Notes to the Financial Statements
For the Years Ended September 30, 2014 and 2013

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

The United States (U.S.) Department of Education (the Department), a cabinet-level agency of the Executive Branch of the U.S. Government, was established by Congress under the *Department of Education Organization Act* (Public Law 96-88), which became effective on May 4, 1980. The mission of the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department is responsible for administering federal student loan and grant programs, as discussed below.

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

The Direct Loan Program, added to the *Higher Education Act of 1965* (HEA) in 1993 by the *Student Loan Reform Act of 1993,* authorizes the Department to make loans through participating schools for eligible undergraduate and graduate students and their parents. The FFEL Program, authorized by the HEA, operated through state and private nonprofit guaranty agencies which provided 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* that was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), effective July 1, 2010, stated that no new FFEL loans would be made.

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

Grant Programs. The Department administers numerous grant programs, including: 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. 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 grant programs are the Title I grants issued under the *Elementary and Secondary Education Act of 1965*, as amended, grants issued under the *Individuals with Disabilities Education Act* (IDEA), and grants to local education agencies.

The Department also administers the Federal Pell Grant (Pell Grant) Program to provide need-based grants that provide access to postsecondary education for low-income undergraduate and certain post-baccalaureate students.

Major Program Offices

The Department has three major program offices that administer loan and grant programs. They are:

- Federal Student Aid (FSA)
- Office of Elementary and Secondary Education (OESE)
- Office of Special Education and Rehabilitative Services (OSERS)

In addition, there are other offices that administer programs, including the Office of Career, Technical, and Adult Education (OCTAE), Office of Postsecondary Education (OPE), Institute of Education Sciences (IES), Office of English Language Acquisition (OELA), Office of Innovation and Improvement (OII), Office of Management, Office for Civil Rights (OCR), and Hurricane Education Recovery (HR) activities. (See Notes 12 and 14)

Basis of Accounting and Presentation

These financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and budgetary resources of the Department, as required by the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The financial statements were prepared from the books and records of the Department, in accordance with Generally Accepted Accounting Principles (GAAP) accepted in the U.S. for federal entities, issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular 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 use of budgetary resources. FSA also issues audited stand-alone financial statements which are included in their annual report.

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

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

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

Intragovernmental Transactions

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

Accounting for Federal Credit Programs

The purpose of the *Federal Credit Reform Act of 1990* (FCRA) is to record the lifetime cost of direct loans and loan guarantees at the time the loan is disbursed. Under the FCRA, subsidy cost is estimated using the net present value of future cash flows to and from the Department. In accordance with the FCRA, credit programs either estimate a cost to the government (a "positive" subsidy to borrowers), breakeven (zero subsidy cost), or estimate a negative subsidy cost. Credit programs have negative subsidies when the estimated cost to the government of providing credit is less than the estimated collections from repayments, interest, and fees, on a present value basis. The estimates are affected by the cost of borrowing (at Treasury's rates) and the estimated risk of default. 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.

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

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

The FCRA establishes the use of Program, Financing, and General Fund Receipt Accounts for loan guarantees committed and direct loans obligated after September 30, 1991. 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. Appropriations for new subsidy and subsidy re-estimates are received in Program Accounts and transferred to the Financing Accounts. Financing Accounts borrow funds from Treasury, make direct loan disbursements, pay claims on guaranteed loans, collect principal and interest from borrowers, collect fees and other program income, pay interest to Treasury on borrowings, collect interest from Treasury on uninvested funds, and collect funds for positive subsidy or transfer negative subsidy to a General Fund Receipt Account. The Financing Account receives the subsidy cost payment from the Program Account. The General Fund Receipt Account, a budget account, is 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. The budgetary resources and activities for these accounts are presented separately in the Combined Statement of Budgetary Resources (SBR) and the Budget of the United States Government and are excluded from the determination of the budget deficit or surplus. Program accounts are classified as either budgetary or non-budgetary in the Combined SBR. The budgetary accounts include the Program and Liquidating Accounts, while Financing Accounts are non-budgetary. FCRA establishes Liquidating Accounts for activity relating to any loan guarantees committed or direct loans obligated before October 1, 1991.

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.

As of July 1, 2014, consistent with the *Consolidated Appropriations Act, 2014* (P.L. 113-76), the Department of Health and Human Services (HHS) transferred all HEAL program loans to the Department. This was accomplished through Treasury guidance on obligated and non-obligated balance transfers. (See Note 6)

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 Treasury, and spending authority from collections.

Borrowing authority is an indefinite budgetary resource authorized under the FCRA. This resource, when realized, finances the unsubsidized portion of the Direct Loan, FFEL, TEACH, and other loan programs. 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 Financing Account amounts as appropriate. Amounts borrowed, but not yet disbursed, are included in uninvested funds and earn interest. Treasury uses the same weighted average interest rates for both the interest charged on borrowed funds and the interest earned on uninvested funds. Treasury calculates a different interest rate to be used for each loan cohort. The Department may carry forward borrowing authority to future fiscal years provided that cohorts are disbursing loans. All borrowings from Treasury are effective on October 1 of the current fiscal year, regardless of when the Department borrowed the funds, except for amounts borrowed to make annual interest payments.

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

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

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

Reauthorization of Legislation. Funds for most Department programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue in accordance with congressional budgeting rules. (See Note 16)

Use of Estimates

Department management is required to make certain estimates while preparing consolidated financial statements in conformity with GAAP. These estimates are reflected in the assets, liabilities, net cost, and net position of the financial statements and may differ from actual results. The Department's estimates are based on management's best knowledge of current events, historical experiences, and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported on the financial statements include allocation of Department administrative overhead costs, annual credit program re-estimates and modifications of subsidy cost (general program administration cost), as well as grant liability and advance accruals. (See Notes 6, 12, and 14)

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 are not available for use in its operations. Non-entity assets are offset by liabilities to third parties and have no impact on net position. The Department combines its entity and non-entity assets on the Balance Sheet and discloses its non-entity assets in the notes. (See Note 2)

Fund Balance with Treasury

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

Accounts Receivable

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

Accounts Receivable are established as claims to cash or other assets against other entities. At the Department, accounts receivable originate through legal provisions or program requirements to return funds due to noncompliant program administration, regulatory requirements, or individual service obligations. Further, the Department utilizes the opportunity to reduce the accounts receivable balances through the Treasury referral program.

The Department calculates the allowance for loss from uncollectable accounts receivable by applying a collection rate based on historical trends against gross accounts receivable. The collection rate is determined based on a rolling average of actual collection rates for the prior seven fiscal years. (See Note 4)

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 U.S. and are reflected in the *Budget of the United States Government*. 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 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 Fund through a statutory recall or agency closures represent capital transfers and are credited to the Department's Fund Balance with Treasury account. (See Note 5)

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 FCRA. Loans and interest receivable are valued at their gross amounts less an allowance for the present value of amounts not expected to be recovered and thus having to be subsidized—called an "allowance for subsidy." The difference between the gross amount and the allowance for subsidy is the present value of the cash flows to, and from, the Department that are expected from receivables over their projected lives. Similarly, liabilities for loan guarantees are valued at the present value of the cash outflows from the Department less the present value of related inflows. The estimated present value of net long-term cash outflows of the Department for subsidized costs is net of recoveries, interest supplements, and offsetting fees. The Department also values all pre-1992 loans, loan guarantees, and direct loans at their net present values. If the Liability for Loan Guarantees is positive, the amount is reported as a component of Credit Program Receivables, Net.

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

Credit program receivables for activities under the temporary loan purchase authority include the present value of future cash flows related to purchased loans. Subsidy was transferred, which may have been prior to loan purchase, and is recognized as subsidy expense on the

Balance Sheet and 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. (See Note 6)

Property and Equipment, Net and Leases

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

The Department leases buildings, along with 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-cancellable lease term is one year, with the Department holding the right to extend the lease term by exercising additional one-year options. (See Note 7)

Liabilities

Liabilities represent actual and estimated amounts to be paid as a result of transactions or events that have already occurred. However, no liabilities can be paid by the Department without budget authority. Liabilities for which an appropriation has not been enacted are classified as liabilities not covered by budgetary resources, and there is no certainty that an appropriation will be enacted. The government, acting in its sovereign capacity, can abrogate liabilities that arise from activities other than contracts. FFEL Program and Direct Loan Program liabilities are entitlements covered by permanent indefinite budget authority. (See Note 11)

Accounts Payable

Accounts Payable include amounts owed by the Department for goods and services received from other entities, as well as payments not yet processed. (See Note 9)

Debt

The Department borrows from Treasury to provide funding for the Direct Loan, FFEL, TEACH, and other loan 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 and paid 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. (See Note 10)

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 program. 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. (See Note 12)

Other Liabilities

Other Liabilities include liabilities in miscellaneous receipts and capital transfers. Liabilities in miscellaneous receipt accounts are recorded for downward subsidy re-estimates that are accrued at year end and for amounts of future capital transfers from Liquidating Accounts. Miscellaneous receipt accounts are a mechanism used by Treasury to facilitate the elimination of receivables and payables within the government, and the Department follows the guidance for using miscellaneous receipt accounts in recording specific events. Upon execution of a downward re-estimate or an actual capital transfer, the liabilities in the miscellaneous receipt accounts are satisfied and removed from the general ledger. Liabilities in miscellaneous receipt accounts are unfunded liabilities. (See Note 11)

Net Cost

Net cost consists of gross costs and earned revenue. Gross costs and earned revenue are classified as intragovernmental (exchange transactions between the Department and other entities within the federal government) or with the public (exchange transactions between the Department and non-federal entities).

Net program costs are gross costs less revenue earned from activities. The Department determines gross cost and earned revenue by tracing amounts back to the specific program office. Administrative overhead costs of funds unassigned are allocated based on full-time employee equivalents of each program. (See Note 14)

Interest Expense and Interest Revenue

The Department accrues interest receivable and records interest revenue on performing Direct Loans and FFEL loans purchased by the Department. The Department recognizes interest income when interest is accrued on loans to the public for the Direct Loan, FFEL, and TEACH Programs. FFEL Financing and Liquidating Accounts accrue interest as part of allowance for subsidy. Interest due from borrowers is accrued at least monthly and is satisfied upon collection or capitalization into the loan principal.

Interest expense and interest revenue are equal for all credit programs due to subsidy amortization. If interest revenue is greater than expense or interest expense is greater than revenue, the difference is recorded to revenue with the offset to allowance for subsidy. Subsidy amortization is required by the FCRA and accounts for the difference between interest accruals and interest cash flows. (See Note 15)

Net Position

Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances, except for amounts in Financing Accounts, Liquidating Accounts, and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. (See Note 13)

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. (See Note 11)

Reclassifications

Certain reclassifications were made to the Fiscal Year (FY) 2013 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. The *American Recovery and Reinvestment Act of 2009* (ARRA) funding is winding down, thereby diminishing the materiality of the program. Therefore, the separate ARRA presentation on the financial statements and note disclosures has been removed. The Consolidated Statement of Net Cost and related note disclosures for FY 2013 have been reclassified to present ARRA funding under the specific program offices distributing the funding. (See Notes 12 and 14)

Note 2. Non-Entity Assets

As of September 30, 2014 and 2013, non-entity assets consisted of the following:

Non-Entity Assets

(Dollars in Millions)

	2014	2013
Non-Entity Assets		
Intragovernmental:		
Fund Balance with Treasury	$ 44	$ 40
Total Intragovernmental	**44**	**40**
With the Public:		
Cash and Other Monetary Assets	1,471	1,482
Credit Program Receivables, Net	387	369
Accounts Receivable, Net	63	61
Total With the Public	**1,921**	**1,912**
Total Non-Entity Assets	**1,965**	**1,952**
Entity Assets	1,021,961	935,106
Total Assets	$ 1,023,926	$ 937,058

The Department's FY 2014 assets are predominantly entity assets (99.8 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity intragovernmental assets primarily consist of deposit fund and clearing account balances. Non-entity assets with the public primarily consist of guaranty agency reserves (76.6 percent), reported as Cash and Other Monetary Assets, and related Federal Perkins Loan Program loan receivables (20.1 percent), reported as Credit Program Receivables, Net. Federal Perkins Loan Program is a non-entity asset because the assets are held by the Department but are not available to the Department. The corresponding liabilities for these non-entity assets are reflected in various accounts, including Intragovernmental Accounts Payable, Guaranty Agency Federal Fund Due to Treasury, and Other Liabilities. (See Notes 5, 9, and 11)

Note 3. Fund Balance with Treasury

Fund Balance with Treasury by status of funds and fund type, as of September 30, 2014 and 2013, consisted of the following:

Fund Balance with Treasury

(Dollars in Millions)

	2014					
	General Funds	**Revolving Funds**	**Special Funds**	**Trust Funds**	**All Other Funds**	**Total**
Status of Funds						
Unobligated Balance:						
Available	$ 12,125	$ 69	$ -	$ -	$ -	$12,194
Unavailable	1,230	10,040	11	-	-	11,281
Obligated Balance, Not Yet Disbursed	56,208	18,964	4	1	-	75,177
Other	-	-	-	-	44	44
Fund Balance with Treasury	**$ 69,563**	**$29,073**	**$ 15**	**$ 1**	**$ 44**	**$98,696**

	2013					
	General Funds	Revolving Funds	Special Funds	Trust Funds	All Other Funds	Total
Status of Funds						
Unobligated Balance:						
Available	$ 13,700	$ -	$ -	$ -	$ -	$ 13,700
Unavailable	1,010	11,315	15	-	-	12,340
Obligated Balance, Not Yet Disbursed	59,619	23,028	2	3	-	82,652
Other	-	-	-	-	40	40
Fund Balance with Treasury	**$ 74,329**	**$ 34,343**	**$ 17**	**$ 3**	**$ 40**	**$108,732**

Composition of Funds

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

Status of Funds

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Total unavailable unobligated balances ($11,281 million) differs from unapportioned amounts on the SBR ($12,752 million) due to the Cash and Other Monetary Assets ($1,471 million). Obligated balances not yet disbursed include undelivered orders and unpaid expended authority. (See Note 5)

Note 4. Accounts Receivable

Accounts Receivable, as of September 30, 2014 and 2013, consisted of the following:

Accounts Receivable
(Dollars in Millions)

	2014		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ 3	$ -	$ 3
With the Public	324	(188)	136
Total	**$ 327**	**$ (188)**	**$ 139**

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

Gross Receivables by type, as of September 30, 2014 and 2013, are presented below.

Gross Receivables
(Dollars in Millions)

	2014	2013
Category		
Institutional	$ 209	$ 194
Individual	72	72
State and Local	43	40
Intragovernmental	3	2
Total	**$ 327**	**$ 308**

Accounts receivable consist of institutional debt resulting from external audit or program review; program scholarship grant repayments; employee debt; and intragovernmental debts due from other federal agencies through interagency agreements.

Note 5. Cash and Other Monetary Assets

Cash and Other Monetary Assets consist of reserves held in the FFEL guaranty agency Federal Fund. 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 Fund Due to Treasury. The table below presents Cash and Other Monetary Assets for the years ended September 30, 2014 and 2013.

Cash and Other Monetary Assets
(Dollars in Millions)

	2014	2013
Beginning Balance, Cash and Other Monetary Assets	**$ 1,482**	**$ 1,307**
Increase/(Decrease) in Guaranty Agency Federal Fund, net	(11)	175
Ending Balance, Cash and Other Monetary Assets	**$ 1,471**	**$ 1,482**

The $11 million net decrease in the Federal Fund in FY 2014 represents the change in the estimated value of net assets held in the FFEL guaranty agency Federal Fund. This decrease reflects the impact of guaranty agencies' operations.

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

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

The Department holds $924 billion in outstanding student loan net receivables. This outstanding balance is comprised primarily of Direct Loan, FFEL, and loans purchased using authority provided in *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA), but there are several other loan programs that the Department administers—including the Federal Perkins Loan Program, the TEACH Grant Program, HEAL Program, and the Facilities Loan Programs.

Credit Program Receivables, as of September 30, 2014 and 2013, consisted of the following:

Credit Program Receivables, Net

(Dollars in Millions)

	2014	2013
Direct Loan Program Loan Receivables, Net	$ 778,516	$ 679,107
FFEL Program Loan Receivables:		
FFEL Guaranteed Loan Program, Net (Pre-1992)	1,904	2,231
FFEL Program (Post-1991):		
FFEL Guaranteed Loan Program, Net	37,969	35,144
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	36,556	38,946
Loan Participation Purchase, Net	64,513	67,546
ABCP Conduit, Net	1,922	1,864
Federal Perkins and Other Loan Program Loan Receivables, Net	387	369
TEACH Program Loan Receivables, Net	536	453
HEAL Program Loan Receivables, Net	115	
Facilities Loan Programs Loan Receivables, Net	1,127	1,024
Total	**$ 923,545**	**$ 826,684**

Due to Congressional legislation, HHS will report all prior year HEAL Program information on their financial statements. Thus, the Department will not report FY 2013 HEAL Program information on the comparable financial statements in FY 2014.

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

William D. Ford Federal Direct Loan Program. The federal government makes loans directly to students and parents through participating institutions of higher education under the Direct Loan Program. Direct Loans are originated and serviced through contracts with private vendors. As of September 30, 2014 and 2013, total principal balances outstanding of Direct Loans were approximately $694 billion and $585 billion, respectively.

The Department disbursed approximately $134 billion in Direct Loans to eligible borrowers in FY 2014 and approximately $130 billion in FY 2013. Of the $134 billion disbursed in Direct Loans, new loans were $99 billion and consolidation loans were $35 billion. Loans are typically 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 8.5 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 2014 cohort, an estimated $12.6 billion will never be disbursed. Eligible schools may obtain advances from the Department to fund Direct Loans awards or request subsequent reimbursement from the Department.

Direct Loan Program loan receivables are defaulted and non-defaulted loans owned and held by the Department. 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)

	2014	2013
Principal Receivable	$ 694,006	$ 584,528
Interest Receivable	37,152	29,332
Total	731,158	613,860
Allowance for Subsidy	47,358	65,247
Direct Loan Program Loan Receivables, Net	**$ 778,516**	**$ 679,107**

Of the $731.2 billion in receivables, as of September 30, 2014, $33.9 billion (4.6 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $28.9 billion (4.7 percent) as of September 30, 2013. As of September 30, 2014 and 2013, an additional $0.5 billion and $1.1 billion, respectively 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.

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 and loan servicing activities under the Direct Loan Program.

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

Direct Loan Program Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2014	2013
Beginning Balance, Allowance for Subsidy	**$ 65,247**	**$ 32,076**
Activity		
Fee Collections	(1,623)	(1,557)
Loan Cancellations	2,068	1,890
Subsidy Allowance Amortization	(11,319)	(7,719)
Other	1,111	1,000
Total Activity	**(9,763)**	**(6,386)**
Components of Negative Subsidy Transfers		
Interest Rate Differential	33,161	37,063
Defaults, Net of Recoveries	(1,409)	(1,887)
Fees	1,756	1,801
Other	(11,418)	(9,967)
Current Year Negative Subsidy Transfers	**22,090**	**27,010**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(8,344)	11,754
Technical and Default Re-estimates	(21,872)	793
(Upward)/Downward Subsidy Re-estimates	**(30,216)**	**12,547**
Ending Balance, Allowance for Subsidy	**$ 47,358**	**$ 65,247**

Loan cancellations include write-offs of loans because the primary borrower died, became disabled, or declared bankruptcy. The Other components of current year negative subsidy transfers consist of contract collection costs, program review collections, fees, and other accruals. The interest rate re-estimate relates to subsidy associated with establishing a fixed rate for the Department's borrowing from Treasury.

The following schedule summarizes the Direct Loan Financing Account interest expense and interest revenue for the years ended September 30, 2014 and 2013:

Direct Loan Program Interest Expense and Revenue

(Dollars in Millions)

	2014	2013
Interest Expense on Treasury Borrowing	$ 25,152	$ 22,661
Total Interest Expense	**$ 25,152**	**$ 22,661**
Interest Revenue from the Public	$ 32,801	$ 26,972
Amortization of Subsidy	(11,319)	(7,720)
Interest Revenue on Uninvested Funds	3,670	3,409
Total Interest Revenue	**$ 25,152**	**$ 22,661**

The following schedule summarizes the Direct Loan Financing Account subsidy expense for the years ended September 30, 2014 and 2013:

Direct Loan Program Subsidy Expense

(Dollars in Millions)

	2014	2013
Components of Negative Subsidy Transfers		
Interest Rate Differential	$ 33,161	$ 37,063
Defaults, Net of Recoveries	(1,409)	(1,887)
Fees	1,756	1,801
Other	(11,418)	(9,967)
Negative Subsidy Transfers	**22,090**	**27,010**
(Upward)/Downward Subsidy Re-estimates	(30,216)	12,547
Direct Loan Subsidy Expense	**$ (8,126)**	**$ 39,557**

The change in Direct Loan Subsidy Expense of $47.7 billion from FY 2013 to FY 2014 is primarily due to the change in subsidy re-estimates. Direct Loan re-estimated subsidy cost was adjusted upward by $30.2 billion in FY 2014. Updated discount rates for the 2013 and 2012 cohorts decreased cost by $4.4 billion. Changes in the availability of repayment plans increased cost by $18.6 billion. Costs increased $2.9 billion due to increases in default rates. Changes in prepayment rates reflect slower than expected prepayment activity, leading to increased interest earnings resulting in $3.2 billion in downward subsidy cost. Other assumption updates produced offsetting costs, with the remainder attributable to interest on the re-estimate. In June 2014, President Obama announced a new initiative to expand the Pay As You Earn repayment plan to all borrowers. The modified cost for subsidy of this plan for cohort years 1994-2013 is $8.3 billion. This planned initiative will be negotiated with interested parties in 2015. 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 $3.5 billion. Re-estimated costs only include those cohorts that are 90 percent disbursed; cohort years 1994–2013.

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 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 were 90 percent disbursed; cohort years 1994–2012.

The subsidy rates applicable to the 2014 loan cohort year follow:

Direct Loan Subsidy Rates—Cohort 2014

	Interest Differential	Defaults	Fees	Other	Total
Stafford	(4.86)%	0.15%	(1.07)%	6.37%	0.59%
Unsubsidized Stafford	(25.51)%	0.27%	(1.07)%	7.77%	(18.54)%
PLUS	(34.89)%	0.51%	(4.29)%	6.99%	(31.68)%
Consolidation	(6.59)%	1.58%	0.00%	11.14%	6.13%
Total	**(18.08)%**	**0.59%**	**(1.25)%**	**8.20%**	**(10.54)%**

The subsidy rate represents the subsidy expense of the program in relation to the obligations or commitments made during the fiscal year and are weighted on gross volume. The subsidy expense for new direct loans reported in the current year relates to disbursements of loans from both current and prior years' cohorts. Subsidy expense is recognized when the Department disburses direct loans. The subsidy expense reported in the current year may include re-estimates. The subsidy rates shown above, which reflect aggregate negative subsidy in the FY 2014 cohort, cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense, nor are these rates applicable to the portfolio as a whole. The Department does not re-estimate student loan cohorts until they are at least 90 percent disbursed. As a result, the financial statement re-estimate does not include a re-estimate of the current year cohort. The first re-estimate of this cohort will take place upon execution of the 2016 President's Budget.

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.

The following schedule summarizes the Direct Loan Program loan disbursements by loan type for the years ended September 30, 2014 and 2013:

Direct Loan Program Expenditures by Loan Type

(Dollars in Millions)

	2014	2013
Stafford	$ (25,877)	$ (26,530)
Unsubsidized Stafford	(54,740)	(56,122)
PLUS	(18,910)	(19,388)
Consolidation	(34,525)	(27,472)
Total Expenditures	**$ (134,052)**	**$ (129,512)**

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

Student and parent borrowers may prepay existing loans without penalty through a new consolidation loan. Under the FCRA and requirements provided by OMB regulations, the retirement of Direct Loans being consolidated is considered a collection of principal and interest. This receipt is offset by the disbursement related to the newly created consolidation loan. Underlying direct or guaranteed loans, performing or nonperforming, are paid off in their original cohort; new consolidation loans are originated in the cohort in which the new consolidation loan was obligated. Consolidation activity is taken into consideration in establishing subsidy rates for defaults and other cash flows. The cost of new consolidations is included in subsidy expense for the current-year cohort; the effect of prepayments on existing loans could contribute to re-estimates of prior cohort costs. The 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 consolidations increased from $28 billion during FY 2013 to $35 billion during FY 2014. Under the FCRA, the subsidy costs of new consolidation loans are not reflected until the future fiscal year in which they are disbursed. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows of the past cohort year in which the loans were originated.

Federal Family Education Loan Program. As a result of the *SAFRA Act*, the Department and private lenders did not originate or guarantee any new loans in FY 2014 or FY 2013. Federal guarantees on FFEL Program loans and commitments remain in effect for loans made before July 1, 2010, that were sold to the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2014 and 2013, total principal balances outstanding of guaranteed loans held by lenders were approximately $242 billion and $264 billion, respectively. As of September 30, 2014 and 2013, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $236 billion and $258 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.

FFEL Program Loan Receivables, Net

(Dollars in Millions)

	2014	2013
FFEL Program (Pre-1992)		
Principal Receivable	$ 4,707	$ 5,040
Interest Receivable	5,810	5,563
Total	10,517	10,603
Allowance for Subsidy	(8,586)	(8,356)
Liabilities for Loan Guarantees	(27)	(16)
FFEL Guaranteed Loan Program, Net (Pre-1992)	**1,904**	**2,231**
FFEL Program (Post-1991)		
FFEL Guaranteed Loan Program:		
Principal Receivable	34,251	32,649
Interest Receivable	5,273	4,849
Total	39,524	37,498
Allowance for Subsidy	(5,773)	(6,614)
Liabilities for Loan Guarantees	4,218	4,260
FFEL Guaranteed Loan Program, Net (Post-1991)	**37,969**	**35,144**
Temporary Loan Purchase Authority:		
Loan Purchase Commitment:		
Principal Receivable	29,401	31,899
Interest Receivable	1,927	1,859
Total	31,328	33,758
Allowance for Subsidy	5,228	5,188
Loan Purchase Commitment, Net	**36,556**	**38,946**
Loan Participation Purchase:		
Principal Receivable	52,782	56,041
Interest Receivable	3,358	3,297
Total	56,140	59,338
Allowance for Subsidy	8,373	8,208
Loan Participation Purchase, Net	**64,513**	**67,546**
ABCP Conduit:		
Principal Receivable	2,036	2,208
Interest Receivable	218	193
Total	2,254	2,401
Allowance for Subsidy	(332)	(537)
ABCP Conduit, Net	**1,922**	**1,864**
FFEL Program Loan Receivables, Net	**$ 142,864**	**$ 145,731**

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

The asset-backed commercial paper vehicle, the Conduit, closed in early FY 2014, resulting in a $71 billion recovery of prior year obligations and the cancellation of unused borrowing authority.

The FFEL Guaranteed Student Loan Financing Account has a negative estimated Liability for Loan Guarantees of $4.2 billion and $4.3 billion as of September 30, 2014 and 2013, respectively. This indicates that expected collections on anticipated future defaulted loans will be in excess of default disbursements, calculated on a net present value basis. Under GAAP, the negative estimated liability has been classified as a component of Credit Program Receivables on the Consolidated Balance Sheet. The following schedule provides a reconciliation between the beginning and ending balances of the liability for loan guarantees for the insurance portion of the FFEL Program:

FFEL Program Reconciliation of Liabilities for Loan Guarantees

(Dollars in Millions)

	2014	2013
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 4,260**	**$ (1,013)**
Activity		
Interest Supplement Payments	1,094	1,336
Claim Payments	8,914	9,125
Fee Collections	(2,156)	(2,239)
Interest on Liability Balance	1,843	1,783
Other	(13,785)	(12,564)
Total Activity	**(4,090)**	**(2,559)**
Components of Loan Modifications		
Loan Modification Costs	4,020	-
Modification Adjustment Transfers	(581)	-
Loan Modifications	**3,439**	**-**
(Upward)/Downward Subsidy Re-estimates	**609**	**7,832**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**4,218**	**4,260**
FFEL Liquidating Account Liability for Loan Guarantees	(27)	(16)
Liabilities for Loan Guarantees	**$ 4,191**	**$ 4,244**

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

The following schedules provide reconciliations between the beginning and ending balances of the allowance for subsidy for the Loan Purchase Commitment component and the Loan Participation Purchase component of the FFEL Program. Loans in these programs are loans acquired by the Department. Acquired loans are reported at their net present value of future cash flows.

Loan Purchase Commitment Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2014	2013
Beginning Balance, Allowance for Subsidy	**$ 5,188**	**$ 5,258**
Activity		
Subsidy Allowance Amortization	(749)	(771)
Loan Cancellations	116	106
Contract Collection Cost and Other	72	51
Total Activity	**(561)**	**(614)**
(Upward)/Downward Subsidy Re-estimates	**601**	**544**
Ending Balance, Allowance for Subsidy	**$ 5,228**	**$ 5,188**

Loan Participation Purchase Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2014	2013
Beginning Balance, Allowance for Subsidy	**$ 8,208**	**$ 8,910**
Activity		
Subsidy Allowance Amortization	(1,304)	(1,319)
Loan Cancellation	224	197
Contract Collection Cost and Other	93	43
Total Activity	**(987)**	**(1,079)**
(Upward)/Downward Subsidy Re-estimates	**1,152**	**377**
Ending Balance, Allowance for Subsidy	**$ 8,373**	**$ 8,208**

The following schedule provides FFEL Program subsidy expense for the years ended September 30, 2014 and 2013, respectively:

FFEL Program Subsidy Expense

(Dollars in Millions)

	2014	2013
FFEL Guaranteed Loan Program Subsidy Re-estimates	$ 609	$ 7,832
Loan Purchase Commitment Subsidy Re-estimates	601	544
Loan Participation Purchase Subsidy Re-estimates	1,152	377
ABCP Conduit Subsidy Re-estimates	203	-
FFEL Program (Upward)/Downward Subsidy Re-estimates	**2,565**	**8,753**
FFEL Guaranteed Loan Program Modification Costs	4,020	-
FFEL Program Subsidy Expense	**$ 6,585**	**$ 8,753**

FFEL Guaranteed re-estimated subsidy cost was adjusted downward by $0.6 billion in FY 2014. Costs decreased $411 million 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 $111 million due to maturity and debt distribution assumption updates. 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 $18 billion.

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 lenders would increase projected FFEL costs by $12.3 billion.

Modification of Subsidy Cost. 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 recorded for modification costs and modification adjustment transfers. The Department modified loans in FY 2014, but not in FY 2013.

FY 2014 Modification. The *Bipartisan Budget Act of 2013* eliminated guaranty agencies' retention share of original defaulted student loan amounts, and reduced the maximum fee they can charge a borrower on the borrower's outstanding balance from 18.5 to 16 percent. The Act required these agencies to send rehabilitated loans to the Department if they cannot find a private lender buyer. These technical changes resulted in a $4 billion downward subsidy cost modification and a $581 million modification adjustment transfer loss for the FFEL Financing Account.

Other Credit Programs for Higher Education

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

As of September 30, 2014 and 2013, loan and interest receivables, net of allowance for losses, were $387 million and $358 million, respectively. These receivables are valued at net realizable value with estimated allowance for losses of $161 million and $154 million as of September 30, 2014 and 2013, respectively.

TEACH Grant Program. The Department awards annual grants of up to $4,000 to eligible undergraduate and graduate students who agree to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. The maximum lifetime grant for students is $16,000 for undergraduate programs and $8,000 for graduate programs. For students failing to fulfill the service requirement, the grants are converted to Direct Unsubsidized Stafford

Loans. Since grants can be converted to direct loans, for budget and accounting purposes, the program is operated as a loan program under the FCRA.

As of September 30, 2014 and 2013, loan receivables were $536 million and $453 million, respectively. The receivable balance is net of allowance for subsidy of $120 million and $106 million as of September 30, 2014 and 2013, respectively.

The subsidy rates applicable to the 2014 loan cohort year follow:

TEACH Subsidy Rates—Cohort 2014

	Interest Differential	Defaults	Fees	Other	Total
Total Subsidy Rates	**6.96%**	**0.24%**	**0.00%**	**6.55%**	**13.75%**

HEAL Program. The Department assumed responsibility for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL Program is structured as required by the FCRA. A Liquidating Account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed prior to 1992. Credit program receivables, net of allowance for subsidy and liabilities for loan guarantees, were $115 million for FY 2014. All loan activity for 1992 and beyond is recorded in corresponding Financing Accounts.

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

The total amount of support for HBCU programs, along with any accrued interest and unpaid servicing fees, will be capitalized to principal and be reamortized through the original maturity date of June 1, 2037. The Department has approximately $1.3 billion in outstanding borrowing from the FFB to support loans made to HBCU institutions and approximately $213 million obligated to support near term lending as of September 30, 2014.

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

Facilities Loan Programs Loan Receivables, Net
(Dollars in Millions)

	2014	2013
Principal Receivable	$ 1,324	$ 1,211
Interest Receivable	12	10
Total	1,336	1,221
Allowance for Subsidy/Loss	(209)	(197)
Facilities Loan Programs Loan Receivables, Net	**$ 1,127**	**$ 1,024**

Administrative Expenses

Administrative expenses, for the periods ended September 30, 2014 and 2013, consisted of the following:

Administrative Expenses
(Dollars in Millions)

	2014		2013	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 604	$ 390	$ 639	$ 413
Other Expense	22	14	25	16
Total	**$ 626**	**$ 404**	**$ 664**	**$ 429**

Note 7. Property and Equipment, Net and Leases

Property and Equipment, as of September 30, 2014 and 2013, consisted of the following:

Property and Equipment, Net
(Dollars in Millions)

	2014		
	Asset Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 181	$ (174)	$ 7
Furniture and Fixtures	3	(3)	-
Property and Equipment, Net	**$ 184**	**$ (177)**	**$ 7**

	2013		
	Asset 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**

The Depreciation expense for the years ended September 30, 2014 and 2013 was $1 million and $6 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 and financial reporting systems for the Department and FSA. The Department has acquired more robust information technology to augment its significant capabilities to manage student loan and grant operations. In addition, the Department has very limited or no acquisition cost associated with furniture and fixtures. The Department owns and maintains a few school buildings on various military bases.

All Department and contractor staff are housed in leased buildings. The Department does not own real property for the use of its staff. The Department leases office space from the General Services Administration (GSA). The lease contracts with GSA for privately and publicly owned buildings are operating leases. Future lease payments are not accrued as liabilities, and 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, 2014 and 2013, was $70 million and $80 million, respectively. The majority of leases is for information technology, telecommunications equipment, and leased buildings.

Estimated future minimum lease payments for the privately and publicly owned buildings are presented below.

Future Minimum Lease Payments
(Dollars in Millions)

2014		2013	
FY	**Amount**	**FY**	**Amount**
2015	78	2014	80
2016	83	2015	90
2017	88	2016	93
2018	91	2017	96
2019	97	2018	100
After 2019	100	After 2018	103
Total	**$ 537**	**Total**	**$ 562**

Note 8. Other Assets

Other Intragovernmental Assets primarily consist of advance payments to the U.S. Department of Interior's (DOI) Bureau of Indian Education under terms of an interagency agreement. Under this agreement, funds are transferred from DOI 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 $55 million and $22 million as of September 30, 2014 and 2013, 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 as of September 30, 2014 and 2013.

Note 9. Accounts Payable

Accounts Payable, as of September 30, 2014 and 2013, consisted of the following:

Accounts Payable
(Dollars in Millions)

	2014	2013
Accrual for Unreimbursed Loan Disbursements	$ 3,027	$ 2,923
In Process Disbursements:		
Direct Loans	312	573
Grants	264	366
FFEL Claim Payments	311	52
Contractual Services	212	228
Other	(126)	(15)
Accounts Payable to the public	**4,000**	**4,127**
Intragovernmental Accounts Payable	1	2
Total Accounts Payable	**$ 4,001**	**$ 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.

FY 2014 Accounts Payable Other abnormal balance of $(126) million is primarily due to a temporary adjustment related to FFEL Guaranteed Loan Program collections of fees, principal, and interest on defaulted loans.

Note 10. Debt

Debt, as of September 30, 2014 and 2013, consisted of the following:

Debt
(Dollars in Millions)

	2014			
	Beginning Balance	Borrowing	Repayments	Ending Balance
Treasury Debt				
Direct Loan Program	$ 698,361	$ 171,227	$ (50,581)	$ 819,007
FFEL Program				
Guaranteed Loan Program	43,254	-	-	43,254
Loan Purchase Commitment	38,598	976	(3,303)	36,271
Loan Participation Purchase	68,017	790	(4,505)	64,302
ABCP Conduit	2,543	203	(773)	1,973
TEACH Program	485	99	(29)	555
Facilities Loan Programs	37	-	-	37
Total Treasury Debt	**851,295**	**173,295**	**(59,191)**	**965,399**
Debt to the FFB				
HBCU	1,137	156	(21)	1,272
Total Debt to the FFB	**1,137**	**156**	**(21)**	**1,272**
Total	**$ 852,432**	**$ 173,451**	**$ (59,212)**	**$966,671**

	2013			
	Beginning Balance	**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**

The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2014, debt increased 13 percent from $852 billion in the prior year to $967 billion. The Department makes periodic principal payments after considering the cash position and liability for future outflows in each cohort of loans, as mandated by the FCRA.

Over 84 percent of the Department's debt, as of September 30, 2014, is attributable to the Direct Loan Program. The majority of the net borrowing activity (borrowing less repayments) for the year was designated for funding new Direct Loan disbursements. Net borrowing in the Direct Loan Program for FY 2014 totaled $121 billion. The new financing was used to disburse new loans and make negative subsidy transfers. The Department also borrowed funding to execute the downward subsidy re-estimate on the entire portfolio and to pay its interest to Treasury at year-end. Principal payments were made during the year. FFEL and some Facilities Loan Programs are no longer offering new financing to public borrowers or entering into guaranty agreements with lending authorities.

The Department also borrows from Treasury for activity in the TEACH and HBCU Programs. During FY 2014, TEACH net borrowing of $70 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2014, debt in HBCU increased by $135 million, or 12 percent. This total represents the aggregate of new bonds administered and repayments made on previously issued bonds.

Note 11. Other Liabilities

Other Liabilities, as of September 30, 2014 and 2013, consisted of the following:

Other Liabilities
(Dollars in Millions)

	2014		2013	
	Intragovern-mental	**With the Public**	**Intragovern-mental**	**With the Public**
Liabilities Covered by Budgetary Resources				
Current				
Advances From Others	$ 26	$ -	$ 29	$ -
Employer Contributions and Payroll Taxes	3	-	6	-
Liability for Deposit Funds and Clearing Accounts	(22)	74	7	37
Accrued Payroll and Benefits	-	13	-	28
Deferred Revenue	-	50	-	31
Liabilities in Miscellaneous Receipt Accounts	3,783	-	6,074	-
Total Other Liabilities Covered by Budgetary Resources	**3,790**	**137**	**6,116**	**96**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	-	38	-	36
Non-Current				
Accrued Unfunded FECA Liability	3	-	4	-
Custodial Liability	2	-	2	-
Liabilities in Miscellaneous Receipt Accounts	376	-	358	-
Capital Transfers	2,242	-	2,375	-
Accrued FECA Actuarial Liability	-	2	-	15
Total Other Liabilities Not Covered by Budgetary Resources	**2,623**	**40**	**2,739**	**51**
Other Liabilities	**$ 6,413**	**$ 177**	**$ 8,855**	**$ 147**

Other liabilities include current and non-current liabilities. The current liabilities covered by budgetary resources primarily consist of $3.7 billion for downward subsidy re-estimates, 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, excess unanticipated collections on defaulted loans in liquidating accounts in the amount of $2.2 billion, and the student loan receivables of the Federal Perkins Loan Program in the amount of $376 million.

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 $2.6 billion and $2.7 billion as of September 30, 2014 and 2013, respectively.

As of September 30, 2014 and 2013, liabilities totaled $981.2 billion and $869.2 billion, respectively. Of this amount, liabilities covered by budgetary resources totaled $978.6 billion and $866.4 billion as of September 30, 2014 and 2013, respectively.

Note 12. Accrued Grant Liability

The Accrued Grant Liability by major program office, as of September 30, 2014 and 2013, consisted of the following:

Accrued Grant Liability
(Dollars in Millions)

	2014	2013
FSA	$ 1,719	$ 1,727
OESE	386	145
OSERS	182	120
Other	200	178
Accrued Grant Liability	**$ 2,487**	**$ 2,170**

The majority of Accrued Grant Liability is composed of Pell Grants. The remaining Accrued Grant Liability also includes Discretionary, Formula, and Campus-Based Student Aid Grants.

Note 13. Net Position

Unexpended appropriations, as of September 30, 2014 and 2013, consisted of the following:

Unexpended Appropriations
(Dollars in Millions)

	2014	2013
Unobligated Balances:		
Available	$ 12,078	$ 13,700
Not Available	1,169	909
Undelivered Orders	53,200	56,762
Unexpended Appropriations	**$ 66,447**	**$ 71,371**

Cumulative Results of Operations. The Cumulative Results of Operations of $(23,741) million and $(3,528) million as of September 30, 2014 and 2013, respectively, consists mostly of unfunded upward subsidy re-estimates for Direct and FFEL Loan Programs, other unfunded expenses, and net investments of capitalized assets.

Other Financing Sources. Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other in the Other Financing Sources section of the Statement of Changes in Net Position was $(36,767) million and $(51,054) million as of September 30, 2014 and 2013, respectively. The amount was primarily comprised of Direct Loan and FFEL Program activity.

Appropriations Received. Appropriations Received was $95,293 million and $90,993 million as of September 30, 2014 and 2013, respectively, and comprised primarily of Pell Grant, Direct Loan, Special Education, and Education for the Disadvantaged Programs.

Note 14. Intragovernmental Cost and Exchange Revenue by Program

As required by the *GPRA Modernization Act of 2010*, each of the Department's major program offices have been aligned with the goals presented in the Department's *Strategic Plan 2014–2018*. Strategic Plan Goals 1–5 guide the Department's program offices to carry out the vision and programmatic mission, and the net cost programs can be specifically associated with these five strategic goals. The Department also has a cross-cutting Strategic Plan Goal 6, U.S. Department of Education Capacity, focusing primarily upon improving the organizational capacities of the Department to implement the Strategic Plan Goals 1–5. The costs associated with Strategic Plan Goal 6 are allocated to Goals 1–5 based on the number of full-time employee equivalents of each program. Some principal offices support more than one Departmental Strategic Goal, but have been assigned to a single net cost program for the purposes of this table based on their primary area of support. The change of $50 billion in Increase College Access, Quality, and Completion Gross Cost from FY 2013 to FY 2014 is primarily due to an upward subsidy re-estimate for the Direct Loan Program of $30 billion.

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

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

2014

	FSA	OESE	OSERS	Other	Total
Increase College Access, Quality, and Completion					
Gross Cost					
Intragovernmental	$ 31,267	$ -	$ -	$ 87	$31,354
With the Public	34,203	-	-	4,189	38,392
Total Gross Program Costs	**65,470**	**-**	**-**	**4,276**	**69,746**
Earned Revenue					
Intragovernmental	(4,293)	-	-	(12)	(4,305)
With the Public	(24,686)	-	-	(40)	(24,726)
Total Program Earned Revenue	**(28,979)**	**-**	**-**	**(52)**	**(29,031)**
Total Program Cost	**36,491**	**-**	**-**	**4,224**	**40,715**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs					
Gross Cost					
Intragovernmental	-	202	-	-	202
With the Public	-	23,196	-	4	23,200
Total Gross Program Costs	**-**	**23,398**	**-**	**4**	**23,402**
Earned Revenue					
Intragovernmental	-	(4)	-	-	(4)
With the Public	-	(11)	-	-	(11)
Total Program Earned Revenue	**-**	**(15)**	**-**	**-**	**(15)**
Total Program Cost	**-**	**23,383**	**-**	**4**	**23,387**
Ensure Effective Educational Opportunities for All Students					
Gross Cost					
Intragovernmental	-	-	115	30	145
With the Public	-	-	16,146	810	16,956
Total Gross Program Costs	**-**	**-**	**16,261**	**840**	**17,101**
Earned Revenue					
Intragovernmental	-	-	(2)	-	(2)
With the Public	-	-	(12)	(1)	(13)
Total Program Earned Revenue	**-**	**-**	**(14)**	**(1)**	**(15)**
Total Program Cost	**-**	**-**	**16,247**	**839**	**17,086**
Enhance the Education System's Ability to Continuously Improve					
Gross Cost					
Intragovernmental	-	-	-	114	114
With the Public	-	-	-	1,932	1,932
Total Gross Program Costs	**-**	**-**	**-**	**2,046**	**2,046**
Earned Revenue					
Intragovernmental	-	-	-	(3)	(3)
With the Public	-	-	-	(61)	(61)
Total Program Earned Revenue	**-**	**-**	**-**	**(64)**	**(64)**
Total Program Cost	**-**	**-**	**-**	**1,982**	**1,982**
Net Cost of Operations	**$36,491**	**$23,383**	**$16,247**	**$7,049**	**$83,170**

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

2013

	FSA	OESE	OSERS	Other	Total
Increase College Access, Quality, and Completion					
Gross Cost					
Intragovernmental	$ 28,513	$ -	$ -	$ 85	$28,598
With the Public	(15,247)	-	-	4,255	(10,992)
Total Gross Program Costs	**13,266**	**-**	**-**	**4,340**	**17,606**
Earned Revenue					
Intragovernmental	(3,685)	-	-	(12)	(3,697)
With the Public	(23,003)	-	-	(44)	(23,047)
Total Program Earned Revenue	**(26,688)**	**-**	**-**	**(56)**	**(26,744)**
Total Program Cost	**(13,422)**	**-**	**-**	**4,284**	**(9,138)**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs					
Gross Cost					
Intragovernmental	-	188	-	-	188
With the Public	-	24,676	-	7	24,683
Total Gross Program Costs	**-**	**24,864**	**-**	**7**	**24,871**
Earned Revenue					
Intragovernmental	-	(2)	-	-	(2)
With the Public	-	(23)	-	-	(23)
Total Program Earned Revenue	-	(25)	-	-	(25)
Total Program Cost	**-**	**24,839**	**-**	**7**	**24,846**
Ensure Effective Educational Opportunities for All Students					
Gross Cost					
Intragovernmental	-	-	48	30	78
With the Public	-	-	16,022	770	16,792
Total Gross Program Costs	**-**	**-**	**16,070**	**800**	**16,870**
Earned Revenue					
Intragovernmental	-	-	(1)	-	(1)
With the Public	-	-	(24)	(1)	(25)
Total Program Earned Revenue	**-**	**-**	**(25)**	**(1)**	**(26)**
Total Program Cost	**-**	**-**	**16,045**	**799**	**16,844**
Enhance the Education System's Ability to Continuously Improve					
Gross Cost					
Intragovernmental	-	-	-	62	62
With the Public	-	-	-	1,944	1,944
Total Gross Program Costs	**-**	**-**	**-**	**2,006**	**2,006**
Earned Revenue					
Intragovernmental	-	-	-	(2)	(2)
With the Public	-	-	-	(84)	(84)
Total Program Earned Revenue	**-**	**-**	**-**	**(86)**	**(86)**
Total Program Cost	**-**	**-**	**-**	**1,920**	**1,920**
Net Cost of Operations	**$(13,422)**	**$24,839**	**$16,045**	**$7,010**	**$34,472**

Note 15. Interest Expense and Interest Revenue

For FY 2014 and FY 2013, interest expense and interest revenue by program consisted of the following:

Interest Expense and Interest Revenue
(Dollars in Millions)

	2014					
	Expenses			Revenue		
	Federal	Non-federal	Total	Federal	Non-federal	Total
Direct Loan Program	$ 25,152	$ -	$25,152	$ 3,670	$ 21,482	$25,152
FFEL Program :						
Guaranteed Loan Program	2,083	(1,843)	240	240	-	240
Loan Purchase Commitment	1,163	-	1,163	64	1,099	1,163
Loan Participation Purchase	2,102	-	2,102	119	1,983	2,102
ABCP Conduit	75	-	75	14	61	75
TEACH Program	18	-	18	2	16	18
Other Programs	35	-	35	11	40	51
Total	**$ 30,628**	**$ (1,843)**	**$28,785**	**$ 4,120**	**$ 24,681**	**$28,801**

	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**

Federal interest expense is recognized on the Department's outstanding borrowing from Treasury (debt). The Direct Loan and FFEL Programs have $819 billion and $146 billion in debt, respectively, as of September 30, 2014. 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 interest revenue.

Non-federal interest expense results from the amortization of loan subsidy. Non-federal interest revenue is interest earned from the public on Credit Program Receivables held by the Department. The Credit Program Receivable net balances for the Direct Loan and FFEL Programs are $779 billion and $143 billion, respectively, as of September 30, 2014.

Note 16. Statement of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2014, budgetary resources were $356 billion and net agency outlays were $180 billion. As of September 30, 2013, budgetary resources were $360 billion and net agency outlays were $189 billion.

Obligations Incurred by Apportionment Type and Category

Obligations incurred by apportionment type and category, as of September 30, 2014 and 2013, consisted of the following:

Obligations Incurred by Apportionment Type and Category

(Dollars in Millions)

	2014	2013
Direct:		
Category A	$ 1,755	$ 1,607
Category B	329,043	330,477
Exempt from Apportionment	194	280
Total Direct Apportionment	330,992	332,364
Reimbursable:		
Category A	3	4
Category B	68	49
Obligations Incurred	**$ 331,063**	**$ 332,417**

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. The apportionment categories are determined in accordance with the guidance provided in OMB regulations. 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 and related changes in available borrowing authority, as of September 30, 2014 and 2013, consisted of the following:

Unused Borrowing Authority

(Dollars in Millions)

	2014	2013
Beginning Balance, Unused Borrowing Authority	**$ 138,695**	**$ 145,532**
Current Year Borrowing Authority	182,860	195,185
Funds Drawn From Treasury	(173,451)	(180,156)
Borrowing Authority Withdrawn	(86,777)	(21,866)
Ending Balance, Unused Borrowing Authority	**$ 61,327**	**$ 138,695**

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

Undelivered Orders at the End of the Period

Undelivered orders, as of September 30, 2014 and 2013, consisted of the following:

Undelivered Orders

(Dollars in Millions)

	2014	2013
Budgetary	$ 53,332	$ 56,901
Non-Budgetary	76,889	158,703
Undelivered Orders (Unpaid)	**$ 130,221**	**$ 215,604**

Undelivered orders at the end of the period, as presented above, will differ from the undelivered orders included in Unexpended Appropriations. Undelivered orders represent the amount of goods and/or services ordered which have not been actually or constructively received. This amount includes any orders which may have been prepaid or advanced but for which delivery or performance has not yet occurred. Undelivered orders for trust funds, reimbursable agreements, and federal financing and liquidating funds are not funded through appropriations and are not included in Unexpended Appropriations. (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 current fiscal year executed subsidy re-estimates and negative subsidies. Distributed Offsetting Receipts, for the years ended September 30, 2014 and 2013, consisted of the following:

Distributed Offsetting Receipts

(Dollars in Millions)

	2014	2013
Negative Subsidies and Downward Re-estimates:		
FFEL Program	$ 7,945	$ 9,946
Direct Loan Program	31,551	38,436
Facilities Loan Programs	24	198
TEACH Program	13	17
Total Negative Subsidies and Downward Re-estimates	39,533	48,597
Other	119	128
Distributed Offsetting Receipts	**$ 39,652**	**$ 48,725**

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

The FY *2016 Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2014, has not been published as of the issue date of these financial statements. The FY 2016 President's Budget is scheduled for release in February 2015.

A reconciliation of the FY 2013 SBR to the FY 2015 President's Budget (FY 2013 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	**$ 359,939**	**$ 332,417**	**$ 48,725**	**$ 189,379**
Expired Funds	(1,473)	(575)	-	-
Amounts Included in the President's Budget	14,097	14,091	-	-
Amounts Excluded from President's Budget and Rounding	(4)	(1)	(9)	-
Distributed Offsetting Receipts	-	-	-	48,725
***Budget of the United States Government*[1]**	**$ 372,559**	**$ 345,932**	**$ 48,716**	**$ 238,104**

[1]Amounts obtained from the Appendix, *Budget of the United States Government*, FY 2015.

The President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL Program for the estimated activity of the consolidated Federal Fund of the guaranty agencies. Reconciling differences are caused by the presentation style of the President's Budget, which excludes Budgetary Resources, Obligations Incurred and Unobligated Balances in expired annual funds, as well as offsetting collections, which are required for reporting on the SBR. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the Federal Fund is independent from the Department's direct control, budgetary resources and obligations are estimated and disclosed in the President's Budget to approximate the gross activities of the combined Federal Fund. Amounts reported on the FY 2013 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 Net Cost of Operations to Budget

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

Resources Used to Finance Activities (section one) are reconciled with the net cost of operations by: (a) excluding Resources Used or Generated for Items Not Part of the Net Cost of Operations (section two); and (b) including Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period (section three). The primary resources used to finance activities that do not fund the net cost of operations include the acquisition of net credit program assets, the liquidation of liabilities for loan guarantees, and subsidy re-estimates accrued in the prior period. Significant components of the net cost of operations that will not generate or use resources in the current period include subsidy amortization, interest on the liability for loan guarantees, and increases in exchange revenue receivable from the public.

The Reconciliation of Net Cost of Operations to Budget, as of September 30, 2014 and 2013, are presented below:

Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

	2014	2013
Resources Used to Finance Activities:		
Obligations Incurred	$ 331,063	$ 332,417
Spending Authority from Offsetting Collections and Recoveries	(196,485)	(110,224)
Offsetting Receipts	(39,652)	(48,725)
Net Budgetary Resources Obligated	**94,926**	**173,468**
Imputed Financing from Costs Absorbed by Others	36	34
Other Financing Sources	(36,767)	(51,054)
Net Other Resources	**(36,731)**	**(51,020)**
Net Resources Used to Finance Activities	**58,195**	**122,448**
Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
(Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided	85,345	14,721
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	2,383	(3,922)
Credit Program Collections	80,365	58,352
Acquisition of Fixed Assets	(4)	(1)
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(186,999)	(191,789)
Resources from Non-Entity Activity	36,787	51,229
Net Resources That Do Not Finance the Net Cost of Operations	**17,877**	**(71,410)**
Net Resources Used to Finance the Net Cost of Operations	**76,072**	**51,038**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Change in Depreciation	(1)	6
Subsidy Amortization and Interest on the Liability for Loan Guarantees	11,615	8,109
Other	581	27
Total Components Not Requiring or Generating Resources	**12,195**	**8,142**
Increase/(Decrease) in Annual Leave Liability	2	(1)
Accrued Re-estimates of Credit Subsidy Expense	20,130	(2,382)
Increase in Exchange Revenue Receivable from the Public	(25,233)	(22,288)
Change in Accrued Interest with Treasury	2	2
Other	2	(39)
Total Components Requiring or Generating Resources in Future Periods	**(5,097)**	**(24,708)**
Total Components That Will Not Require or Generate Resources in the Current Period	**7,098**	**(16,566)**
Net Cost of Operations	**$ 83,170**	**$ 34,472**

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 2014 and FY 2013, the Department collected $2.0 million and $0.1 million, respectively, in custodial revenues.

Note 19. Contingencies

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

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 2014 or 2013 and does not expect to in future years.

Federal Perkins Loan Program

The Federal Perkins Loan Program provides financial assistance to eligible postsecondary school students. In FY 2014, 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 that ended June 30, 2014, approximately 538 thousand loans were made totaling $1.2 billion at 1,486 institutions, making an average of $2,170 per loan. The Department's equity interest was approximately $6.7 billion as of September 30, 2014.

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.