	Public Service Loan Forgiveness
REL	Regional Educational Laboratory
Report and Plan	Annual Performance Report and Annual Agency Performance Plan
RESTART	Immediate Aid to Restart School Operations
SAVE	Saving on a Valuable Education
SBR	Statement of Budgetary Resources
SEAs	State Educational Agencies
SEAC	Student Engagement and Attendance Center
S&EMP	Sampling and Estimation Methodology Plan
SSA	Social Security Administration
STEM	Science, Technology, Engineering, and Mathematics
TCUs	Tribal Colleges and Universities
TCCUs	Tribally Controlled Colleges and Universities
TEACH Grant	Teacher Education Assistance for College and Higher Education Grant
TEPSLF	Temporary Expanded Public Service Loan Forgiveness

Title I	Title I, Part A
Title IV	Title IV of the Higher Education Act of 1965
TOP	Treasury Offset Program
TPD	Total and Permanent Disability
Treasury	U.S. Department of the Treasury
VDP	Vulnerability Disclosure Policy
VM	Vulnerability Management
WIOA	<i>Workforce Innovation and Opportunity Act</i>

## Acknowledgments

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Within the Office of Finance and Operations (OFO), the Office of Financial Management is responsible for certifying, processing, reconciling, evaluating, and reporting all agency financial transactions; preparing annual financial statements and related notes and schedules; and coordinating the external audit of the agency's financial statements.

The Office of Budget Service has lead responsibility for multiple functions, including developing and implementing the Department's Budget. The Office of Grants Management (OGM) develops, manages, and provides policy guidance and oversight of the Department's grant management activities and operations.

The Office of Acquisitions Management provides leadership strategically focused on delivering better outcomes, driving behavior changes, and implementing innovative solutions for improved program performance leading to the Department's mission success.

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