Financial Highlights

Introduction

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

The Department consistently produces accurate and timely financial information. Our financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board (FASAB) and the format and content specified by OMB, specifically in Circular No. A-136, *Financial Reporting Requirements*. The financial statements, notes, and underlying business processes, systems, and controls are audited by an independent accounting firm with audit oversight provided by the Office of Inspector General (OIG). For thirteen consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2014 are on pages 54–94 and the Independent Auditors' Report begins on page 102.

Management's assessment of internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*, provides the Department with credibility to external stakeholders and confidence that financial data produced from its underlying financial systems and business processes are complete, accurate, and reliable. This ensures the financial statements conform with applicable federal reporting requirements, the Department has trustworthy financial information for good decision-making, and various reports can be produced for both internal and external stakeholders timely and accurately. Additionally, the Department's complete and accurate financial data enables it to provide transparency pertaining to the finances of the Department and how it is spending federal funds. Further information on management's assessment of internal controls can be found in the Analysis of Controls, Systems, and Legal Compliance section that begins on page 37.

Trend Analysis

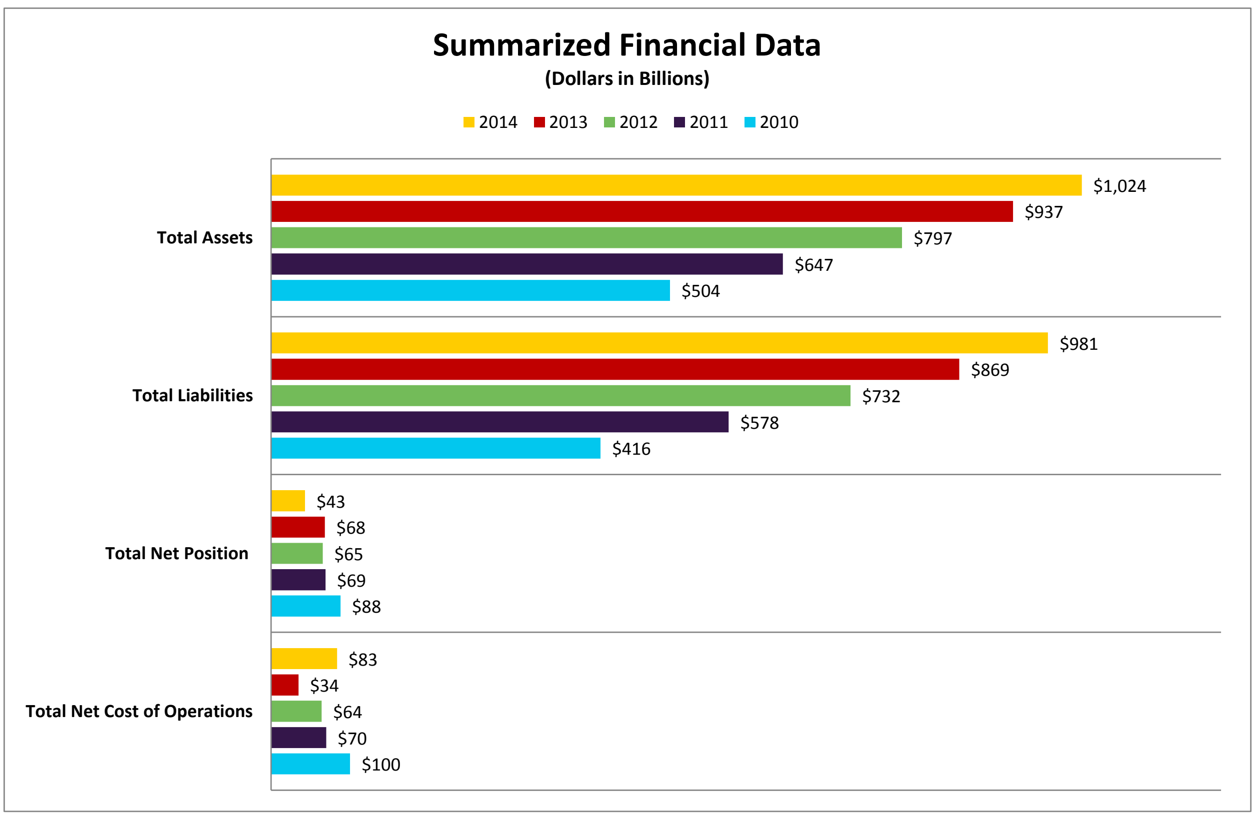
The tables below summarize trend information about components of the Department's financial condition. The Table of Key Measures summarizes trend information about components of the Department's Consolidated Balance Sheet and Statement of Net Cost, and provides a snapshot of the Department's financial condition as of September 30, 2014, compared with the end of fiscal years 2013–2010, displaying assets, liabilities, net position, and net cost, rounded to the millions. The Summarized Financial Data graphic presents the table data, as a graph, for an alternate display over the same five consecutive years, rounded to the billions.

Table of Key Measures

As of September 2014, 2013, 2012, 2011, and 2010
(Dollars in Millions)

	% Change FY 14 / FY 13	FY 2014	FY 2013	FY 2012	FY 2011	FY 2010
Consolidated Balance Sheet						
Fund Balance with Treasury	-9%	$ 98,696	$ 108,732	$ 121,993	$ 114,085	$ 132,259
Credit Program Receivables, Net	+12%	923,545	826,684	673,488	530,491	367,904
Other	+3%	1,685	1,642	1,446	1,966	3,501
Total Assets	+9%	**1,023,926**	**937,058**	**796,927**	**646,542**	**503,664**
Debt	+13%	966,671	852,432	715,303	547,108	374,335
Liabilities for Loan Guarantees*	+0%	-	-	1,037	10,025	14,479
Other	-13%	14,549	16,783	15,432	20,824	27,248
Total Liabilities	+13%	**981,220**	**869,215**	**731,772**	**577,957**	**416,062**
Unexpended Appropriations	-7%	66,447	71,371	72,686	71,729	94,371
Cumulative Results of Operations	-573%	(23,741)	(3,528)	(7,531)	(3,144)	(6,769)
Total Net Position	-37%	**$ 42,706**	**$ 67,843**	**$ 65,155**	**$ 68,585**	**$ 87,602**
Consolidated Statement of Net Cost						
Gross Cost	+83%	$ 112,295	$ 61,353	$ 89,263	$ 89,910	$ 116,953
Earned Revenue	+8%	(29,125)	(26,881)	(25,490)	(20,397)	(17,279)
Total Net Cost of Operations	+141%	**$ 83,170**	**$ 34,472**	**$ 63,773**	**$ 69,513**	**$ 99,674**

* The presentation of the FY 2012 and earlier Liability for Loan Guarantees is in the Liability section of the Department's Balance Sheet; however, the presentation of the same FY 2013 and FY 2014 liability is in the Credit Program Receivables, Net Balance Sheet line item, due to its negative value.

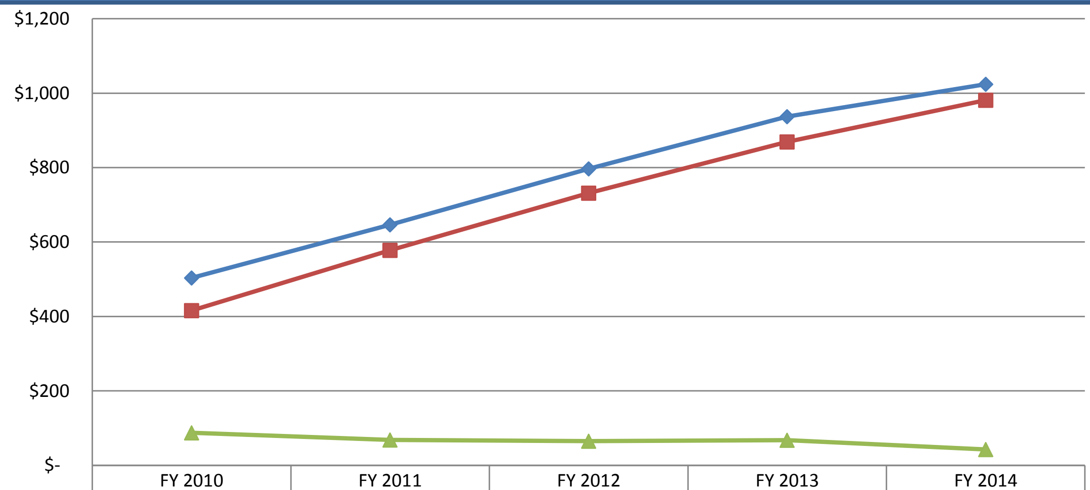


Balance Sheet

The Consolidated Balance Sheet presents, as of a specific point in time (the end of the fiscal year), the Department's total assets, total liabilities, and the difference, which is known as net position.

Comparison of Department's Assets, Liabilities & Net Position for Fiscal Years 2010–2014

(Dollars in Billions)



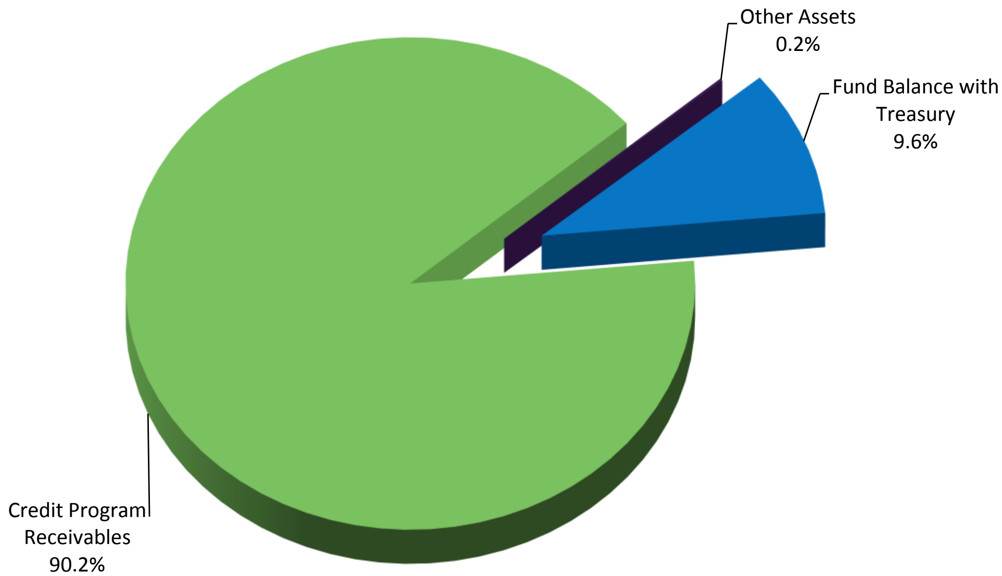
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Total Assets	$503,664	$646,542	$796,927	$937,058	$1,023,926
Total Liabilities	$416,062	$577,957	$731,772	$869,215	$981,220
Total Net Position	$87,602	$68,585	$65,155	$67,843	$42,706

Table amounts are presented in millions

Analysis of Assets

The Department's assets totaled $1,023.9 billion as of September 30, 2014, an increase of $86.8 billion, or approximately 9 percent, over the FY 2013 balance of $937.1 billion. The vast majority of the increase in assets relates to Credit Program Receivables, which increased to $923.5 billion, a 12 percent increase over $826.7 billion in FY 2013. The Credit Program Receivables increase is largely the result of Direct Loan disbursements for new loan originations and Federal Family Education Loan (FFEL) consolidations, net of borrower principal and interest collections, which increased the net portfolio for Direct Loans by $99.4 billion ($134 billion was disbursed for consolidated loans). The Department's total assets are composed of Fund Balance with Treasury, Credit Program Receivables, and Other Assets.

Composition of Assets
($1,023.9 Billion)

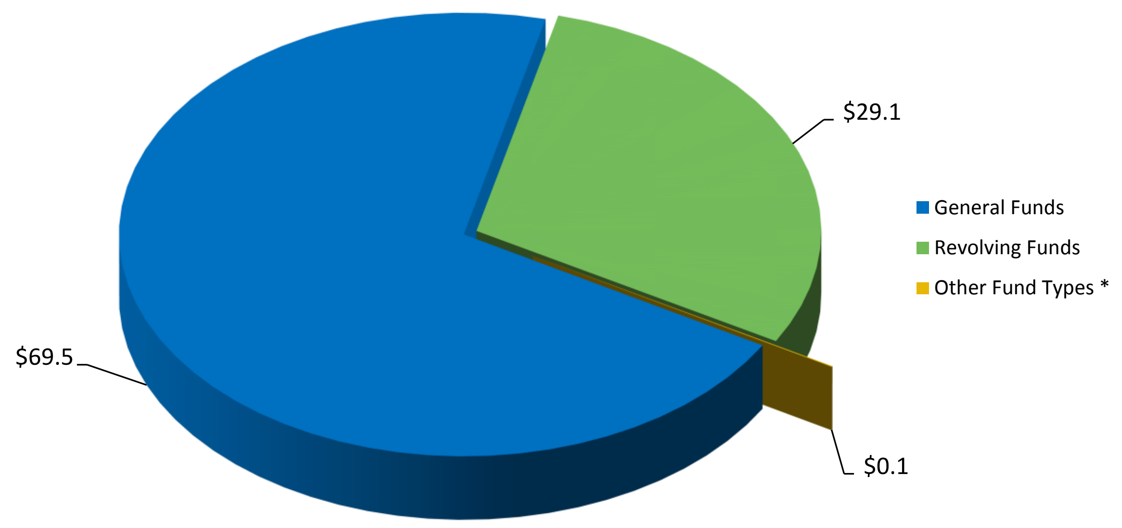


Assets as of September 30, 2014 and 2013 *(Dollars in Millions)*	**2014**	**2013**
Fund Balance with Treasury	$ 98,696	$ 108,732
Credit Program Receivables	923,545	826,684
Other Assets*	1,685	1,642
Total Assets	$ 1,023,926	$ 937,058

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

The chart below displays the composition of funds held with the U.S. Treasury (Fund Balance with Treasury) as of September 30, 2014. 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. Other Funds include special funds that include fees collected on delinquent or defaulted Perkins loans, and trust funds for the hurricane relief activities.

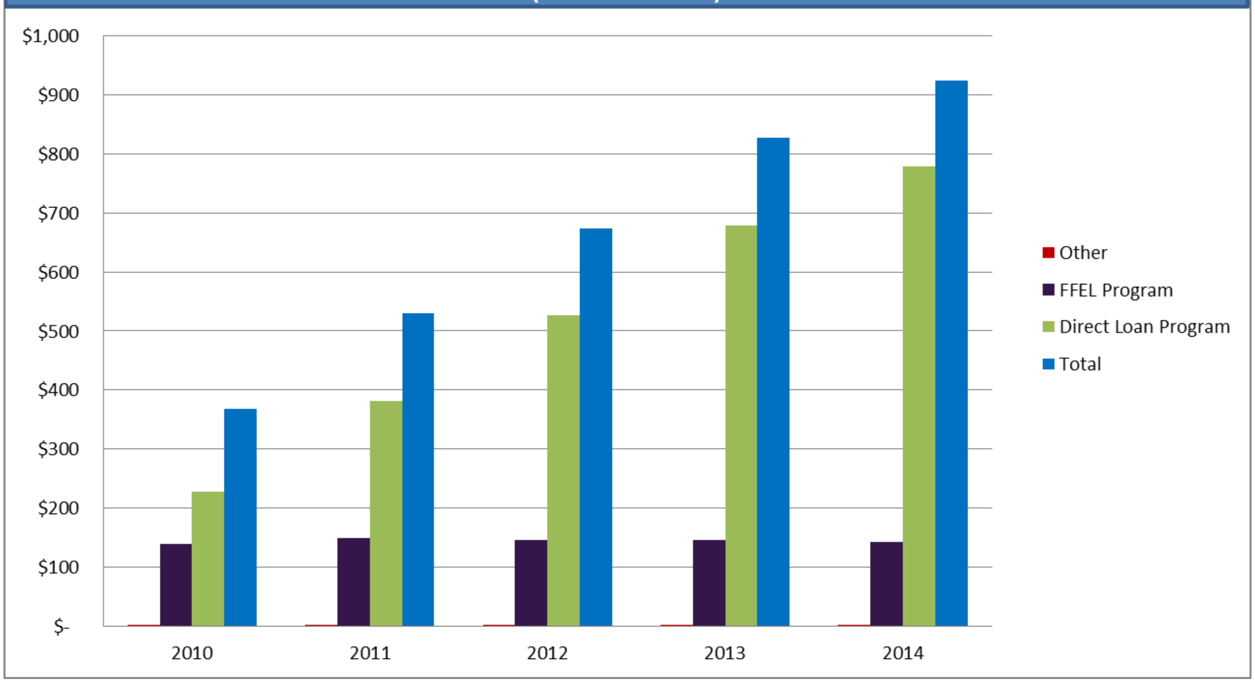
Fund Balance with Treasury
($98.7 Billion)



*Other fund types include special, trust, clearing, non-entity deposit, and receipt funds.

The chart below presents the Department's Credit Program Receivables, Net, for fiscal years 2010–2014. This chart shows the Department's shift in the composition of its loans receivable portfolio from guaranteed loans to direct loans. FFEL Guaranteed Loans Receivable have not grown during the past five years because no new loans were made after June 30, 2010. This shift in the loans receivable portfolio is consistent with the provisions of the *SAFRA Act,* which required the transition from the Department guaranteeing the loans provided by the private sector to full direct lending. As a result, there has been a pronounced increase in the Direct Loan Program. This change caused the Department's Credit Program Receivables to grow significantly, from $368 billion in FY 2010 to $924 billion in FY 2014, a $556 billion increase.

Credit Program Receivables, Net
for Fiscal Years 2010–2014
(Dollars in Billions)



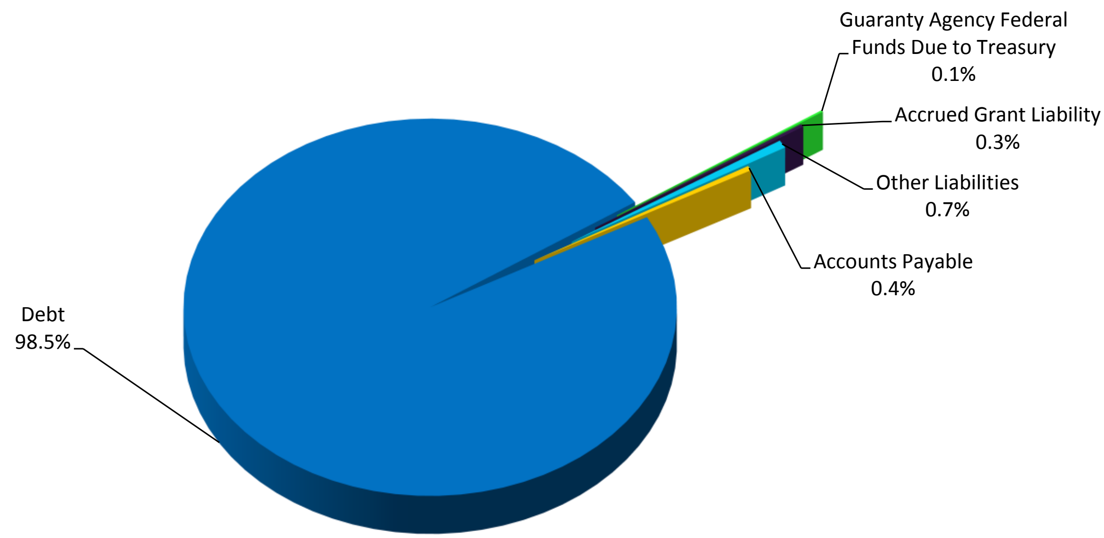
Analysis of Liabilities

Liabilities of the Department totaled $981.2 billion as of September 30, 2014, an increase of $112.0 billion, or approximately 13 percent over the FY 2013 balance of $869.2 billion. Total Liabilities are primarily made up of Debt resulting from Credit Program Receivable activity. The increase is principally related to current year borrowing from Treasury for the Direct Loan and FFEL Programs that provided funding for Direct Loan disbursements and FFEL Program payment of credit program outlays. Current year borrowing, net of repayments, resulted in a $114 billion increase in Debt.

The FY 2010–2012 Liability for Loan Guarantees are presented in the liability section of the Department's Balance Sheet, while the FY 2013 and FY 2014 Liability for Loan Guarantees are presented in the Credit Program Receivables because they resulted in a negative liability.

Composition of Liabilities

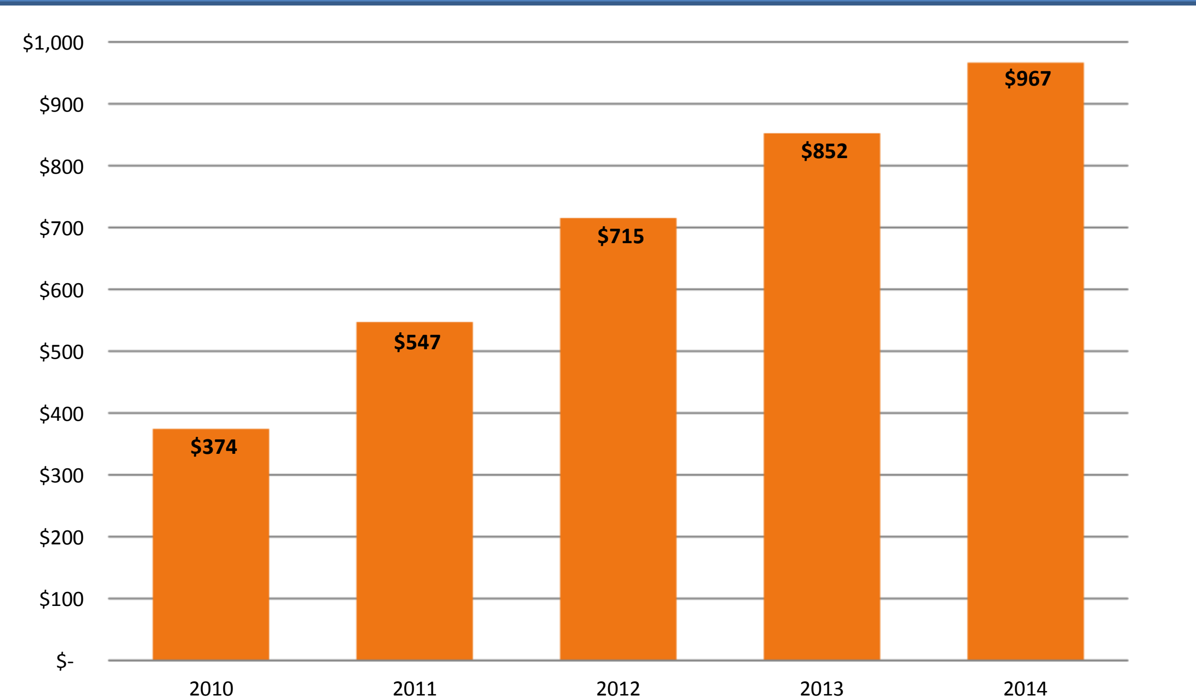
($981.2 Billion)



Liabilities as of September 30, 2014 and 2013 *(Dollars in Millions)*	**2014**	**2013**
Accounts Payable	$ 4,001	$ 4,129
Debt	966,671	852,432
Guaranty Agency Federal Funds Due to Treasury	1,471	1,482
Accrued Grant Liability	2,487	2,170
Other Liabilities	6,590	9,002
Total Liabilities	$ 981,220	$ 869,215

The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays. The majority of the increase in Debt is due to the borrowing used to fund the Direct Loan Program. During FY 2014, Debt increased 13 percent from $852 billion in the prior year to $967 billion. The new financing was used to disburse new loans and make negative subsidy transfers to the Treasury's General Fund.

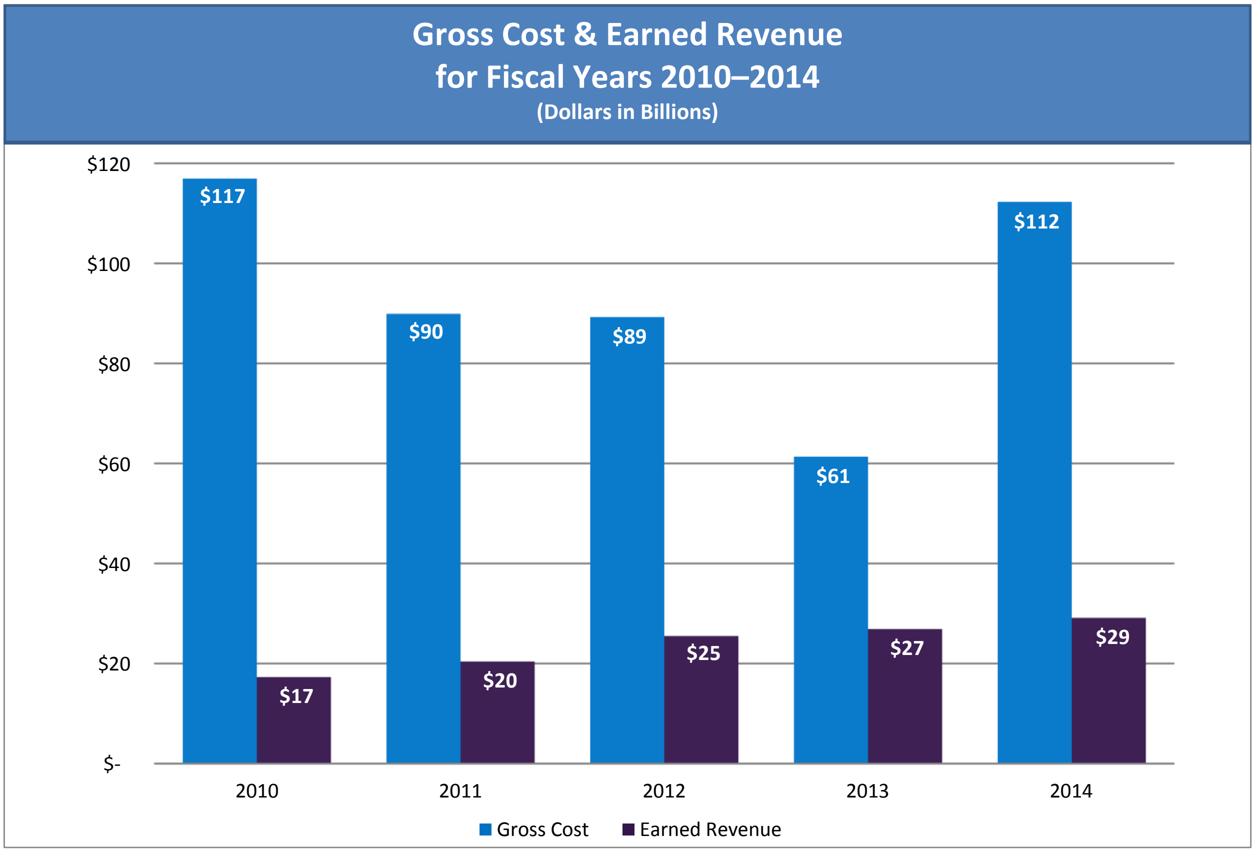
Debt
for Fiscal Years 2010–2014
(Dollars in Billions)



Statement of Net Cost

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

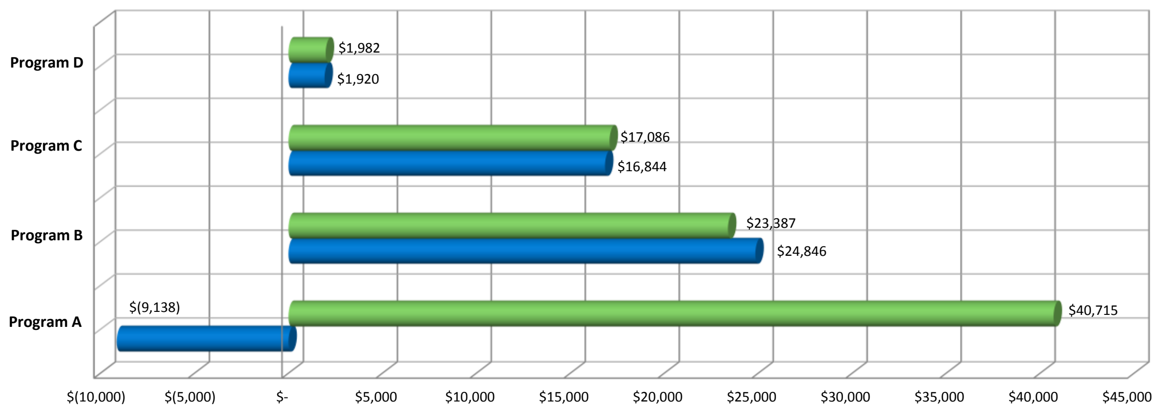
Net Cost of Operations totaled $83.2 billion for the year ended September 30, 2014, a $48.7 billion or 141 percent increase compared to the prior year of $34.5 billion. This increase is primarily due to an upward subsidy re-estimate of $30.2 billion for the Direct Loan Program. The primary drivers of the upward subsidy re-estimate are changes in the type and availability of repayment plans and increases in default rates.



The Department's gross cost is composed of the cost of credit programs, grant programs, and operating costs. The cost of credit programs, also called subsidy, is derived using economic models that project cash inflows (net of outflows) on a net present value basis. These estimated cash flows are amortized, or spread out, over 30 years and are re-valued each year based on current economic conditions. In practical terms, a negative subsidy occurs when the interest rate and/or fees charged to the borrower are more than sufficient to cover the costs of the risk of default. Costs are tracked through "cohort" accounting, segregating loans into annual cohorts and tracking cost over the life of the loans. A cohort is a grouping of direct loans obligated or loan guarantees committed by a program in the same year even if disbursements occur in subsequent years. Factors such as interest rates charged to the borrower, interest rate on Treasury debt, default rates, fees, the re-estimate of prior subsidy cost, and other costs impact this calculation and help determine whether the result is positive or negative subsidy. In recent history, the Department's credit programs have had negative subsidy as a result of lending interest rates being greater than the rates at which the Department borrows from Treasury.

The following table presents a breakdown of net cost by program area for FY 2014 and FY 2013.

Net Cost By Program FY 2014 & FY 2013
(Dollars in Millions)



	Program A: Increase College Access, Quality, and Completion	Program B: Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	Program C: Ensure Effective Educational Opportunities for All Students	Program D: Enhance the Education System's Ability to Continuously Improve
2014	$40,715	$23,387	$17,086	$1,982
2013	$(9,138)	$24,846	$16,844	$1,920

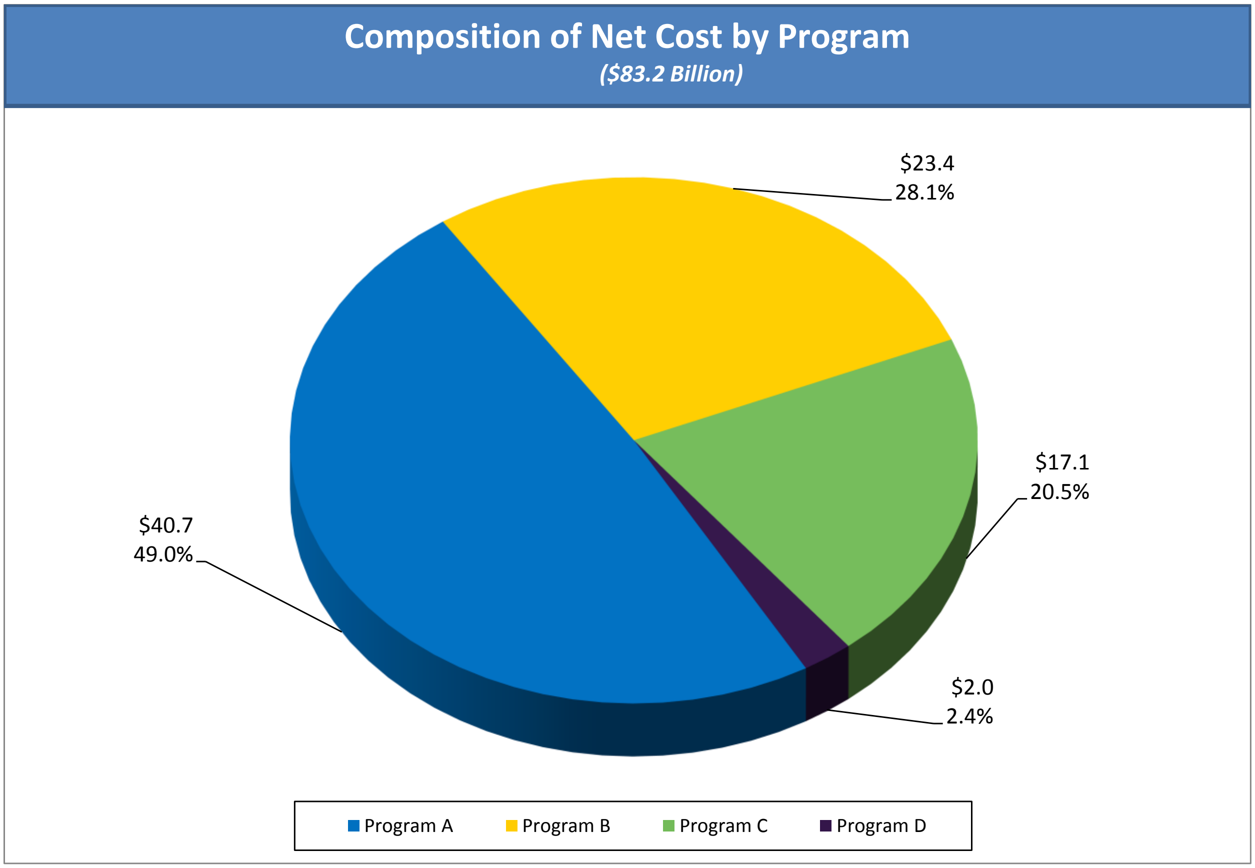
As required by the *GPRA Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the strategic goals presented in the Department's *FY 2014–2018 Strategic Plan*.

The Department has more than 100 grant and loan programs (http://www2.ed.gov/programs/gtep/gtep.pdf). In the Statement of Net Cost, they have been mapped to the Strategic Goals. The three largest grant programs are Title I, Pell, and the *Individuals with Disabilities Education Act* (IDEA) grants. Each of these programs' FY 2014 appropriations exceeded $11 billion. In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, awarded using a competitive process, and formula grants, using formulas determined by Congress with no application process. Among the largest K-12 discretionary grants are RTT and the Teacher Incentive Fund. Among the largest formula grants are Title I Grants to LEAs (Title I, *Elementary and Secondary Education Act of 1965*, as amended) and IDEA grants.

As of FY 2014, disclosure of the *American Recovery and Reinvestment Act of 2009* (ARRA) for FY 2013 has been reclassified to present ARRA funding under the specific program offices distributing the funding.

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

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



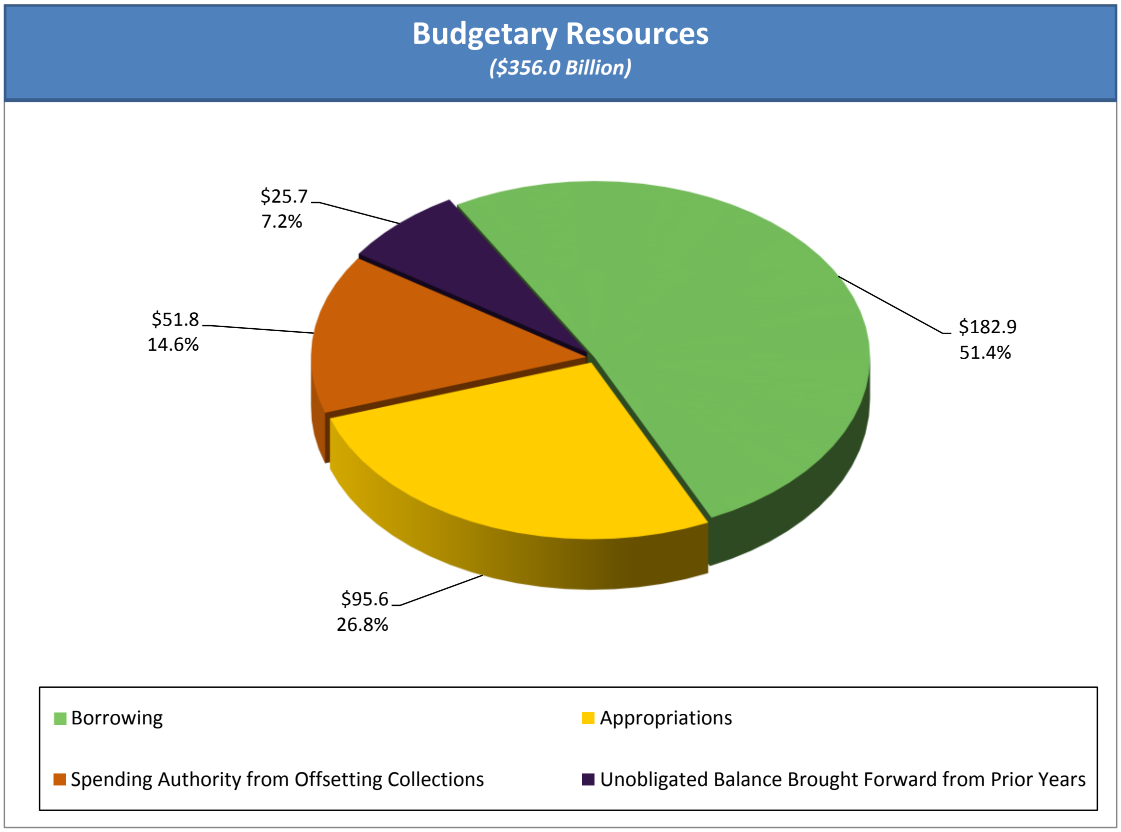
Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position reports the beginning net position, the summary effect of transactions that affect net position, presented for a particular period of time (for a fiscal year), and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances for grant and administrative operations. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. Net Position of the Department totaled $42.7 billion for the year ended September 30, 2014. This reflects a 37 percent decrease over the net position of $67.8 billion from the prior fiscal year.

Statement of Budgetary Resources

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

The Department's Budgetary Resources totaled $356.0 billion for the year ended September 30, 2014, decreasing from $359.9 billion, or approximately 1 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $112.4 billion and nonbudgetary credit reform resources of $243.6 billion. The nonbudgetary credit reform resources are predominantly borrowing authority for the loan programs.



Gross outlays of the Department totaled $317.5 billion for the year ended September 30, 2014, and consisted of appropriated budgetary resources of $99.9 billion and nonbudgetary credit program funding of $217.6 billion.