Financial Highlights

Introduction

This section provides summarized information and analyses of the Department's assets, liabilities, net position, sources and uses of funds, program costs, and related trend data. It is intended to help increase the AFR users' understanding of the Department's business processes and provide a high-level perspective of the detailed information contained in the financial statements and related notes.

The Department consistently produces accurate and timely financial information. Our financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB), specifically in Circular No. A-136, *Financial Reporting Requirements*. The financial statements, notes, and underlying business processes, systems, and controls are audited by an independent accounting firm with audit oversight provided by the Office of Inspector General (OIG). For twelve consecutive years, the Department has earned an unqualified (or "clean") audit opinion. The financial statements and notes for FY 2013 are on pages 45–89 and the Independent Auditors' Report begins on page 94.

Management's assessment of internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*, provides the Department with credibility to external stakeholders and confidence that financial data produced from its underlying financial systems and business processes are complete, correct, and reliable. This ensures the financial statements conform with applicable federal reporting requirements, the Department has trustworthy financial information for good decision-making, and various reports can be produced for both internal and external stakeholders.

Trend Analysis

The tables below summarize trend information about components of the Department's financial condition. The Table of Key Measures below summarizes trend information about components of the Department's financial condition and offers a snapshot of the Department's financial condition as of September 30, 2013, compared with the end of fiscal years 2012–2009, displaying net cost, assets, liabilities, and net position. The Summarized Financial Data graphic is a presentation of the table data, rounded to the billions, for an alternate display over the same five consecutive years.

Table of Key Measures

As of September 2013, 2012, 2011, 2010, 2009

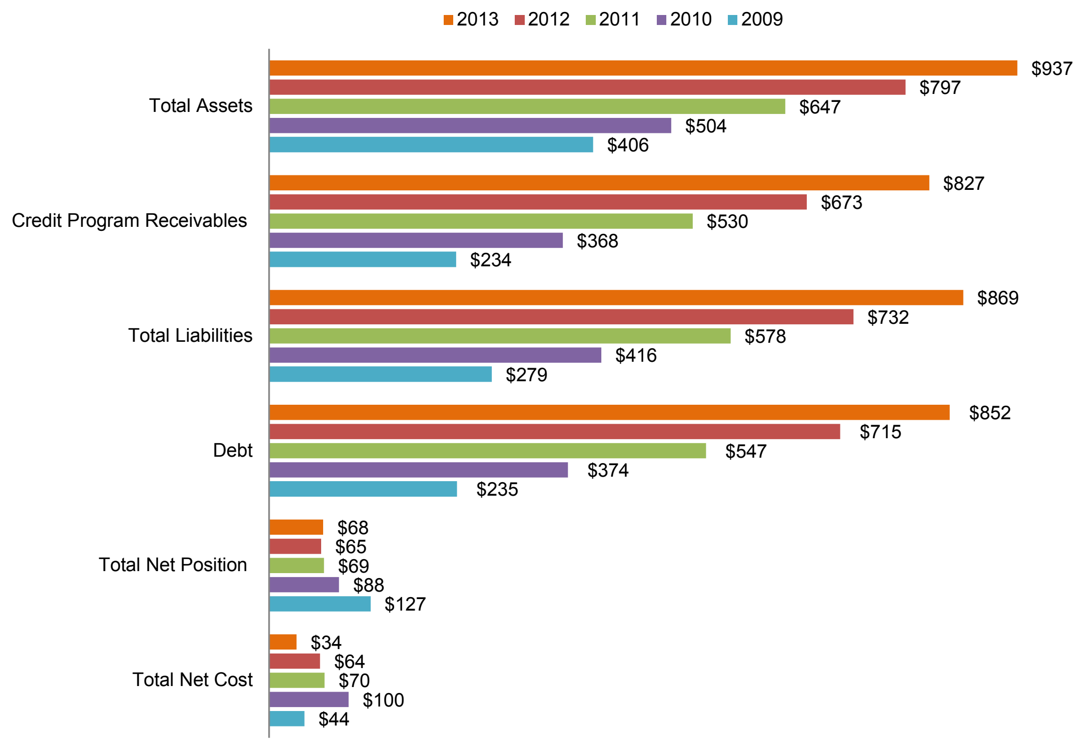
(Dollars in Millions)

	% Change FY 13/FY 12	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
Costs						
Gross Cost	-31%	$ 61,353	$ 89,263	$ 89,910	$ 116,953	$ 55,412
Earned Revenue	+5%	(26,881)	(25,490)	(20,397)	(17,279)	(11,251)
Total Net Cost of Operations	-46%	**$ 34,472**	**$ 63,773**	**$ 69,513**	**$ 99,674**	**$ 44,161**
Net Position						
Fund Balance with Treasury	-11%	$ 108,732	$ 121,993	$ 114,085	$ 132,259	$ 168,032
Credit Program Receivables, Net	+23%	826,684	673,488	530,491	367,904	234,254
Other	+14%	1,642	1,446	1,966	3,501	3,659
Total Assets	+18%	**937,058**	**796,927**	**646,542**	**503,664**	**405,945**
Debt	+19%	852,432	715,303	547,108	374,335	235,385
Liabilities for Loan Guarantees*	-100%	-	1,037	10,025	14,479	20,543
Other	+9%	16,783	15,432	20,824	27,248	22,957
Total Liabilities	+19%	**869,215**	**731,772**	**577,957**	**416,062**	**278,885**
Unexpended Appropriations	-2%	71,371	72,686	71,729	94,371	127,269
Cumulative Results of Operations	+53%	(3,528)	(7,531)	(3,144)	(6,769)	(209)
Total Net Position (Assets minus Liabilities)	+4%	**$ 67,843**	**$ 65,155**	**$ 68,585**	**$ 87,602**	**$ 127,060**

* The presentations of the FY 2012 and earlier Liability for Loan Guarantees is in the Liability section of the Department's Balance Sheet; however, the presentation of the same FY 2013 liability is in the Credit Program Receivables, Net Balance Sheet line item, due to its negative value.

Summarized Financial Data

(Dollars in Billions)

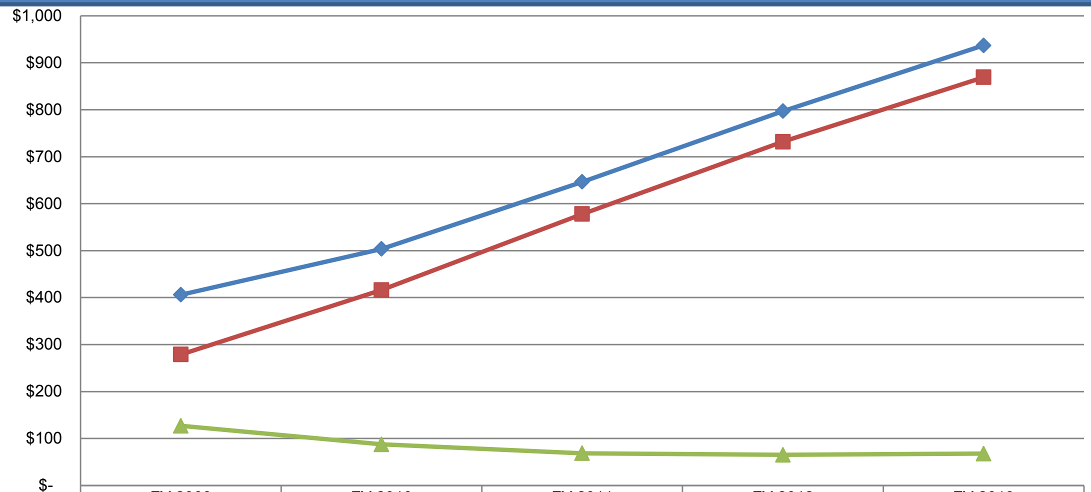


Balance Sheet

The Consolidated Balance Sheet is "as of a particular date" in time (the end of the fiscal year) and provides descriptions of Department "assets," "liabilities," and the difference, which is known as "net position."

Comparison of Department's Assets , Liabilities & Net Position for Fiscal Years 2009–2013

(Dollars in Billions)



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Total Assets	$405,945	$503,664	$646,542	$796,927	$937,058
Total Liabilities	$278,885	$416,062	$577,957	$731,772	$869,215
Total Net Position	$127,060	$87,602	$68,585	$65,155	$67,843

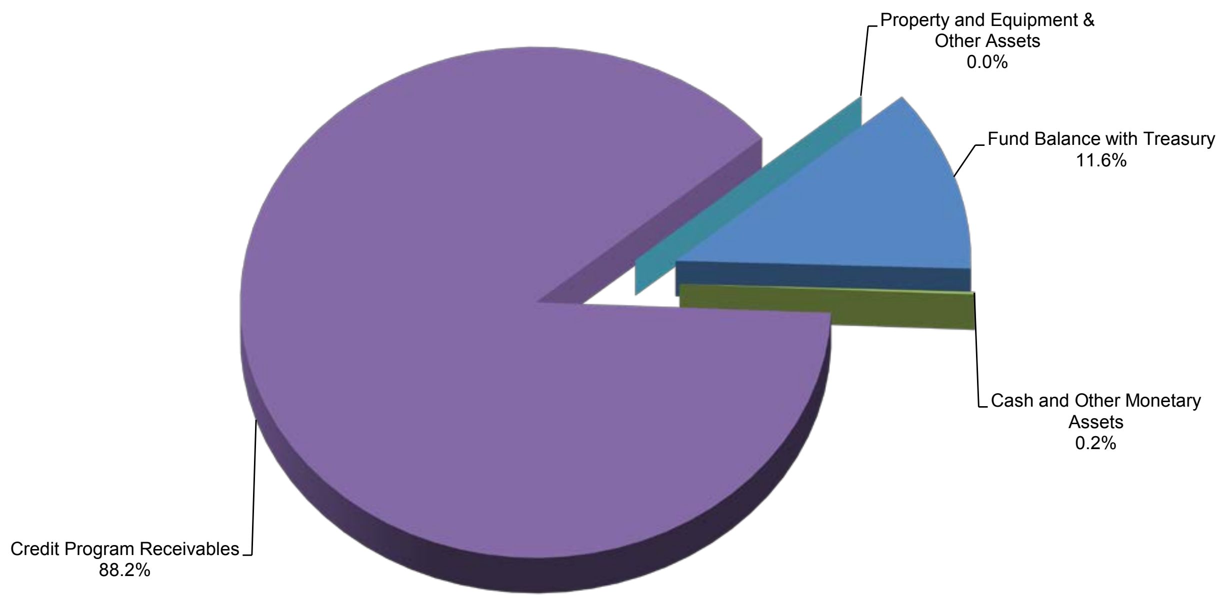
Table amounts are presented in millions.

Analysis of Assets

Assets of the Department totaled $937.1 billion as of September 30, 2013, an increase of about 18 percent over the FY 2012 balance. The vast majority of the increase in assets relates to the Credit Program Receivables, which increased by $153.2 billion, a 23 percent increase over FY 2012. This Credit Program Receivables increase is largely the result of Direct Loan disbursements for new loan originations and Federal Family Education Loan (FFEL) consolidations, net of borrower principal and interest collections, which increased the net portfolio for Direct Loans by $129.5 billion ($27.4 billion was disbursed for consolidated loans). Total Assets are primarily comprised of Credit Program Receivables.

The presentation of the FY 2012 Liability for Loan Guarantees is in the liability section of the Department's Balance Sheet, while the presentation of the FY 2013 liability is in the Credit Program Receivables, Net line item which is presented in the assets section of the Balance Sheet.

Composition of Assets
As of September 30, 2013
($937.1 Billion)



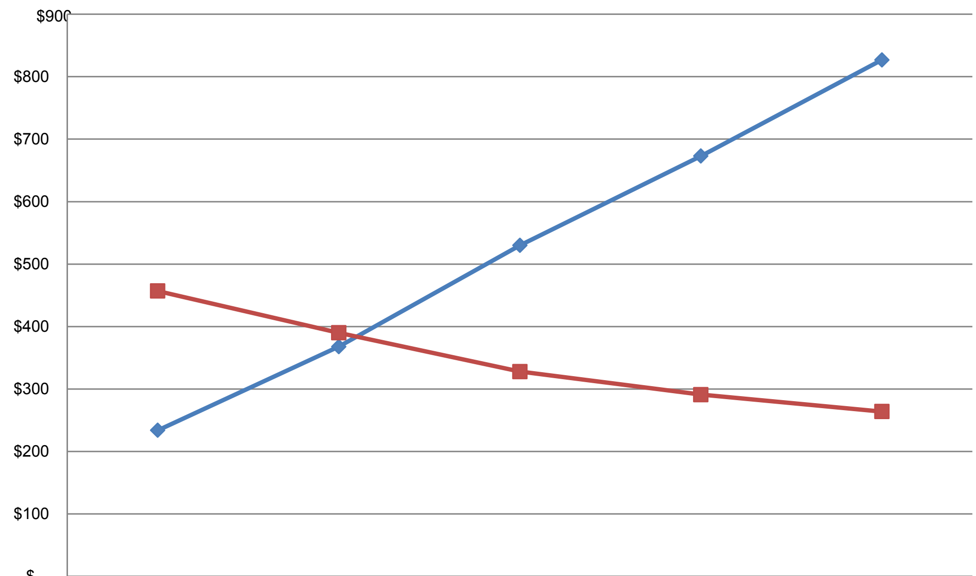
Assets as of September 30, 2013 and 2012 *(Dollars in Millions)*		**2013**		**2012**
Fund Balance with Treasury	$	108,732	$	121,993
Cash and Other Monetary Assets		1,482		1,307
Credit Program Receivables		826,684		673,488
Other Assets*		160		139
Total Assets	$	937,058	$	796,927

* The Other Assets amount includes Accounts Receivable, Property and Equipment, and Other.

The chart below depicts the Department's shift in the composition of its student loan portfolio from guaranteed to direct loans. While there has been a pronounced increase in the Direct Loan Program, FFEL Guaranteed Loans have been shrinking because no new FFEL Loans were made after June 30, 2010. This shift is in accordance with the provisions of the *SAFRA Act,* which has required the transition for new loans to full direct lending instead of guaranteeing the loans provided by the private sector.

Comparison of the Department's
Credit Program Receivables, Net and
FFEL Guaranteed Loans Principal Outstanding
for Fiscal Years 2009

(Dollars in Billions)



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Credit Program Receivables, Net*	$234	$368	$530	$673	$827
FFEL Guaranteed Loans Principal Outstanding	$457	$390	$328	$291	$264

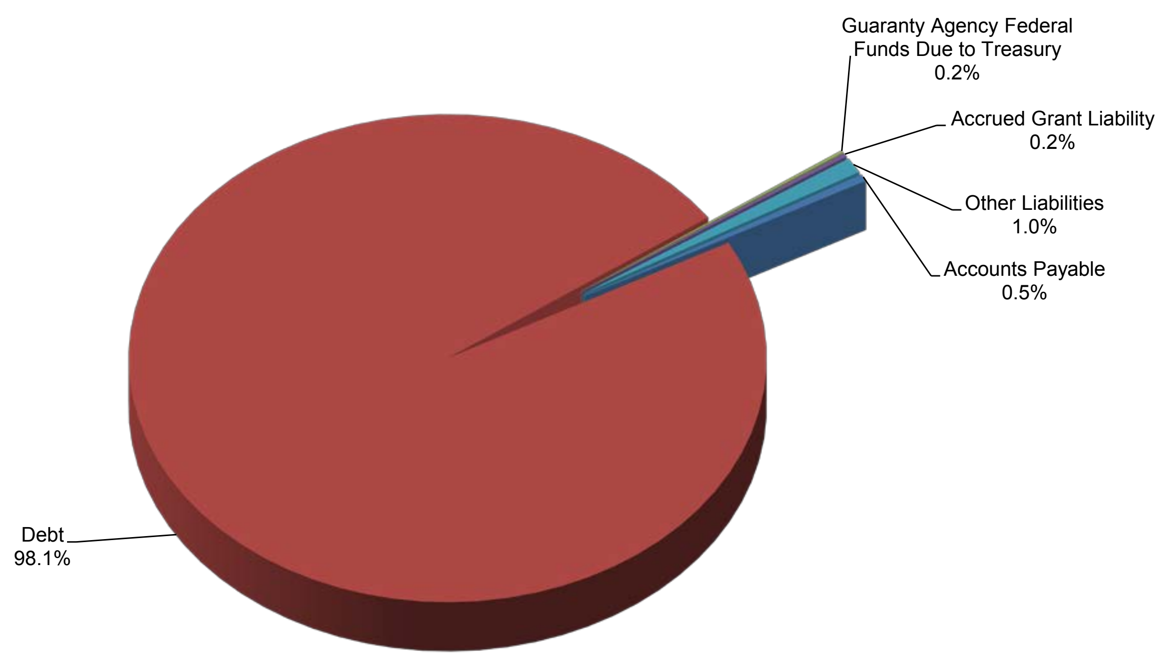
* Credit Program Receivables, Net are presented using net present value methodology as required by OMB A-129, Credit Reform Program Guidance, whereas FFEL Guaranteed Loans Principal Outstanding does not use present value methodology.

Analysis of Liabilities

Liabilities of the Department totaled $869.2 billion as of September 30, 2013, an increase of about 19 percent over the FY 2012 balance. The increase is the result of current year borrowing from Treasury (Debt) for the Direct Loan and FFEL Programs that provided funding for Direct Loan disbursements and FFEL Program downward re-estimates. This current year borrowing, net of repayments, resulted in a $137.1 billion increase in Debt. Total Liabilities are primarily made up of Debt resulting from Credit Program Receivable activity.

The presentation of the FY 2012 Liability for Loan Guarantees is in the liability section of the Department's Balance Sheet, while the presentation of the FY 2013 negative liability is in the Credit Program Receivables Balance Sheet line item. As mentioned above, with the *SAFRA Act* legislation, the Department ceased to guarantee loans after June 30, 2010.

Composition of Liabilities
As of September 30, 2013
($869.2 Billion)



Liabilities as of September 30, 2013 and 2012 *(Dollars in Millions)*		**2013**		**2012**
Accounts Payable	$	4,129	$	4,129
Debt		852,432		715,303
Guaranty Agency Federal Funds Due to Treasury		1,482		1,307
Accrued Grant Liability		2,170		2,901
Liabilities for Loan Guarantees		-		1,037
Other Liabilities		9,002		7,095
Total Liabilities	$	869,215	$	731,772

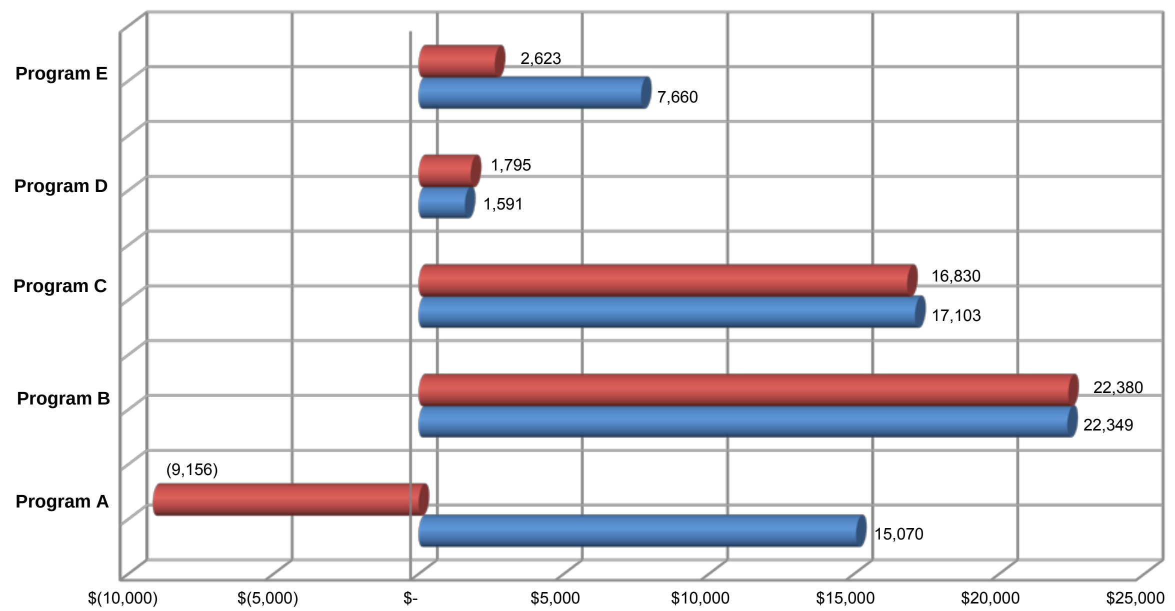
Statement of Net Cost

The Consolidated Statement of Net Cost reports the components of the net costs of the Department's operations for a "particular period" of time. The net cost of operations consists of the gross cost incurred by the Department less any exchange (i.e., earned) revenue from activities.

Net Costs of the Department totaled $34.5 billion for the year ended September 30, 2013, a 46 percent decrease compared to total program net costs for the prior year. The Department's negative net cost for Program A, as shown below, is derived using economic models that project, on a net present value basis, which results in a higher estimate of future cash inflows (net of outflows) related to the loan programs. Current year models predict the net present value of future cash flows will exceed program costs by $27 billion and $12.6 billion for Direct Loans issued in the current year and prior year, respectively, and are $8.8 billion higher for prior year FFEL. These estimated cash flows are amortized, or spread out, over 30 years and are re-valued each year based on current economic conditions.

Net Cost By Program FY 2013 & FY 2012

(Dollars in Millions)



	Program A: Increase College Access, Quality, and Completion	Program B: Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	Program C: Ensure Effective Educational Opportunities for All Students	Program D: Enhance the Education System's Ability to Continuously Improve	Program E: American Recovery and Reinvestment Act and Education Jobs Fund
2013	(9,156)	22,380	16,830	1,795	2,623
2012	15,070	22,349	17,103	1,591	7,660

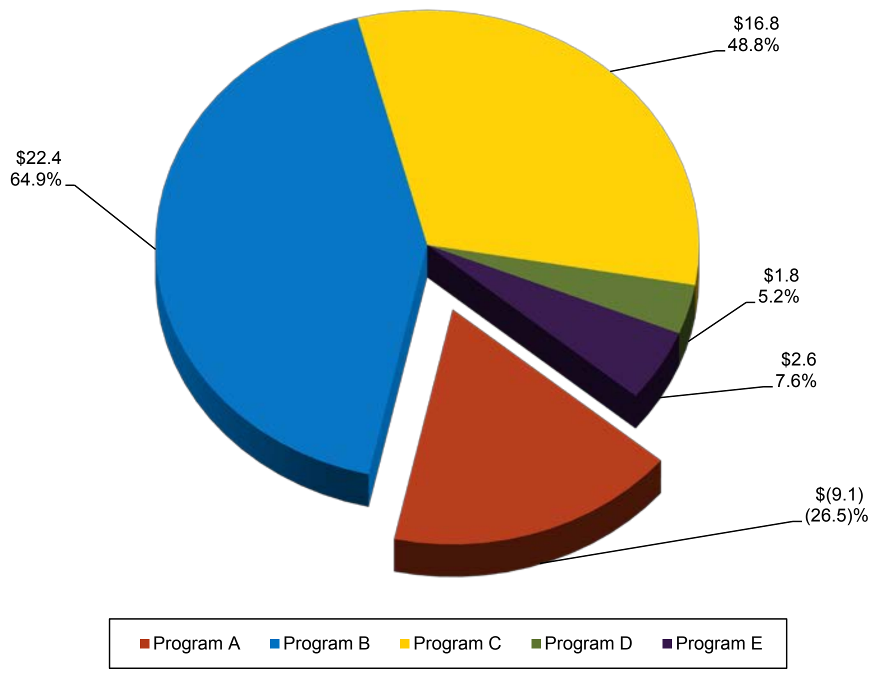
As required by the *GPRA Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the goals presented in the Department's *FY 2011–2014 Strategic Plan*.

The Department has more than 100 grant and loan programs (http://www2.ed.gov/programs/gtep/gtep.pdf). In the Statement of Net Cost, they have been mapped to the Strategic Goals. The three largest grant programs are Title I, Pell, and the *Individuals with Disabilities Education Act* (IDEA) grants. Each of these programs' FY 2013 appropriations exceeded $10 billion. In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, awarded using a competitive process, and formula grants, using formulas determined by Congress with no application process. Among the largest K-12 discretionary grants are: TRIO, RTT, and the Teacher Incentive Fund. Among the largest formula grants are: Title I Grants to LEAs (Title I, *Elementary and Secondary Education Act of 1965*, as amended) and IDEA grants.

Net Cost Program	Reporting Group/ Program Office	Strategic Goal
Program A: Increase College Access, Quality, and Completion	Federal Student Aid Office of Postsecondary Education Office of Vocational and Adult Education	**Goal 1: Postsecondary Education, Career and Technical Education, and Adult Education**. Increase college access, quality, and completion by improving higher education and lifelong learning opportunities for youth and adults.
Program B: Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	Office of Elementary and Secondary Education Hurricane Education Recovery	**Goal 2: Elementary and Secondary Education.** Prepare all elementary and secondary students for college and career by improving the education system's ability to consistently deliver excellent classroom instruction with rigorous academic standards while providing effective support services. **Goal 3: Early Learning.** Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.
Program C: Ensure Effective Educational Opportunities for All Students	Office of English Language Acquisition Office for Civil Rights Office of Special Education and Rehabilitative Services	**Goal 4: Equity.** Ensure and promote effective educational opportunities and safe and healthy learning environments for all students regardless of race, ethnicity, national origin, age, sex, sexual orientation, gender identity, disability, language, and socioeconomic status.
Program D: Enhance the Education System's Ability to Continuously Improve	Institute of Education Sciences Office of Innovation and Improvement	**Goal 5: Continuous Improvement of the U.S. Education System.** Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, transparency, innovation, and technology.
Program E: *American Recovery and Reinvestment Act* and Education Jobs Fund	*American Recovery and Reinvestment Act* Education Jobs Fund	Cuts across Strategic Goals 1–5

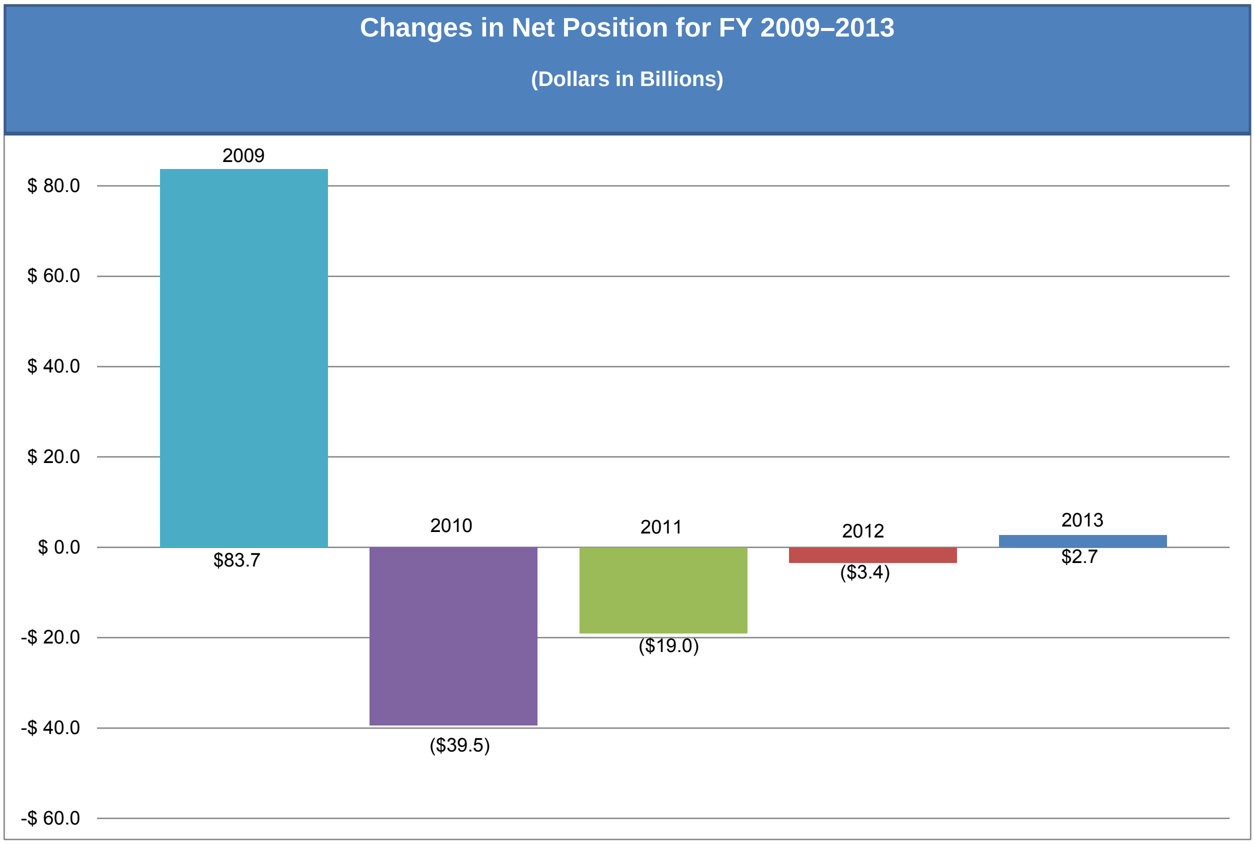
Strategic Plan Goals 1–5 are sharply defined directives that guide the Department's program offices to carry out the vision and programmatic mission; the net cost programs can be specifically associated with these five Strategic Goals. The Department also has a cross-cutting *Strategic Plan* Goal 6,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

Composition of Net Cost by Program
For the Year Ended September 30, 2013
($34.5 Billion)



Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position reports the beginning net position, the transactions that affect net position presented for a "particular period" of time, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for federal credit financing and liquidating funds, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. Net Position of the Department totaled $67.8 billion for the period ended September 30, 2013. This reflects a 4 percent increase over the prior fiscal year.



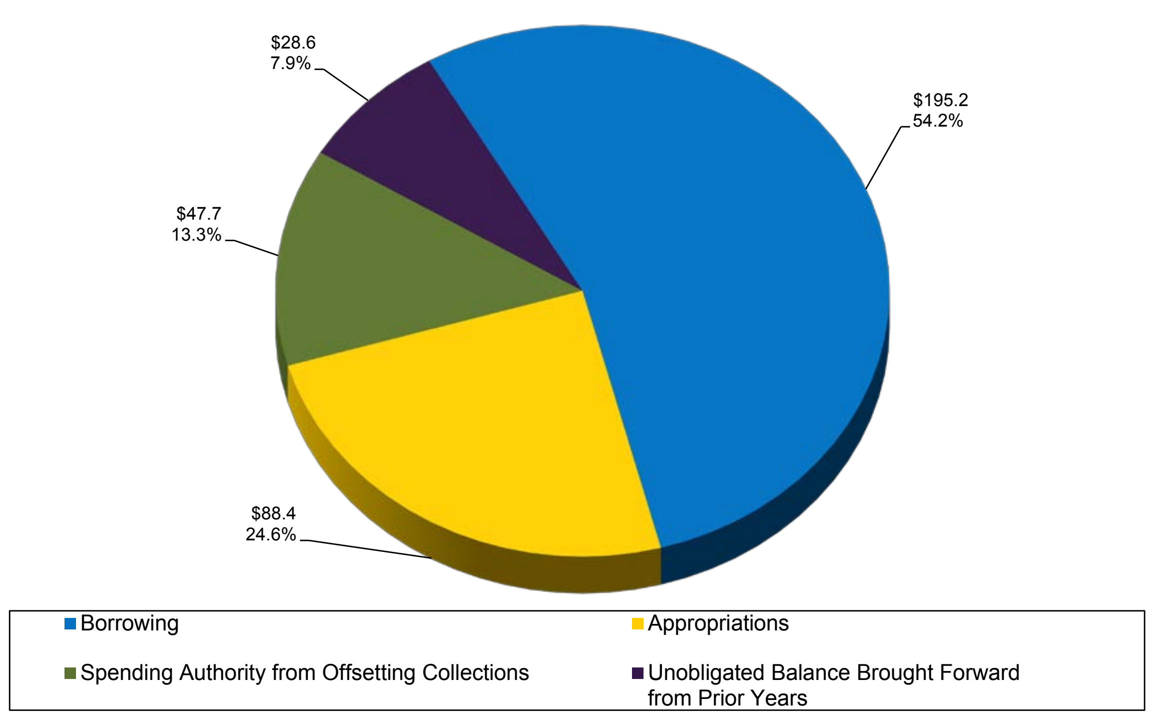
Statement of Budgetary Resources

The Combined Statement of Budgetary Resources presents information on how budgetary resources were made available and their status at the end of the fiscal year. Information in this statement is reported on the budgetary basis of accounting.

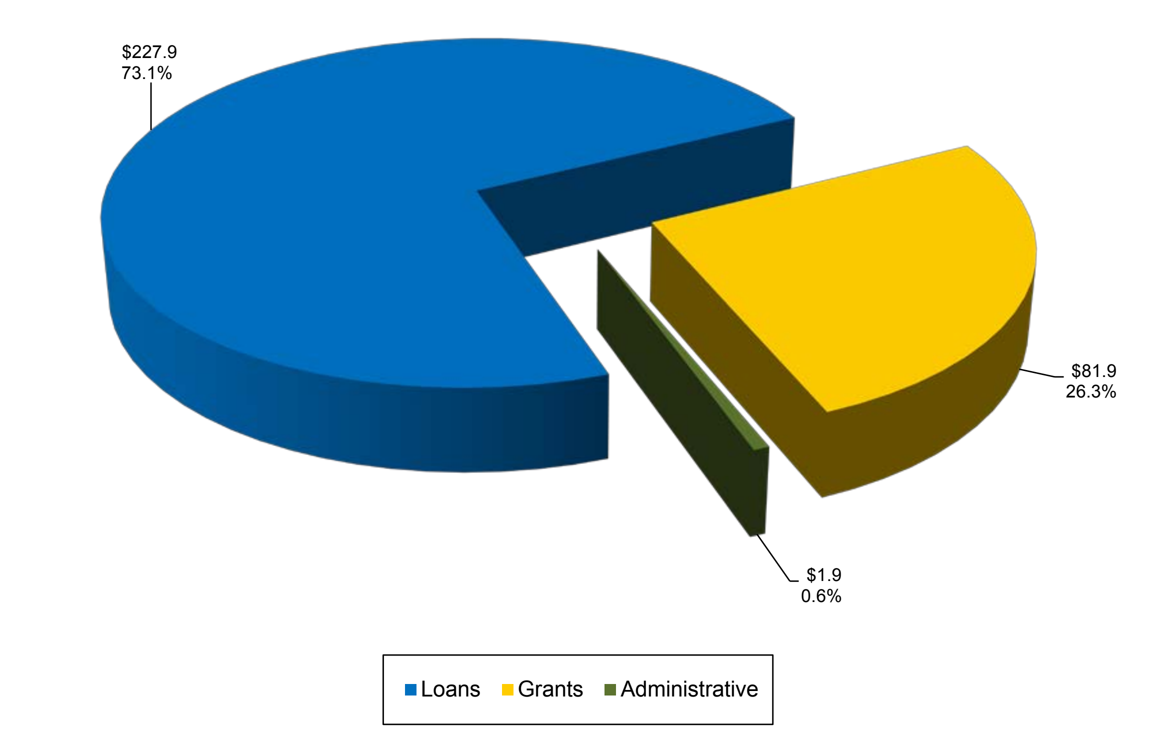
Budgetary resources of the Department totaled $359.9 billion for the period ended September 30, 2013, decreasing 4 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $102.5 billion and non-budgetary credit reform resources of $257.4 billion. The non-budgetary credit reform resources are predominantly borrowing authority for the loan programs.

Gross outlays of the Department totaled $311.7 billion for the period ended September 30, 2013 and consisted of appropriated budgetary resources of $90.6 billion and non-budgetary credit reform funding of $221.1 billion.

Sources of Funds
For the Year Ended September 30, 2013
($359.9 Billion)



Gross Outlays
For the Year Ended September 30, 2013
($311.7 Billion)



Additional information on the Department's sources of funds and spending is shown in the Schedule of Spending on pages 134–135. This schedule includes sections titled, "What Money Is Available to Spend" and "How Was the Money Spent."

Limitations of the Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for FY 2013 and FY 2012, pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

While these statements have been prepared from the books and records of the Department in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, these statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. The implications of this are that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and that ongoing operations are subject to the enactment of future appropriations.