Notes to the Financial Statements
For the Years Ended September 30, 2013 and 2012

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

The U.S. Department of Education (the Department), a cabinet-level agency of the Executive Branch of the U.S. Government, was established by Congress under the *Department of Education Organization Act* (Public Law 96-88), which became effective on May 4, 1980. The Department is responsible, through the execution of its congressionally enacted budget, for administering direct loans, guaranteed loans, and grant programs, as discussed below.

The Department administers the William D. Ford Federal Direct Loan (Direct Loan) Program, the Federal Family Education Loan (FFEL) Program, the Federal Pell Grant (Pell Grant) Program, and the campus-based student aid programs to help students and their parents finance the costs of postsecondary education.

The Direct Loan Program, added to the *Higher Education Act of 1965* (HEA) in 1993 by the *Student Loan Reform Act of 1993,* authorizes the Department to make loans directly to eligible undergraduate and graduate students and their parents through participating schools. Under this program, the loans are made to individuals who meet eligibility criteria established by statute and attend eligible institutions of higher education—public or private two- and four-year institutions, graduate schools, and vocational training schools. Student borrowers who demonstrate financial need also may receive federal interest subsidies while the students are in school or in a deferment period.

The FFEL Program, authorized by the HEA, operates through state and private nonprofit guaranty agencies to provide loan guarantees and interest subsidies on loans made by private lenders to eligible students. The *SAFRA Act*, formerly the *Student Aid and Fiscal Responsibility Act*, which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA) and became effective July 1, 2010, provided that no new FFEL loans would be made after June 30, 2010.

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

The Federal Pell Grant Program provides need-based grants to low-income undergraduate and certain post baccalaureate students to promote access to postsecondary education.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program was implemented beginning July 1, 2008. This program, added to the HEA by the *College Cost Reduction and Access Act*, awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students.

Additionally, the Department administers numerous other grant programs and Facilities Loan Programs. Grant programs include grants to state and local entities for elementary and secondary education; special education and rehabilitative services grants; grants to support institutions of higher education; educational research and improvement grants; grants to assist low-income and first-generation college students to prepare for and transition into college; grants to improve our global awareness and competitiveness; and fellowships for college and graduate students. Through the Facilities Loan Programs, the Department administers low-interest loans to institutions of higher education for the construction and renovation of their facilities.

In addition to student loans and grants, the Department supports state and local education agencies through discretionary grants under a variety of authorizing legislation, which are awarded using a competitive process, and formula (mandatory) grants. Among the largest K-12 discretionary grants are The Federal TRIO Program (TRIO), Race to the Top, and Teacher Incentive Fund. Among the largest formula grants are Title I, *Elementary and Secondary Education Act of 1965,* as amended, (Title I) Grants to Local Educational Agencies and *Individuals with Disabilities Education Act* (IDEA) grants.

The *American Recovery and Reinvestment Act of 2009* (Recovery Act), enacted on February 17, 2009, as Public Law 111-5, provided funding to the Department for improving schools, raising students' achievement, driving reform, and producing better results for children and young people for the long-term health of the nation.

Public Law 111-226 (Education Jobs Fund), enacted on August 10, 2010, provided funding to the Department for saving and creating education jobs.

As of fiscal year 2013, Recovery Act and Education Jobs Fund programs are winding down and have 4 percent and less than 1 percent remaining, respectively, to be expended as of September 30, 2013.

Reporting Groups

The Department has established five reporting groups that administer loan and grant programs. They are:

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

The "Other" reporting group consists of the Office of Vocational and Adult Education (OVAE), Office of Postsecondary Education (OPE), Institute of Education Sciences (IES), Office of English Language Acquisition (OELA), Office of Innovation and Improvement (OII), Office of Management, Office for Civil Rights (OCR), and Hurricane Education Recovery (HR) activities.

Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the Department, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department, in accordance with accounting principles generally accepted in the United States of America for federal entities, issued by the Federal Accounting Standards Advisory Board, and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as revised. These financial statements are different from the financial reports prepared by the Department pursuant to OMB directives that are used to monitor and control the Department's use of budgetary resources.

The Department's financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation providing resources and legal authority to do so.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Intradepartmental transactions and balances have been eliminated from the consolidated financial statements.

Credit Reform Accounting: Federal Credit Reform

The *Federal Credit Reform Act of 1990* (CRA) became effective on October 1, 1991. Its purpose is to measure the cost of Federal credit programs and to place the cost of each credit program on a basis equivalent with other Federal spending, i.e., calculate the cost of Direct Loan Programs evenly with the cost of Guaranteed Loan Programs. Under CRA, subsidy cost is estimated using the net present value of future cash flows to, and from, the Department.

A loan guarantee is any guarantee, insurance, or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-Federal borrower to a non-Federal lender. A direct loan is any debt instrument issued to the public by the federal government. CRA establishes the use of Program, Financing, and General Fund Receipt Accounts for loan guarantees committed and direct loans obligated after September 30, 1991. It also establishes Liquidating Accounts for activity relating to any loan guarantees committed or direct loans obligated before October 1, 1991. These accounts are classified as either budgetary or non-budgetary in the Combined Statements of Budgetary Resources. The budgetary accounts include the Program and Liquidating Accounts. The non-budgetary accounts are the Financing Accounts.

The Program Account is a budget account that receives and obligates appropriations to cover the subsidy cost of a direct loan or loan guarantee and disburses the subsidy cost to the Financing Account. A Program Account also receives appropriations for administrative expenses. The Financing Account is a non-budgetary account that records all of the cash flows resulting from CRA direct loans or loan guarantees. It disburses loans, collects repayments and fees, pays claims, borrows from U.S. Treasury, earns and pays interest, and receives the subsidy cost payment from the Program Account. The General Fund Receipt Account is a budget account used by Treasury for the receipt of amounts paid from the Financing Account when there are negative subsidies for original cost estimates or downward re-estimates of prior subsidy costs.

Use of Estimates

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make assumptions and estimates that directly affect the amounts reported in the financial statements. Actual results may differ from those estimates.

The *Federal Credit Reform Act of 1990* (Credit Reform Act) underlies the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees, other than for general administration of the programs, is referred to as “subsidy cost.” Under the Credit Reform Act, subsidy costs for loans obligated beginning in fiscal year (FY) 1992 are estimated at the net present value of projected lifetime costs in the year the loan is obligated. Subsidy costs are re-estimated annually.

Estimates for credit program receivables and liabilities contain assumptions that have a significant impact on the financial statements. The primary components of this assumption set include, but are not limited to, collections (including loan consolidations), repayments, default rates, prevailing interest rates, and loan volume. Actual loan volume, interest rates, cash flows, and other critical components used in the estimation process may differ significantly from the assumptions made at the time the financial statements are prepared. Minor adjustments to any of these components may create significant changes to the estimates and the amounts recorded.

The Department estimates all future cash flows associated with the Direct Loan, FFEL, and TEACH Programs. Projected cash flows are used to develop subsidy estimates. Subsidy cost can be positive or negative; negative subsidies occur when expected program inflows of cash (e.g., repayments and fees) exceed expected outflows. Subsidy cost is recorded as the initial amount of the loan guarantee liability when guarantees are made, or as a valuation allowance to government-owned loans and interest receivable (i.e., direct and defaulted guaranteed loans).

The Department uses a cash flow projection model to calculate subsidy estimates for the Direct Loan, FFEL, and TEACH Programs. Each year, the Department re-evaluates the estimation methods for changing conditions. In developing assumptions for future interest rates, the Department uses a probabilistic technique that estimates future interest rates and weighs each one by the assumed probability of each scenario occurring. For each program, cash flows are projected over the life of the loans, aggregated by loan type, cohort year, and risk category. The loan's cohort year represents the year a loan was obligated or guaranteed, regardless of the timing of disbursements. Risk categories include two-year colleges, graduate schools, proprietary (for-profit) schools, freshmen and sophomores at four-year colleges, as well as juniors and seniors at four-year colleges.

Estimates reflected in these financial statements were prepared using assumptions developed for the FY 2013 Mid-Session Review, a governmentwide exercise required annually by OMB. These estimates are based on the most current information available to the Department at the time the financial statements were prepared. Assumptions and their impact are updated after the Mid-Session Review to account for significant subsequent changes in activity. Management has a process to review these estimates in the context of subsequent changes in activity and assumptions, and to reflect the impact of changes, as appropriate.

The Department recognizes that cash flow projections and the sensitivity of changes in assumptions can have a significant impact on estimates. Management has attempted to mitigate fluctuations in the estimates by using trend analysis to project future cash flows. Changes in assumptions could significantly affect the amounts reflected in these financial statements. For example, a minimal change in the projected long-term interest rate charged to borrowers could change the current subsidy re-estimate by a significant amount.

Budget Authority

Budget authority is the authorization provided by law for the Department to incur financial obligations that will result in outlays. The Department's budgetary resources include unobligated balances of resources from prior years; recoveries of prior-year obligations; and new resources, which include appropriations, authority to borrow from the Treasury, and spending authority from collections.

Unobligated balances associated with resources expiring at the end of the fiscal year remain available for five years after expiration only for upward adjustments of prior year obligations, after which they are canceled and may not be used. Unobligated balances of resources that have not expired at year-end are available for new obligations placed against them, as well as upward adjustments of prior-year obligations.

Authority to borrow from Treasury provides most of the funding for disbursements made under the Direct Loan Program, the TEACH Program, the Historically Black Colleges and Universities

(HBCU) Capital Financing Program, and activities under the temporary loan purchase authority. Subsidy and administrative costs of the programs are funded by appropriations. Budgetary resources from collections are used primarily to repay the Department's debt to Treasury. Major sources of collections include principal and interest collections from borrowers, related fees, and interest from Treasury on balances in Credit Financing Accounts that make and administer loans and loan guarantees.

Borrowing authority is an indefinite budgetary resource authorized under the Credit Reform Act. This resource, when realized, finances the unsubsidized portion of the Direct Loan Program, ECASLA Programs, the TEACH Program, and the HBCU Capital Financing Program. In addition, borrowing authority is requested in advance of expected collections to cover negative subsidy cost. Treasury prescribes the terms and conditions of borrowing authority and lends to the Credit Financing Account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. The Department may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

Non-Budgetary Financing Accounts are reported separately in the Non-Budgetary Credit Reform Financing Accounts column of the Statement of Budgetary Resources (SBR). The amounts recorded in this column are the cash flow activity resulting from Credit Reform Financing Accounts. In compliance with A-136 guidance, the activity in the Financing Accounts is reported separately in the Budget of the United States Government and is excluded from the budget surplus or deficit totals. The separate presentation in the SBR allows for a clear distinction between budgetary accounts and Non-Budgetary Credit Reform Financing Accounts.

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. The Department combines its entity and non-entity assets on the Balance Sheet and discloses its non-entity assets in the notes.

Fund Balance with Treasury

The Fund Balance with Treasury includes general, financing, revolving, trust, special, and other funds in the Department's accounts with Treasury available to pay current liabilities and finance authorized purchases, as well as funds restricted until future appropriations are received. Treasury processes cash receipts and cash disbursements for the Department. The Department's records are reconciled with those of the Treasury.

A portion of the general funds is provided in advance by multiyear appropriations for obligations anticipated during the current and future fiscal years. Revolving funds conduct continuing cycles of business-like activity and do not require annual appropriations. Their fund balance is derived from borrowings, as well as collections from the public and other federal agencies. Other funds, which are non-budgetary, primarily consist of deposit and receipt funds and clearing accounts. Non-budgetary Credit Reform Financing Accounts have many similarities to revolving funds.

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include undelivered orders and unpaid expended authority.

Accounts Receivable

Accounts Receivable are amounts due to the Department from the public and other federal agencies. Receivables from the public result from overpayments to recipients of grants and other financial assistance programs, and disputed costs resulting from audits of educational assistance programs. Amounts due from federal agencies result from reimbursable agreements entered into by the Department with other agencies to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts. The estimate of an allowance for loss on uncollectible accounts is based on the Department's experience in the collection of receivables and an analysis of the outstanding balances.

Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of guaranty agency reserves that represent the federal government's interest in the net Federal Fund assets of state and nonprofit FFEL Program guaranty agencies. Guaranty agency Federal Fund reserves are classified as non-entity assets with the public and are offset by a corresponding liability due to Treasury. Guaranty agency reserves include initial federal start-up funds, receipts of federal reinsurance payments, insurance premiums, guaranty agency share of collections on defaulted loans, investment income, administrative cost allowances, and other assets.

Sections 422A and 422B of the HEA required FFEL guaranty agencies to establish a Federal Student Loan Reserve Fund (Federal Fund) and an Operating Fund. The Federal Fund and the non-liquid assets developed or purchased by a guaranty agency, in whole or in part with federal funds, are the property of the United States and reflected in the *Budget of the United States Government*. However, such ownership by the federal government is independent of the actual control of the assets.

The Department disburses funds to a guaranty agency. A guaranty agency, through its Federal Fund, pays lender claims and pays default aversion fees into its own Operating Fund. The Operating Fund is the property of the guaranty agency and is used by the guaranty agency to fulfill responsibilities that include repaying money borrowed from the Federal Fund and performing default aversion and collection activities. Payments made to the Department from guaranty agency federal funds through a statutory recall or agency closures represent capital transfers and are credited to the Department's Fund Balance with Treasury account.

Credit Program Receivables, Net and Liabilities for Loan Guarantees

The financial statements reflect the Department's estimate of the long-term cost of direct and guaranteed loans in accordance with the Credit Reform Act. Loans and interest receivable are valued at their gross amounts less an allowance for the present value of amounts not expected to be recovered and thus having to be subsidized—called "allowance for subsidy." The difference between the gross amount and the allowance for subsidy is the present value of the cash flows to and from the Department that are expected from the receivables over their projected lives. Similarly, liabilities for loan guarantees are valued at the present value of the cash outflows from the Department less the present value of related inflows. The estimated present value of net long-term cash outflows of the Department for subsidized costs is net of recoveries, interest supplements, and offsetting fees. The Department also values all pre-1992 loans and loan guarantees at their net present values.

Credit program receivables for activities under the temporary loan purchase authority include the present value of future cash flows related to purchased loans. Subsidy is transferred, which may be prior to purchasing loans, and is recognized as subsidy expense in the Statement of Net Cost. The cash flows of these authorities also include inflows and outflows associated with the underlying or purchased loans and other related activities, including any positive or negative subsidy transfers.

Components of subsidy costs for loans and guarantees include defaults (net of recoveries); contractual payments to third-party private loan collectors who receive a set percentage of amounts collected; and, as an offset, origination and other fees collected. For direct loans, the difference between interest rates incurred by the Department on its borrowings from Treasury and interest rates charged to particular borrowers is also subsidized (or may provide an offset to subsidy if the Department's rate is less). The corresponding interest subsidy in loan guarantee programs is the payment of interest supplements to third-party lenders in order to pay down the interest rates on loans made by those lenders. Subsidy costs are recognized when direct loans or guaranteed loans are disbursed to borrowers and re-estimated each year.

Non-Budgetary Credit Reform Financing Accounts

Actual cash flows to and from the Government for direct loan and loan guarantee programs are recorded in separate Credit Reform Financing Accounts within the Treasury. These accounts borrow funds from Treasury, make direct loan disbursements, 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's General Fund Receipt Account. Appropriations for new subsidy and subsidy re-estimates are received in program accounts and transferred to Non-Budgetary Credit Reform Financing Accounts. The budgetary resources and activities for these accounts are presented separately in the Combined Statement of Budgetary Resources and the Budget of the United States and are excluded from the determination of the budget deficit or surplus.

Property and Equipment, Net

The Department capitalizes single items of property and equipment with a cost of $50,000 or more that have an estimated useful life of two years or more. Additionally, the Department capitalizes bulk purchases of property and equipment with an aggregate cost of $500,000 or more. A bulk purchase is defined as the purchase of like items related to a specific project, or the purchase of like items occurring within the same fiscal year that have an estimated useful life of at least two years. Property and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation. Internal Use Software meeting the above cost and useful life criteria is also capitalized. Internal Use Software is either purchased off the shelf, internally developed, or contractor developed solely to meet the Department's needs.

The Department adopted the following useful lives for its major classes of depreciable property and equipment:

Depreciable Property and Equipment

(In Years)

Major Class	Useful Life
Information Technology, Internal Use Software, and Telecommunications Equipment	3
Furniture and Fixtures	5

Other Assets

The Department's Other Intragovernmental Assets primarily consist of advance payments to federal agencies as part of interagency agreements for various goods and services. The Department's other assets (with the public) consist of payments made to grant recipients in advance of their expenditures and in-process disbursements of interest benefits and special allowance payments for the FFEL Program.

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by the Department without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted. The government, acting in its sovereign capacity, can abrogate liabilities that arise from activities other than contracts. FFEL Program and Direct Loan Program liabilities are entitlements covered by permanent indefinite budget authority.

Accounts Payable

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

Debt

The Department borrows from Treasury to provide funding for the Direct Loan, FFEL, and TEACH Programs. The liability to Treasury from borrowings represents unpaid principal at year-end. The Department repays the principal based on available fund balances. Interest on the debt is calculated at fiscal year-end using rates set by Treasury. These are rates generally fixed based on the rate for 10-year Treasury securities. In addition, the Federal Financing Bank (FFB) holds bonds issued by a designated bonding authority, on behalf of the Department, for the HBCU Capital Financing Program. The Department reports the corresponding liability for full payment of principal and accrued interest on bonds as a payable to the FFB.

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. Some grant recipients incur allowable expenditures as of the end of an accounting period but have not yet been reimbursed by the agency. The Department will accrue a liability for these allowable expenditures incurred that have not yet been reimbursed. The amount is estimated using statistical sampling as well as information on recent grant expenditures and unliquidated balances.

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.

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 non-vested leave are expensed as taken. Annual leave earned but not taken, within established limits, is funded from future financing sources.

Retirement Plans and Other Retirement Benefits. Employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For CSRS employees, the Department contributes a fixed percentage of pay.

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

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

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

The FECA liability consists of two components. The first component is based on actual claims paid and recognized by the Department as a liability. Generally, the Department reimburses DOL within two to three years once funds are appropriated. The second component is the estimated liability for future benefit payments based on unforeseen events, such as death, disability, medical, and miscellaneous costs as determined by DOL annually.

Intragovernmental Transactions

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

Reclassifications

Certain reclassifications were made to the FY 2012 financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities, net position, net cost of operations, or budgetary resources. In accordance with the requirements contained in OMB Circular No. A-136, *Financial Reporting Requirements*, effective for FY 2013's reporting, the presentation of the SBR was changed. The statement was changed to better align the Change in Obligated Balance section of the statement. Also, during FY 2013, as required by Treasury and Departmental guidance, excess collections from pre-1992 FFEL loan guarantees, the College Housing Loan program, and the Higher Education Facilities Loan Program, which are payable to Treasury, are to be reported as non-current liabilities not covered by budgetary resources. This reclassification has resulted in a $3 billion reduction of the FY 2012 reported balance of Intragovernmental Accounts Payable and a corresponding increase in the FY 2012 reported Other Liabilities balance. In accordance with Treasury guidance on capital transfer accounting, excess collections from pre-1992 FFEL loan guarantees, the College Housing Loan Program, and the Higher Education Facilities Loan

Program, which are payable to Treasury, but that have not yet been transferred, should be reported as Other Financing Sources on the Statement of Changes in Net Position. Transfers-Out was reduced by $22 million while Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other was increased by $22 million.

Subsequent Events

The financial statements, notes, and required supplementary information do not reflect the effects of the subsequent event described below.

ABCP Conduit

The asset-backed commercial paper vehicle (ABCP Conduit) closes in the second quarter of 2014. Following Departmental policy, the costs of the ABCP Conduit will be re-estimated after the program closes. A recovery of prior year obligations and the cancellation of borrowing authority in the amount of approximately $71 billion will occur after the final re-estimate is completed.

Note 2. Non-Entity Assets

As of September 30, 2013 and 2012, non-entity assets consisted of the following:

Non-Entity Assets
(Dollars in Millions)

	2013	2012
Non-Entity Assets		
Intragovernmental:		
Fund Balance with Treasury	$ 40	$ (39)
Total Intragovernmental	**40**	**(39)**
With the Public:		
Cash and Other Monetary Assets	1,482	1,307
Credit Program Receivables, Net	369	351
Accounts Receivable, Net	61	(4)
Total With the Public	**1,912**	**1,654**
Total Non-Entity Assets	**1,952**	**1,615**
Entity Assets	935,106	795,312
Total Assets	$ 937,058	$ 796,927

Entity and non-entity assets are combined on the Consolidated Balance Sheet. Non-entity assets are offset by liabilities to third parties and have no impact on net position. Non-entity intragovernmental assets primarily consist of deposit fund and receipt and clearing account balances. Non-entity assets with the public primarily consist of guaranty agency reserves and Federal Perkins Loan Program loan receivables. The corresponding liabilities for these non-entity assets are reflected in various accounts, including Intragovernmental Accounts Payable, Guaranty Agency Federal Funds Due to Treasury, and Other Liabilities. (See Notes 1, 3, 4, 5, and 6)

Note 3. Fund Balance with Treasury

Fund Balance with Treasury by fund type, as of September 30, 2013 and 2012, consisted of the following:

Fund Balances
(Dollars in Millions)

	2013	2012
General Funds	$ 74,329	$ 76,351
Revolving Funds	34,343	45,664
Special Funds	17	14
Trust Funds	3	3
Other Funds	40	(39)
Fund Balance with Treasury	**$ 108,732**	**$ 121,993**

A portion of the general funds is provided in advance by multiyear appropriations for obligations anticipated during the current and future fiscal years. Revolving funds are derived from borrowings, as well as collections from the public and other federal agencies. Trust funds generally consist of donations for the hurricane relief activities. Other funds primarily consist of non-entity deposit and receipt funds and clearing accounts.

The Status of Fund Balance with Treasury, as of September 30, 2013 and 2012, consisted of the following:

Status of Fund Balance with Treasury

(Dollars in Millions)

	2013	2012
Unobligated Balance:		
Available	$ 13,700	$ 10,481
Unavailable	12,340	19,827
Obligated Balance, Not Yet Disbursed	82,652	91,724
Non-Budgetary Fund Balance with Treasury	40	(39)
Fund Balance with Treasury	**$ 108,732**	**$ 121,993**

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Obligated balances not yet disbursed include undelivered orders and unpaid expended authority.

Note 4. Accounts Receivable

Accounts receivable are established as claims to cash or other assets against other entities. At the Department, administrative accounts receivable arise through legal provisions or program requirements to return funds due to noncompliant program administration, regulatory requirements, or individual service obligations. As such, administrative accounts receivable consist primarily of institutional debt resulting from external audit or program review, program scholarship grant repayments, and employee debt. Accounts Receivable, as of September 30, 2013 and 2012, consisted of the following:

Accounts Receivable

(Dollars in Millions)

	2013		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 2	$ -	$ 2
With the Public	306	(185)	121
Total	**$ 308**	**$ (185)**	**$ 123**

	2012		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 1	$ -	$ 1
With the Public	317	(225)	92
Total	**$ 318**	**$ (225)**	**$ 93**

Note 5. Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of reserves held in the FFEL guaranty agency Federal Funds. Changes in the valuation of the Federal Fund increase or decrease the Department's Cash and Other Monetary Assets with a corresponding change in Guaranty Agency Federal Funds Due to Treasury. The table below presents Cash and Other Monetary Assets for the years ended September 30, 2013 and 2012.

Cash and Other Monetary Assets

(Dollars in Millions)

	2013	2012
Beginning Balance, Cash and Other Monetary Assets	**$ 1,307**	**$ 1,664**
Increase/(Decrease) in Guaranty Agency Federal Funds, net	175	(357)
Ending Balance, Cash and Other Monetary Assets	**$ 1,482**	**$ 1,307**

The $175 million net increase and $357 million net decrease in the Federal Fund in fiscal years 2013 and 2012, respectively, represent the change in the estimated value of net assets held in the FFEL guaranty agency Federal Funds. This increase reflects the impact of guaranty agencies' operations.

Note 6. Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees

The Federal Government currently operates two major student loan programs: the Federal Family Education Loan (FFEL) program and the William D. Ford Federal Direct Loan (Direct Loan) program. The *Health Care and Education Reconciliation Act of 2010* (HCERA) eliminated the authorization to originate new FFEL loans; as of July 1, 2010, all new loans are originated in the Direct Loan Program. The Direct Loan Program offers four types of loans: Stafford, Unsubsidized Stafford, PLUS, and Consolidation. Evidence of financial need is required for a 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.

William D. Ford Federal Direct Loan Program. The federal government makes loans directly to students and parents through participating institutions of higher education under the William D. Ford Federal Direct Loan Program, referred to as the Direct Loan Program. Direct loans are originated and serviced through contracts with private vendors. As of September 30, 2013 and 2012, total principal balances outstanding of Direct Loans were approximately $585 billion and $473 billion, respectively.

The Department disbursed approximately $130 billion in Direct Loans to eligible borrowers in FY 2013 and approximately $142 billion in FY 2012. Loans typically are disbursed in multiple installments over an academic period; as a result, loan disbursements for an origination cohort year often cross fiscal years. Half of all loan volume is obligated in the fourth quarter of a fiscal year. Regardless of the fiscal year in which they occur, disbursements are tracked by cohort as determined by the date of obligation rather than disbursement.

Approximately 9 percent of Direct Loan obligations made in a fiscal year are never disbursed. Loan obligations are established at a summary level based on estimates of schools' receipt of aid applications. The loan obligation may occur before a student has been accepted by a school or before the student begins classes. For Direct Loans obligated in the 2013 cohort, an estimated $14.2 billion will never be disbursed. Eligible schools may originate direct loans through an advance from the Department or by advancing their own funds in anticipation of reimbursement from the Department.

Negative allowance for subsidy is a factor of interest rates, default rates, fees, and other costs. Negative subsidy is an estimate of future cash inflows exceeding future cash outflows. Subsidy, either positive or negative, provides resources for the Department to carry on its loan origination activities under the Direct Loan Program or support its past FFEL Program loan guarantees' made on or before June 30, 2010.

Federal Family Education Loan Program. As a result of the *SAFRA Act*, the Department and private lenders did not originate or guaranty any new loans in FY 2013 or FY 2012. Federal guarantees on FFEL Program loans and commitments remain in effect for loans made before July 1, 2010, until the loan is sold to the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2013 and 2012, total principal balances outstanding of guaranteed loans held by lenders were approximately $264 billion and $291 billion, respectively. As of September 30, 2013 and 2012, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $258 billion and $285 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies, based on the appropriate reinsurance rates, which range from 100 to 95 percent. Any remaining insurance not paid as reinsurance would be paid to lenders by the guaranty agencies from their Federal Fund. Payments by guaranty agencies do not reduce government exposure because they are made from the Federal Fund administered by the agencies, but owned by the federal government.

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 ABCP Conduit. This authority expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. However, ABCP Conduit activity has continued.

During FY 2009, the Department, Treasury, and OMB established the terms on which the Department would support an ABCP Conduit to provide liquidity to the student loan market. An ABCP Conduit issues short-term commercial paper to investors; this paper is backed by student loans pledged to the conduit. The conduit used the proceeds of sales of its commercial paper to acquire from lenders interests in student loans. Lenders must have used a portion of conduit payments to make new loans or acquire FFEL loans. The Department purchases certain pledged loans that become more than 210 days delinquent. The conduit has sold to the Department approximately $2.2 billion of these delinquent loans as of September 30, 2013. Under the terms of the Put Agreement with the conduit, the Department may purchase pledged loans 45 days prior to the Put Agreement expiration on January 19, 2014. Loans originated in academic years 2004-05 through 2007-08, and pledged to the conduit prior to July 1, 2010, are eligible to be purchased through the ABCP Conduit.

The conduit, a separate legal entity, has approximately $588 million in commercial paper outstanding. The Department's relationship with the ABCP Conduit requires it to buy delinquent loans and be available to purchase loans at the end of the program, January 2014. As of September 30, 2013, the Department has $71 billion in obligations to cover any buyer-of-last-resort activities and potential purchases of underlying student loans under the ABCP Conduit. These obligations are supported by available borrowing authority. Any obligations not used during the shutdown of the ABCP Conduit program will be deobligated at the end of the program. Further discussion on this subsequent event is discussed in the last section of Note 1.

The estimated FFEL liability for loan guarantees is reported as the present value of estimated net cash outflows. Defaulted FFEL loans are reported net of an allowance for subsidy computed using net present value methodology, including defaults, collections, and loan cancellations. The same methodology is used to estimate the allowance on Direct Loan Program loan receivables.

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

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

TEACH 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. For students failing to fulfill the service requirement, grants are converted to Direct Unsubsidized Stafford Loans. Because grants can be converted to direct loans, for budget and accounting purposes the program is operated under the Credit Reform Act.

Facilities Loan Programs. The Department administers the College Housing and Academic Facilities Loan Program (CHAFL), the College Housing Loan Program and the Higher Education Facilities Loan Program. From 1952 to 1993, these programs provided low-interest financing to institutions of higher education for the construction, reconstruction, and renovation of housing, academic, and other educational facilities. The Department has approximately $5 million in outstanding borrowing from Treasury lent to eligible CHAFL institutions as of September 30, 2013.

The Department also administers the Historically Black Colleges and Universities (HBCU) Capital Financing Program. Since 1992, this program has given HBCUs access to financing for the repair, renovation, and, in exceptional circumstances, the construction or acquisition of facilities, equipment, and infrastructure through federally insured bonds. The Department has authorized a designated bonding authority to make the loans to eligible institutions, charge interest, and collect principal and interest payments. In compliance with statute, the *Higher Education Act of 1965* (HEA), as amended, the bonding authority maintains an escrow account to pay the principal and interest on bonds for loans in default.

On March 22, 2013, the Department and representatives from Treasury and OMB jointly offered loan modification terms and conditions to all four HBCU institutions in response to their request for forbearance considerations. In an effort to mitigate the economic effects of the hurricanes and to better serve the interests of the United States and the institutions, the Department has agreed to three components of modifications: forbearance, expense-based repayment, and debt adjustment. As part of the five-year forbearance agreement, the Department will pay on behalf of the institutions: servicing costs due to the Bank of New York Mellon Trust Company; servicing costs due to the designated bonding authority, Rice Capital (Atlanta, GA); and biannual bond principal and interest payments due to the Federal Financing Bank. The loan modification will not reduce the amount owed by the institutions and the Department will become the holder of the aforementioned bonds to the extent of its payments made on behalf of the institutions during the forbearance period. The total amount of this support and any accrued interest and unpaid servicing fees will be capitalized to principal and be reamortized through the original maturity date on June 1, 2037. Accordingly, the structure of this modification will result in zero subsidy cost. The Department has approximately $1.1 billion in outstanding borrowing from the Federal Finance Bank to support loans made to HBCU institutions with another $260 million obligated to support near term lending as of September 30, 2013.

Loan Consolidations

Student and parent borrowers may prepay existing loans without penalty through a new consolidation loan. Under the Credit Reform Act and requirements provided by OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, the retirement of Direct Loans being consolidated is considered a receipt of principal and interest. This receipt is offset by the disbursement related to the newly created consolidation loan. Underlying direct or guaranteed loans, performing or nonperforming, are paid off in their original cohort; new consolidation loans are originated in the cohort in which the new, consolidation loan was obligated. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort costs. The loan liability and net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect costs associated with anticipated future consolidation loans.

Direct Loan Program consolidations decreased from $36 billion during FY 2012 to $28 billion during FY 2013. The $28 billion includes approximately $0.6 billion in Special Direct Consolidation Loans. Under credit reform accounting, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows of the past cohort year in which the loans were originated.

Modifications of Subsidy Cost

The recorded subsidy cost of a loan is based on a set of assumed future cash flows. Government actions that change these assumed future cash flows change subsidy cost and are recorded as loan modifications. Loan modifications are recognized under the same accounting principle as subsidy re-estimates. Modification adjustment transfers are required to adjust for the difference between current discount rates used to calculate modification costs and the discount rates used to calculate cohort interest expense and revenue. Separate amounts are calculated for modification costs and modification adjustment transfers. The Department had no modifications in fiscal year 2013, but modified loans in fiscal year 2012.

Two modifications were recognized in FY 2012; the first was related to the interest rates used in the calculation of special allowance payments and the second was the offering of Special Direct Consolidation Loans. Both modifications affect FFEL subsidy costs for cohort year 2010 and prior.

The net effect of loan modifications executed in FY 2012 was an upward subsidy cost of $153 million in FFEL with a corresponding effect on Liability for Loan Guarantees. Of this amount, $352 million in upward cost was related to the consolidation loan initiative while a net downward modification of $199 million resulted from the London Inter Bank Offered Rate initiative.

Credit Program Receivables

Credit Program Receivables, as of September 30, 2013 and 2012, consisted of the following:

Credit Program Loan Receivables, Net

(Dollars in Millions)

	2013	2012
Direct Loan Program Loan Receivables, Net	$ 679,107	$ 526,035
FFEL Program Loan Receivables:		
FFEL Guaranteed Loan Program, Net (Pre-1992)	2,231	2,697
FFEL Program (Post-1991):		
FFEL Guaranteed Loan Program, Net	35,144	29,644
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	38,946	41,145
Loan Participation Purchase, Net	67,546	70,888
ABCP Conduit, Net	1,864	1,731
Federal Perkins and Other Loan Program Loan Receivables, Net	369	351
TEACH Program Loan Receivables, Net	453	344
Facilities Loan Programs Loan Receivables, Net	1,024	653
Total	**$ 826,684**	**$ 673,488**

William D. Ford Federal Direct Loan Program. Direct Loan Program loan receivables are defaulted and non-defaulted loans owned by the Department and are held by the Department or guaranty agencies. The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy:

Direct Loan Program Loan Receivables, Net

(Dollars in Millions)

	2013	2012
Principal Receivable	$ 584,528	$ 472,877
Interest Receivable	29,332	21,082
Total	613,860	493,959
Allowance for Subsidy	65,247	32,076
Direct Loan Program Receivables, Net	**$ 679,107**	**$ 526,035**

Of the $613.9 billion in receivables, as of September 30, 2013, $28.9 billion (4.7 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $20.2 billion (4.1 percent) a year earlier. As of September 30, 2013, an additional $1.1 billion in defaulted loans held by servicers had not yet been transferred to the Department's defaulted loan servicer; this amount includes defaulted Direct Loans and defaulted loans from other loan programs.

Federal Family Education Loan Program. FFEL Program loan receivables are defaulted loans owned by the Department and are held by the Department or guaranty agencies. Guaranteed student loans that default are first placed with guarantee agencies for collection. If collection activities of guarantee agencies are not successful, the defaulted FFEL loans are assigned to the Department for collection. Defaulted FFEL loans are accounted for under credit reform rules, although they are legally not direct student loans.

The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy:

FFEL Program Loan Receivables, Net

(Dollars in Millions)

	2013	2012
FFEL Program (Pre-1992)		
Principal Receivable	$ 5,040	$ 5,519
Interest Receivable	5,563	5,358
Total	10,603	10,877
Allowance for Subsidy	(8,356)	(8,180)
Liabilities for Loan Guarantees	(16)	-
FFEL Guaranteed Loan Program, Net (Pre-1992)	**2,231**	**2,697**
FFEL Program (Post-1991)		
FFEL Guaranteed Loan Program:		
Principal Receivable	32,649	31,549
Interest Receivable	4,849	4,541
Total	37,498	36,090
Allowance for Subsidy	(6,614)	(6,446)
Liabilities for Loan Guarantees	4,260	-
FFEL Guaranteed Loan Program, Net	**35,144**	**29,644**
Temporary Loan Purchase Authority:		
Loan Purchase Commitment:		
Principal Receivable	31,899	34,012
Interest Receivable	1,859	1,875
Total	33,758	35,887
Allowance for Subsidy	5,188	5,258
Loan Purchase Commitment, Net	**38,946**	**41,145**
Loan Participation Purchase:		
Principal Receivable	56,041	58,834
Interest Receivable	3,297	3,144
Total	59,338	61,978
Allowance for Subsidy	8,208	8,910
Loan Participation Purchase, Net	**67,546**	**70,888**
ABCP Conduit:		
Principal Receivable	2,208	2,038
Interest Receivable	193	133
Total	2,401	2,171
Allowance for Subsidy	(537)	(440)
ABCP Conduit, Net	**1,864**	**1,731**
FFEL Program Loan Receivables, Net	**$ 145,731**	**$ 146,105**

All loans purchased by the Department under the temporary loan purchase authority are defaulted and non-defaulted federal assets.

Federal Perkins Loan Program. As of September 30, 2013 and 2012, loan and interest receivables, net of allowance for losses, were $358 million and $343 million, respectively. These receivables are valued at net realizable value with estimated allowance for losses of $154 million and $147 million as of September 30, 2013 and 2012, respectively.

TEACH Grant Program. As of September 30, 2013 and 2012, loan receivables were $453 million and $344 million, respectively. The receivable balance is net of allowance for subsidy of $106 million and $93 million as of September 30, 2013 and 2012, respectively.

Facilities Loan Programs. The following schedule summarizes the principal and related interest receivables, net of the allowance for subsidy:

Facilities Loan Programs Loan Receivables, Net

(Dollars in Millions)

	2013	2012
Principal Receivable	$ 1,211	$ 1,056
Interest Receivable	10	12
Receivables	1,221	1,068
Allowance for Subsidy/Loss	(197)	(415)
Facilities Loan Programs Loan Receivables, Net	**$ 1,024**	**$ 653**

Reconciliation of Allowance for Subsidy and Liability for Loan Guarantees

William D. Ford Federal Direct Loan Program. The following schedule provides a reconciliation between the beginning and ending balances of the allowance for subsidy for the Direct Loan Program:

Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2013	2012
Beginning Balance, Allowance for Subsidy	**$ 32,076**	**$ 25,346**
Activity		
Fee Collections	(1,557)	(1,585)
Loan Cancellations[1]	1,890	1,250
Subsidy Allowance Amortization	(7,719)	(3,778)
Other	1,000	123
Total Activity	**(6,386)**	**(3,990)**
Components of Subsidy Transfers		
Interest Rate Differential	37,063	32,372
Defaults, Net of Recoveries	(1,887)	(2,356)
Fees	1,801	1,792
Other[2]	(9,967)	(8,901)
Current Year Subsidy Transfers	**27,010**	**22,907**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates[3]	11,754	(7,651)
Technical and Default Re-estimates	793	(4,536)
Subsidy Re-estimates	**12,547**	**(12,187)**
Ending Balance, Allowance for Subsidy	**$ 65,247**	**$ 32,076**

[1] Loan cancellations include write-offs of loans because the primary borrower died, became disabled, or declared bankruptcy.

[2] Other consists of contract collection costs, program review collections, fee and other accruals.

[3] The interest rate re-estimate relates to subsidy associated with establishing a fixed rate for the Department's borrowing from Treasury.

Federal Family Education Loan Program. The FFEL Guaranteed Student Loan Financing Account has a negative estimated Liability for Loan Guarantees of $4.3 billion as of September 30, 2013. This indicates expected collections on anticipated future defaulted loans will be in excess of default disbursements, calculated on a net present value basis. As of September 30, 2012, the Department's Liability for Loan Guarantees was approximately $1 billion on anticipated loan defaults. Under Generally Accepted Accounting Principles negative estimated liability, the negative estimated liability has been classified as Credit Program Receivables on the Consolidated Balance Sheet. According to "Federal Accounting Standards Advisory Board Standard No. 2*, Accounting for Direct Loans and Loan Guarantees*," a negative liability is reasonable, as that the accounting standard was written with deference to budgetary rules as promulgated by OMB. The following schedule provides a reconciliation between the beginning and ending balances of the liability for loan guarantees for the insurance portion of the FFEL Program:

FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2013	2012
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ (1,013)**	**$ (9,984)**
Activity		
Interest Supplement Payments	1,336	1,756
Claim Payments	9,125	9,291
Fee Collections	(2,239)	(2,344)
Interest on Liability Balance	1,783	1,440
Other[1]	(12,564)	(12,748)
Total Activity	**(2,559)**	**(2,605)**
Components of Loan Modifications		
Loan Modification Costs	-	(153)
Modification Adjustment Transfers	-	(6)
Loan Modifications	**-**	**(159)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	-	-
Technical and Default Re-estimates	7,832	11,735
Subsidy Re-estimates	**7,832**	**11,735**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**4,260**	**(1,013)**
FFEL Liquidating Account Liability for Loan Guarantees	(16)	(24)
Liabilities for Loan Guarantees	**$ 4,244**	**$ (1,037)**

[1] Other activity is comprised of negative special allowance collections, collections on defaulted FFEL loans, and loan cancellations due to death, disability, or bankruptcy. In addition, other miscellaneous collections, expenditures, and accruals related to operations are recorded.

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 Balance Sheet line item. The Liability for Loan Guarantees schedule above presents both years.

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

Loan Purchase Commitment Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2013	2012
Beginning Balance, Allowance for Subsidy	**$ 5,258**	**$ 4,415**
Activity		
Subsidy Allowance Amortization	(771)	(684)
Loan Cancellations	106	84
Contract Collection Cost and Other	51	37
Total Activity	**(614)**	**(563)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	-	-
Technical and Default Re-estimates	544	1,406
Subsidy Re-estimates	**544**	**1,406**
Ending Balance, Allowance for Subsidy	**$ 5,188**	**$ 5,258**

Loan Participation Purchase Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2013	2012
Beginning Balance, Allowance for Subsidy	**$ 8,910**	**$ 8,564**
Activity		
Subsidy Allowance Amortization	(1,319)	(1,167)
Loan Cancellation	197	157
Contract Collection Cost and Other	43	(37)
Total Activity	**(1,079)**	**(1,047)**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	-	-
Technical and Default Re-estimates	377	1,393
Subsidy Re-estimates	**377**	**1,393**
Ending Balance, Allowance for Subsidy	**$ 8,208**	**$ 8,910**

Financing Account Interest Expense and Interest Revenue

The Department borrows from Treasury to fund the unsubsidized portion of lending activities. The Department calculates and pays Treasury interest on its borrowing at the end of each year. During the year, interest is earned on outstanding direct loans, outstanding FFEL loans purchased by the Department, and on uninvested funds.

The Department accrues interest receivable and records interest revenue on performing Direct Loans and FFEL loans purchased by the Department. Interest receivable is accrued on defaulted guaranteed loans, with an offset to the allowance for subsidy. Changes in timing of interest accrual have zero effect on the financial statements. The Department does not record interest revenue on defaulted guaranteed loans. The Department implemented a new Debt Management Collection System in October FY 2012. As a result of the new system's capabilities, the Department is now accruing interest on a monthly basis. In addition, no budgetary resources or status of resources are affected, including expended and unexpended obligations. The amounts are affected by the timing of interest accruals; however, the amounts related to these timing differences are not material to the footnote disclosures. (See Note 15)

Subsidy amortization is calculated as the difference between interest revenue and interest expense. For direct loans, the allowance for subsidy is adjusted with the offset to interest revenue. For guaranteed loans, the liability for loan guarantees is adjusted with the offset to interest expense.

William D. Ford Federal Direct Loan Program. The following schedule summarizes the Direct Loan Financing Account interest expense and interest revenue for the years ended September 30, 2013 and 2012:

Direct Loan Program

(Dollars in Millions)

	2013	2012
Interest Expense on Treasury Borrowing	$ 22,661	$ 20,643
Total Interest Expense	**$ 22,661**	**$ 20,643**
Interest Revenue from the Public	$ 26,972	$ 20,156
Amortization of Subsidy	(7,720)	(3,778)
Interest Revenue on Uninvested Funds	3,409	4,265
Total Interest Revenue	**$ 22,661**	**$ 20,643**

Subsidy Expense

William D. Ford Federal Direct Loan Program

Direct Loan Program Subsidy Expense

(Dollars in Millions)

	2013	2012
Components of Current Year Subsidy Transfers		
Interest Rate Differential	$ 37,063	$ 32,372
Defaults, Net of Recoveries	(1,887)	(2,356)
Fees	1,801	1,792
Other	(9,967)	(8,901)
Current Year Subsidy Transfers	**27,010**	**22,907**
Subsidy Re-estimates	12,547	(12,187)
Direct Loan Subsidy Expense	**$ 39,557**	**$ 10,720**

William D. Ford Federal Direct Loan re-estimated subsidy cost was adjusted downward by $12.5 billion in FY 2013. Updated discount rates for the 2012 and 2011 cohorts in the credit subsidy calculator decreased cost by $11.8 billion. Deferment and forbearance rate changes decreased cost by $1.5 billion. Costs increased $1.5 billion due to increases in default and disability rates. Changes in prepayment rates reflect slower than expected prepayment activity, leading to increased interest earnings resulting in $1.1 billion in downward subsidy cost. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations; for example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan subsidy cost by $1.8 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1994–2012.

William D. Ford Federal Direct Loan re-estimated subsidy cost was adjusted upward by $12.2 billion in FY 2012. Costs increased $10.3 billion due to updated economic assumptions, including probabilistic estimating, discount rates, and weighted consolidation loan interest rates. Direct Loan death, disability, and bankruptcy rates increased cost by $478 million due to increased disability claims. Costs increased $538 million due to slight decreases in loan volume, concentrated in negative subsidy loan types and default rates increased resulting in $604 million in cost. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations; for example, a 1 percent increase in projected borrower base rates would reduce projected Direct Loan subsidy cost $2.0 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1994–2011.

Federal Family Education Loan Program

FFEL Program Subsidy Expense

(Dollars in Millions)

	2013	2012
FFEL Guaranteed Loan Program Subsidy Re-estimates	$ 7,832	$ 11,735
Loan Purchase Commitment Subsidy Re-estimates	544	1,406
Loan Participation Purchase Subsidy Re-estimates	377	1,393
FFEL Program Subsidy Re-estimates	**8,753**	**14,534**
FFEL Guaranteed Loan Program Modification Costs	-	153
FFEL Program Subsidy Expense	**$ 8,753**	**$ 14,381**

FFEL Guaranteed re-estimated subsidy cost was adjusted downward by $7.8 billion in FY 2013. Costs decreased $5.2 billion due to updated economic assumptions, including probabilistic deterministic rates, which reflected historically low commercial paper rates, resulting in substantially higher negative special allowance payments than were previously projected. Costs increased $1 billion due to increases in bankruptcy and disability rates. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations; for example, a 1 percent increase in borrower interest rates and the guaranteed yield for leaders would increase projected FFEL costs by $12.3 billion. Re-estimated costs only include those cohorts that were 90 percent disbursed; cohort years 1992–2010.

FFEL Guaranteed re-estimated subsidy cost was adjusted downward by $11.7 billion in FY 2012. Costs decreased $10.3 billion due to updated economic assumptions, including probabilistic deterministic rates, which reflected historically low commercial paper rates, resulting in substantially higher negative special allowance payments than were previously projected. Costs decreased $1.2 billion given the lower than expected demand for Special Direct Consolidation Loans—a short-term consolidation initiative offered during FY 2012. Other assumption updates produced offsetting costs with the remainder attributable to interest on the re-estimate. The subsidy rate is sensitive to interest rate fluctuations; for example, a 1 percent increase in borrower interest rates and the guaranteed yield for lenders would increase projected FFEL costs by $13.1 billion. Re-estimated costs only include those cohorts that were 90 percent disbursed; cohort years 1992–2010.

Subsidy Rates

The subsidy rates applicable to the 2013 loan cohort year follow:

Subsidy Rates—Cohort 2013

	Interest Differential	Defaults	Fees	Other	Total
Direct Loan Program	(26.22%)	0.88%	(1.33%)	7.48%	(19.19%)
TEACH Program	3.47%	0.41%	0.00%	7.13%	11.01%

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year. The subsidy expense for new direct loans reported in the current year relate to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when the Department disburses direct loans. The subsidy expense reported in the current year may include re-estimates. The subsidy rates shown above, which reflect aggregate negative subsidy in the FY 2013 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole.

The costs of the Department's student loan programs, especially the Direct Loan Program, are highly sensitive to changes in actual and forecasted interest rates. The formulas for determining program interest rates are established by statute; the existing loan portfolio has a mixture of borrower and lender rate formulas. Interest rate projections are based on probabilistic interest rate scenario inputs developed and provided by OMB.

Administrative Expenses

Administrative Expenses, for the years ended September 30, 2013 and 2012, consisted of the following:

Administrative Expenses

(Dollars in Millions)

	2013		2012	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 639	$ 413	$ 543	$ 321
Other Expense	25	16	26	16
Total	**$ 664**	**$ 429**	**$ 569**	**$ 337**

Note 7. Property and Equipment, Net

Property and Equipment, as of September 30, 2013 and 2012, consisted of the following:

Property and Equipment, Net

(Dollars in Millions)

2013	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 177	$ (175)	$ 2
Furniture and Fixtures	3	(3)	-
Property and Equipment, Net	**$ 180**	**$ (178)**	**$ 2**

2012	Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 176	$ (169)	$ 7
Furniture and Fixtures	3	(3)	-
Property and Equipment, Net	**$ 179**	**$ (172)**	**$ 7**

The depreciation expense as of September 30, 2013 and 2012 is $6 million and $9 million, respectively.

The major drivers of fixed assets at the Department are improvements to information technology including financial management and program management systems. Specifically, recent enhancements have been made to the Department's automated grant management capability. The Department acquires more robust information technology to augment its significant capabilities to manage student loan and grant operations.

Leases

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

All Department and contractor staff are housed in leased buildings. The Department does not own real property. The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are operating leases. Future lease payments are not accrued as liabilities, are expensed as incurred. The Department leases 22 privately owned and 8 publicly owned buildings in 19 cities. Building lease expense as of September 30, 2013 and 2012, was $80 million and $65 million, respectively. Estimated future minimum lease payments for the privately and publicly owned buildings are presented below.

Leases

(Dollars in Millions)

2013	
FY	**Amount**
2014	$ 80
2015	90
2016	93
2017	96
2018	100
After 2018	103
Total	**$ 562**

Note 8. Other Assets

Other Intragovernmental Assets primarily consist of advance payments to the Department of Interior's Bureau of Indian Education under terms of an interagency agreement. Under this agreement, funds are transferred from the Department to Interior to fund initiatives that include, but are not limited to: (1) Improving Basic Programs Operated by Local Education Agencies, (2) Comprehensive School Reform, (3) Teacher Quality Improvement Formula Grants, (4) Enhancing Education through Technology, and (5) 21st Century Community Learning Centers. Other Intragovernmental Assets were $22 million and $18 million as of September 30, 2013 and 2012, respectively.

Other Assets with the public consist of payments made to grant recipients in advance of their expenditures and in-process invoices for interest benefits and special allowances for the FFEL Program. Other Assets with the public were $13 million and $21 million as of September 30, 2013 and 2012, respectively.

Note 9. Accounts Payable

Accounts Payable, as of September 30, 2013 and 2012, consisted of the following:

Accounts Payable

(Dollars in Millions)

	2013	2012
Direct Loan Booking Accrual	$ 2,923	$ 2,984
In Process Disbursements:		
Direct Loans	573	588
Grants	366	288
FFEL Claim Payments	52	163
Contractual Services	228	-
Other	(15)	75
Accounts Payable to the public	**4,127**	**4,098**
Intragovernmental Accounts Payable	2	31
Total Accounts Payable	**$ 4,129**	**$ 4,129**

Accounts Payable to the public primarily consists of in-process grant and loan disbursements, including an accrued liability for schools that have disbursed loans prior to requesting funds. The Department pays vendor invoices according to the Prompt Payment Act rules that are built into the financial system as a control mechanism, generally within 25–30 days of receipt of goods and proper invoicing. The Department also monitors and leverages vendor discount opportunities by processing payments to coincide with discount terms when possible.

Accounts Payable Other abnormal balance of $(15) million is primarily due to FFEL Guaranteed Loan Program collections of fees, principal, and interest on defaulted loans.

Note 10. Debt

Debt, as of September 30, 2013 and 2012, consisted of the following:

Debt

(Dollars in Millions)

	2013				
	Beginning Balance	Accrued Interest	Borrowing	Repayments	Ending Balance
Treasury Debt					
Direct Loan Program	$ 549,332	$ -	$ 177,682	$ (28,653)	$ 698,361
FFEL Program					
Guaranteed Loan Program	43,254	-	-	-	43,254
Loan Purchase Commitment	42,341	-	602	(4,345)	38,598
Loan Participation Purchase	77,292	-	519	(9,794)	68,017
ABCP Conduit	1,735	-	1,000	(192)	2,543
TEACH Program	370	-	128	(13)	485
Facilities Loan Programs	45	-	-	(8)	37
Total Treasury Debt	**714,369**	**-**	**179,931**	**(43,005)**	**851,295**
Debt to the FFB					
HBCU	934	-	225	(22)	1,137
Total Debt to the FFB	**934**	**-**	**225**	**(22)**	**1,137**
Total	**$ 715,303**	**$ -**	**$ 180,156**	**$ (43,027)**	**$ 852,432**

	2012				
	Beginning Balance	**Accrued Interest**	**Borrowing**	**Repayments**	**Ending Balance**
Treasury Debt					
Direct Loan Program	$ 392,374	$ -	$ 175,881	$ (18,923)	$ 549,332
FFEL Program					
Guaranteed Loan Program	29,484	-	13,770	-	43,254
Loan Purchase Commitment	43,859	-	719	(2,237)	42,341
Loan Participation Purchase	79,302	-	1,621	(3,631)	77,292
ABCP Conduit	964	-	1,050	(279)	1,735
TEACH Program	281	-	119	(30)	370
Facilities Loan Programs	58	-	-	(13)	45
Total Treasury Debt	**546,322**	**-**	**193,160**	**(25,113)**	**714,369**
Debt to the FFB					
HBCU	786	4	158	(14)	934
Total Debt to the FFB	**786**	**4**	**158**	**(14)**	**934**
Total	**$ 547,108**	**$ 4**	**$ 193,318**	**$ (25,127)**	**$ 715,303**

The amount available for repayments on borrowings to Treasury is derived from many factors. For instance, beginning-of-the-year cash balances, collections, and new borrowings have an impact on the cash available to repay Treasury. Cash is also held to cover future liabilities, such as contract collection costs and disbursements in transit. Borrowing from Treasury decreased by $13.2 billion and 7 percent from FY 2012. The majority of the increase in debt resulted from the Direct Loan Program borrowing for loan origination. Additionally, the FFEL, TEACH, and HBCU programs had increased borrowings.

The maturity date for borrowing from Treasury is based on the time period used in subsidy calculation, not the contractual term of the Department's or private lender's loan to the borrower. The period of time used for subsidy calculation may exceed the contractual term of a loan to a borrower. Borrowings from Treasury mature on September 30 of the estimated final year of a cohort.

Note 11. Other Liabilities

Other Liabilities, as of September 30, 2013 and 2012, consisted of the following:

Other Liabilities
(Dollars in Millions)

	2013		2012	
	Intragovern-mental	**With the Public**	**Intragovern-mental**	**With the Public**
Liabilities Covered by Budgetary Resources				
Current				
Advances From Others	$ 29	$ -	$ 35	$ -
Employer Contributions and Payroll Taxes	6	-	5	-
Liability for Deposit Funds and Clearing Accounts	7	37	(73)	36
Accrued Payroll and Benefits	-	28	-	26
Deferred Revenue	-	31	-	36
Liabilities in Miscellaneous Receipt Accounts	6,074	-	3,716	-
Total Other Liabilities Covered by Budgetary Resources	**6,116**	**96**	**3,683**	**98**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	-	36	-	37
Non-Current				
Accrued Unfunded FECA Liability	4	-	5	-
Custodial Liability	2	-	-	-
Liabilities in Miscellaneous Receipt Accounts	358	-	342	-
Capital Transfers[1]	2,375	-	2,914	-
Accrued FECA Actuarial Liability	-	15	-	16
Total Other Liabilities Not Covered by Budgetary Resources	**2,739**	**51**	**3,261**	**53**
Other Liabilities	**$ 8,855**	**$ 147**	**$ 6,944**	**$ 151**

[1] See Reclassification in Note 1.

Other liabilities include current and non-current liabilities. The current liabilities covered by budgetary resources primarily consist of downward subsidy re-estimates ($6.1 billion), which when executed will be paid to the General Fund of the Treasury.

The non-current liabilities not covered by budgetary resources primarily relate to capital transfers ($2.4 billion) and the student loan receivables of the Federal Perkins Loan Program ($0.4 billion).

Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources include liabilities for which congressional action is needed before budgetary resources can be provided. Although future appropriations to fund these liabilities are likely, it is not certain that appropriations will be enacted to fund these liabilities. Liabilities not covered by budgetary resources totaled $2,790 million and $3,314 million as of September 30, 2013 and 2012, respectively.

As of September 30, 2013 and 2012, liabilities on the Balance Sheet totaled $869.2 billion and $731.8 billion, respectively. Of this amount, liabilities covered by budgetary resources totaled $866.4 billion as of September 30, 2013, and $731.4 billion as of September 30, 2012.

Note 12. Accrued Grant Liability

Accrued Grant Liability is an accrual made by the Department for expenditures incurred by grantees prior to their receiving grant funds to cover the expenditures. Accrued Grant Liability is estimated using statistical sampling. The Accrued Grant Liability by major reporting groups, as of September 30, 2013 and 2012, consisted of the following:

Accrued Grant Liability

(Dollars in Millions)

	2013	2012
FSA	$ 1,727	$ 2,269
OESE	105	211
OSERS	120	233
RA/JF	61	55
Other	157	133
Accrued Grant Liability	**$ 2,170**	**$ 2,901**

Note 13. Net Position

Unexpended appropriations, as of September 30, 2013 and 2012, consisted of the following:

Unexpended Appropriations

(Dollars in Millions)

	2013	2012
Unobligated Balances:		
Available	$ 13,700	$ 10,479
Not Available	909	632
Undelivered Orders	56,762	61,575
Unexpended Appropriations	**$ 71,371**	**$ 72,686**

The Cumulative Results of Operations of $(3,528) million and $(7,531) million as of September 30, 2013 and 2012, respectively, consists mostly of unfunded upward subsidy re-estimates, other unfunded expenses, and net investments of capitalized assets.

Other Financing Sources on the Statement of Changes in Net Position was primarily comprised of negative subsidy transfers, downward subsidy re-estimates, and other, as of September 30, 2013 and 2012 as presented in the following table:

Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other

(Dollars in Millions)

	2013			
	Negative Subsidy Transfers	**Downward Subsidy Re-Estimates**	**Other**	**Ending Balance**
Direct Loan	$ (27,010)	$ (12,603)	$ -	$ (39,613)
FFEL	-	(11,065)	-	(11,065)
Facilities	-	(199)	(18)	(217)
Grants	-	-	(52)	(52)
TEACH	-	(18)	-	(18)
Other	-	-	(89)	(89)
Total	**$ (27,010)**	**$ (23,885)**	**$ (159)**	**$ (51,054)**

	2012			
	Negative Subsidy Transfers	**Downward Subsidy Re-Estimates**	**Other**	**Ending Balance**
Direct Loan	$ (22,907)	$ 1,025	$ -	$ (21,882)
FFEL	-	(15,699)	131	(15,568)
Facilities	-	(20)	(14)	(34)
Grants	-	-	(35)	(35)
TEACH	-	-	-	-
Other	-	-	(25)	(25)
Total	**$ (22,907)**	**$ (14,694)**	**$ 57**	**$ (37,544)**

Note 14. Intragovernmental Cost and Exchange Revenue by Program

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

Net Cost Program	Reporting Group/ Program Office	Strategic Goal
Increase College Access, Quality, and Completion	FSA OPE OVAE	**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.
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	OESE HR	**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.
Ensure Effective Educational Opportunities for All Students	OELA OCR OSERS	**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.
Enhance the Education System's Ability to Continuously Improve	IES OII	**Goal 5: Continuous Improvement of the U.S. Education System.** Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, transparency, innovation, and technology.
American Recovery and Reinvestment Act and Education Jobs Fund	RA/JF	Cuts across Strategic Goals 1-5

Strategic Plan Goals 1–5 guide the Department's program offices to carry out the vision and programmatic mission, and the net cost programs can be specifically associated with these five strategic goals. The Department also has a cross-cutting *Strategic Plan* Goal 6, U.S. Department of Education Capacity, focusing primarily upon improving the organizational and administrative capacities of the Department to implement the *Strategic Plan* Goals 1–5. The costs associated with *Strategic Plan* Goal 6 are allocated to Goals 1–5 based on full-time employee equivalents of each program.

The goals of the Recovery Act and Education Jobs Fund are consistent with the Department's current strategic goals and programs. For reporting purposes, a net cost program called American Recovery and Reinvestment Act and Education Jobs Fund has been created. Gross Cost and Exchange Revenue is the cost incurred less any exchange revenue earned from activities. The Department determines Gross Cost and Exchange Revenue by tracing amounts back to the relevant program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program.

Gross costs and earned revenue are classified as intragovernmental (exchange transactions between the Department and other entities within the federal government) or with the public (exchange transactions between the Department and non-federal entities). "Increase College Access, Quality, and Completion" program negative net cost of operations is due to negative subsidy cost transfers and the downward re-estimates of prior subsidy cost. The following tables present the gross cost and exchange revenue by program for the Department for FY 2013 and FY 2012.

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2013					
	FSA	**OESE**	**OSERS**	**RA/JF**	**Other**	**Total**
Increase College Access, Quality, and Completion						
Intragovernmental Gross Cost	$ 28,513	$ -	$ -	$ -	$ 85	$ 28,598
Public Gross Cost	(15,247)	-	-	-	4,237	(11,010)
Total Gross Program Costs	13,266	-	-	-	4,322	17,588
Intragovernmental Earned Revenue	(3,685)	-	-	-	(12)	(3,697)
Public Earned Revenue	(23,003)	-	-	-	(44)	(23,047)
Total Program Earned Revenue	(26,688)	-	-	-	(56)	(26,744)
Total Program Cost	**(13,422)**	**-**	**-**	**-**	**4,266**	**(9,156)**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs						
Intragovernmental Gross Cost	-	188	-	-	-	188
Public Gross Cost	-	22,210	-	-	7	22,217
Total Gross Program Costs	-	22,398	-	-	7	22,405
Intragovernmental Earned Revenue	-	(2)	-	-	-	(2)
Public Earned Revenue	-	(23)	-	-	-	(23)
Total Program Earned Revenue	-	(25)	-	-	-	(25)
Total Program Cost	**-**	**22,373**	**-**	**-**	**7**	**22,380**
Ensure Effective Educational Opportunities for All Students						
Intragovernmental Gross Cost	-	-	48	-	30	78
Public Gross Cost	-	-	16,008	-	770	16,778
Total Gross Program Costs	-	-	16,056	-	800	16,856
Intragovernmental Earned Revenue	-	-	(1)	-	-	(1)
Public Earned Revenue	-	-	(24)	-	(1)	(25)
Total Program Earned Revenue	-	-	(25)	-	(1)	(26)
Total Program Cost	**-**	**-**	**16,031**	**-**	**799**	**16,830**
Enhance the Education System's Ability to Continuously Improve						
Intragovernmental Gross Cost	-	-	-	-	62	62
Public Gross Cost	-	-	-	-	1,819	1,819
Total Gross Program Costs	-	-	-	-	1,881	1,881
Intragovernmental Earned Revenue	-	-	-	-	(2)	(2)
Public Earned Revenue	-	-	-	-	(84)	(84)
Total Program Earned Revenue	-	-	-	-	(86)	(86)
Total Program Cost	**-**	**-**	**-**	**-**	**1,795**	**1,795**
American Recovery and Reinvestment Act and Education Jobs Fund						
Intragovernmental Gross Cost	-	-	-	-	-	-
Public Gross Cost	-	-	-	2,623	-	2,623
Total Gross Program Costs	-	-	-	2,623	-	2,623
Intragovernmental Earned Revenue	-	-	-	-	-	-
Public Earned Revenue	-	-	-	-	-	-
Total Program Earned Revenue	-	-	-	-	-	-
Total Program Cost	**-**	**-**	**-**	**2,623**	**-**	**2,623**
Net Cost of Operations	**$(13,422)**	**$ 22,373**	**$ 16,031**	**$ 2,623**	**$ 6,867**	**$ 34,472**

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2012					
	FSA	**OESE**	**OSERS**	**RA/JF**	**Other**	**Total**
Increase College Access, Quality, and Completion						
Intragovernmental Gross Cost	$ 26,750	$ -	$ -	$ -	$ 77	$ 26,827
Public Gross Cost	9,216	-	-	-	4,367	13,583
Total Gross Program Costs	35,966	-	-	-	4,444	40,410
Intragovernmental Earned Revenue	(5,343)	-	-	-	(26)	(5,369)
Public Earned Revenue	(19,963)	-	-	-	(8)	(19,971)
Total Program Earned Revenue	(25,306)	-	-	-	(34)	(25,340)
Total Program Cost	**10,660**	**-**	**-**	**-**	**4,410**	**15,070**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs						
Intragovernmental Gross Cost	-	227	-	-	-	227
Public Gross Cost	-	22,175	-	-	17	22,192
Total Gross Program Costs	-	22,402	-	-	17	22,419
Intragovernmental Earned Revenue	-	(70)	-	-	-	(70)
Public Earned Revenue	-	-	-	-	-	-
Total Program Earned Revenue	-	(70)	-	-	-	(70)
Total Program Cost	**-**	**22,332**	**-**	**-**	**17**	**22,349**
Ensure Effective Educational Opportunities for All Students						
Intragovernmental Gross Cost	-	-	44	-	32	76
Public Gross Cost	-	-	16,235	-	803	17,038
Total Gross Program Costs	-	-	16,279	-	835	17,114
Intragovernmental Earned Revenue	-	-	(10)	-	(1)	(11)
Public Earned Revenue	-	-	-	-	-	-
Total Program Earned Revenue	-	-	(10)	-	(1)	(11)
Total Program Cost	**-**	**-**	**16,269**	**-**	**834**	**17,103**
Enhance the Education System's Ability to Continuously Improve						
Intragovernmental Gross Cost	-	-	-	-	65	65
Public Gross Cost	-	-	-	-	1,595	1,595
Total Gross Program Costs	-	-	-	-	1,660	1,660
Intragovernmental Earned Revenue	-	-	-	-	(9)	(9)
Public Earned Revenue	-	-	-	-	(60)	(60)
Total Program Earned Revenue	-	-	-	-	(69)	(69)
Total Program Cost	**-**	**-**	**-**	**-**	**1,591**	**1,591**
American Recovery and Reinvestment Act and Education Jobs Fund						
Intragovernmental Gross Cost	-	-	-	3	-	3
Public Gross Cost	-	-	-	7,657	-	7,657
Total Gross Program Costs	-	-	-	7,660	-	7,660
Intragovernmental Earned Revenue	-	-	-	-	-	-
Public Earned Revenue	-	-	-	-	-	-
Total Program Earned Revenue	-	-	-	-	-	-
Total Program Cost	**-**	**-**	**-**	**7,660**	**-**	**7,660**
Net Cost of Operations	**$ 10,660**	**$ 22,332**	**$ 16,269**	**$ 7,660**	**$ 6,852**	**$ 63,773**

Note 15. Interest Expense and Interest Revenue

For FY 2013 and FY 2012, interest expense and interest revenue by program consisted of the following:

Interest Expense and Interest Revenue
(Dollars in Millions)

	2013					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	$ 22,661	$ -	$22,661	$ 3,409	$ 19,252	$22,661
FFEL Program :						
Guaranteed Loan Program	2,083	(1,783)	300	300	-	300
Loan Purchase Commitment	1,244	-	1,244	79	1,165	1,244
Loan Participation Purchase	2,293	-	2,293	203	2,090	2,293
ABCP Conduit	124	-	124	44	80	124
TEACH Program	16	-	16	2	14	16
Other Programs	31	-	31	12	31	43
Total	**$ 28,452**	**$ (1,783)**	**$26,669**	**$ 4,049**	**$ 22,632**	**$26,681**

	2012					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	$ 20,643	$ -	$20,643	$ 4,265	$ 16,378	$20,643
FFEL Program :						
Guaranteed Loan Program	2,083	(1,440)	643	643	-	643
Loan Purchase Commitment	1,318	-	1,318	73	1,245	1,318
Loan Participation Purchase	2,471	-	2,471	237	2,234	2,471
ABCP Conduit	90	-	90	32	58	90
TEACH Program	15	-	15	4	11	15
Other Programs	23	-	23	18	24	42
Total	**$ 26,643**	**$ (1,440)**	**$25,203**	**$ 5,272**	**$ 19,950**	**$25,222**

Federal interest expense is recognized on the Department's outstanding Borrowings from Treasury (Debt). The Direct Loan and FFEL Programs have $698 billion and $153 billion in Debt, respectively, as of September 30, 2013. Federal Interest Revenue is earned on Fund Balance with Treasury for the Direct Loan and FFEL Programs. The interest rate set by OMB is the same for interest expense and income.

Non-Federal interest revenue is interest earned from the public on Credit Program Receivables held by the Department. The Credit Program Receivable balances for the Direct Loan and FFEL Program are $679 billion and $146 billion, respectively, as of September 30, 2013. Non-federal interest expense results from the amortization of loan subsidy.

Note 16. Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) compares budgetary resources with the status of those resources. As of September 30, 2013, budgetary resources were $359,939 million and net agency outlays were $189,379 million. As of September 30, 2012, budgetary resources were $374,984 million and net agency outlays were $217,370 million.

Permanent Indefinite Budget Authority

The Direct Loan, FFEL, and TEACH Programs have permanent indefinite budget authority through legislation. Parts B and D of the HEA (for the FFEL Program and Direct Loan Program, respectively) pertain to the existence, purpose, and availability of this permanent indefinite budget authority.

Reauthorization of Legislation

Funds for most Department programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue per congressional budgeting rules.

Obligations Incurred by Apportionment Type and Category

Obligations incurred by apportionment type and category, as of September 30, 2013 and 2012, consisted of the following:

Obligations Incurred by Apportionment Type and Category

(Dollars in Millions)

	2013	2012
Direct:		
Category A	$ 1,607	$ 1,594
Category B	330,477	341,320
Exempt from Apportionment	280	419
Total Direct Apportionment	332,364	343,333
Reimbursable:		
Exempt from Apportionment	53	36
Obligations Incurred	**$ 332,417**	**$ 343,369**

Obligations incurred can be either direct or reimbursable. Reimbursable obligations are those financed by offsetting collections received in return for goods and services provided, while all other obligations are direct. Category A apportionments are those resources that can be obligated without restriction on the purpose of the obligation, other than to be in compliance with legislation underlying programs for which the resources were made available. Category B apportionments are restricted by purpose for which obligations can be incurred. In addition, some resources are available without apportionment by OMB.

Unused Borrowing Authority

Unused borrowing authority, as of September 30, 2013 and 2012, consisted of the following:

Unused Borrowing Authority
(Dollars in Millions)

	2013	2012
Beginning Balance, Unused Borrowing Authority	**$ 145,532**	**$ 142,194**
Current Year Borrowing Authority	195,185	209,614
Funds Drawn From Treasury	(180,156)	(193,318)
Borrowing Authority Withdrawn	(21,866)	(12,958)
Ending Balance, Unused Borrowing Authority	**$ 138,695**	**$ 145,532**

The Department is given authority to draw funds from Treasury to finance the Direct Loan, FFEL, and TEACH Programs. Unused Borrowing Authority is a budgetary resource and is available to support obligations. The Department periodically reviews its borrowing authority balances in relation to its obligations and may cancel unused amounts.

Undelivered Orders at the End of the Period

Undelivered orders, as of September 30, 2013 and 2012, consisted of the following:

Undelivered Orders
(Dollars in Millions)

	2013	2012
Budgetary	$ 56,901	$ 61,713
Non-Budgetary	158,703	169,062
Undelivered Orders (Unpaid)	**$ 215,604**	**$ 230,775**

Undelivered orders at the end of the period, as presented above, will differ from the undelivered orders included in Unexpended Appropriations on the Net Position. Undelivered orders for trust funds, reimbursable agreements, and federal credit financing and liquidating funds are not funded through appropriations and are not included in Net Position. (See Note 13)

Distributed Offsetting Receipts

The majority of the Distributed Offsetting Receipts line item on the SBR represents amounts paid from the Direct Loan Program and FFEL Program Financing Accounts to general fund receipt accounts for downward re-estimates and negative subsidies. Distributed Offsetting Receipts, for the years ended September 30, 2013 and 2012, consisted of the following:

Distributed Offsetting Receipts
(Dollars in Millions)

	2013	2012
Negative Subsidies and Downward Re-estimates:		
FFEL Program	$ 9,946	$ 16,371
Direct Loan Program	38,436	24,258
Facilities Loan Programs	198	20
TEACH Program	17	-
Total Negative Subsidies and Downward Re-estimates	48,597	40,649
Other	128	(37)
Distributed Offsetting Receipts	**$ 48,725**	**$ 40,612**

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

The FY *2015 Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2013, has not been published as of the issue date of these financial statements. The FY 2015 President's Budget is scheduled for release in February 2014. A reconciliation of the FY 2012 SBR to the FY 2014 President's Budget (FY 2012 actual amounts) for budgetary resources, obligations incurred, distributed offsetting receipts, and net agency outlays is presented below.

SBR to Budget of the United States Government

(Dollars in Millions)

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	**$ 374,984**	**$ 343,369**	**$ 40,612**	**$ 217,370**
Expired Funds	(1,287)	(640)	-	-
Amounts Included in the President's Budget	12,041	12,010	-	-
Amounts Excluded from President's Budget and Rounding	-	1	1	(2)
Distributed Offsetting Receipts	-	-	-	40,612
***Budget of the United States Government*[1]**	**$ 385,738**	**$ 354,740**	**$ 40,613**	**$ 257,980**

[1]Amounts obtained from the Appendix, Budget of the United States Government, FY 2014.

The President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL Program for the estimated activity of the consolidated Federal Funds of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Because the actual operation of the Federal Fund is independent from the Department's direct control, budgetary resources and obligations are estimated and disclosed in the President's Budget to approximate the gross activities of the combined Federal Funds. Amounts reported on the FY 2012 SBR for the Federal Fund are compiled through combining all guaranty agencies' annual reports to determine a net valuation amount for the Federal Fund.

Note 17. Reconciliation of Budgetary Obligations to Net Cost of Operations

The Reconciliation of Budgetary Obligations to Net Cost of Operations provides information on how budgetary resources obligated during the period relate to the net cost of operations by: (1) removing resources that do not fund net cost of operations, and (2) including components of net cost of operations that did not generate or use resources during the year.

The Reconciliation of Budgetary Obligations to Net Cost of Operations, as of September 30, 2013 and 2012, are presented below:

Reconciliation of Budgetary Obligations to Net Cost of Operations

(Dollars in Millions)

	2013	2012
Resources Used to Finance Activities:		
Obligations Incurred	$ 332,417	$ 343,369
Spending Authority from Offsetting Collections and Recoveries	(110,224)	(85,170)
Offsetting Receipts	(48,725)	(40,612)
Net Budgetary Resources Obligated	**173,468**	**217,587**
Imputed Financing from Costs Absorbed by Others	34	34
Other Financing Sources	(51,054)	(37,522)
Net Other Resources	**(51,020)**	**(37,488)**
Net Resources Used to Finance Activities	**122,448**	**180,099**
Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
Increase/(Decrease) in Budgetary Resources Obligated but Not Yet Provided	14,721	(997)
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(3,922)	3,329
Credit Program Collections	58,352	52,238
Acquisition of Fixed Assets	(1)	-
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(191,789)	(198,020)
Resources from Non-Entity Activity	51,229	37,447
Net Resources That Do Not Finance the Net Cost of Operations	**(71,410)**	**(106,003)**
Net Resources Used to Finance the Net Cost of Operations	**51,038**	**74,096**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Depreciation	6	9
Subsidy Amortization and Interest on the Liability for Loan Guarantees	8,109	4,259
Other	27	(17)
Total Components Not Requiring or Generating Resources	**8,142**	**4,251**
Increase/(Decrease) in Annual Leave Liability	(1)	(1)
Accrued Re-estimates of Credit Subsidy Expense	(2,382)	3,922
Increase in Exchange Revenue Receivable from the Public	(22,288)	(18,448)
Change in Accrued Interest with Treasury	2	1
Other	(39)	(48)
Total Components Requiring or Generating Resources in Future Periods	**(24,708)**	**(14,574)**
Total Components That Will Not Require or Generate Resources in the Current Period	**(16,566)**	**(10,323)**
Net Cost of Operations	**$ 34,472**	**$ 63,773**

Note 18. Incidental Custodial Collections

The Department administers certain activities associated with the collection of non-exchange revenues. The Department collects these amounts in a custodial capacity and transfers the amounts collected to the General Fund of the Treasury at the end of each fiscal year. These collections primarily consist of penalties on accounts receivable and are considered incidental to the primary mission of the Department. During FY 2013 and FY 2012, the Department collected $0.1 million and $1.2 million, respectively, in custodial revenues.

Note 19. American Recovery and Reinvestment Act of 2009 and Education Jobs Fund

The Recovery Act provided $97,407 million to the Department in supplemental appropriations for job preservation as well as state and local fiscal stabilization. This investment was made available for use in saving jobs, supporting states and local school districts, and advancing reforms and improvements in the education of the nation's children and youth from early learning programs through postsecondary education. As of September 30, 2013, $93,884 million has been expended and $3,439 million is remaining available for future expenditure. As of September 30, 2012, $91,491 million had been expended and $5,886 million remained available for future expenditure.

Public Law 111-226, enacted on August 10, 2010, created an Education Jobs Fund, which allows the Department to provide $10,000 million for assistance in saving and creating education jobs. As of September 30, 2013, $9,990 million has been expended and $10 million is remaining for future expenditure. As of September 30, 2012, $9,771 million had been expended and $229 million remained available for future expenditure.

Note 20. Contingencies

Guaranty Agencies

The Department may assist guaranty agencies experiencing financial difficulties. No provision has been made in the financial statements for potential liabilities. The Department has not done so in fiscal years 2013 or 2012 and does not expect to in future years.

Federal Perkins Loan Program

The Federal Perkins Loan Program is a campus-based program that provides financial assistance to eligible postsecondary school students. In FY 2013, the Department provided funding of 82.8 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.2 percent of program funding. For the latest academic year ended June 30, 2013, approximately 499 thousand loans were made totaling $1 billion at 1,492 institutions, averaging $2,021 per loan. The Department's equity interest was approximately $6.7 billion as of September 30, 2013.

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

Litigation and Other Claims

The Department is involved in various lawsuits incidental to its operations. In the opinion of management, the ultimate resolution of pending litigation will not have a material effect on the Department's financial position.

Other Matters

Some portion of the current-year financial assistance expenses (grants) may include funded recipient expenditures that are subsequently disallowed through program review or audit processes. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Department's financial position.