Financial Highlights

Introduction

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

The Department consistently produces accurate and timely financial information. The Department's financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board (FASAB) and the format and content specified by OMB Circular No. A-136, *Financial Reporting Requirements*. The financial statements, notes, and underlying business processes, systems, and controls are audited by an independent accounting firm with audit oversight provided by the Office of Inspector General (OIG). For 14 consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2015 are on pages 56–98 and the Independent Auditors' Report begins on page 107.

The Department's internal control framework and its assessment of controls over financial reporting in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control*, provide assurance to Department leadership and external stakeholders that financial data produced by its financial systems and business processes are complete, accurate, and reliable. This ensures that not only do the financial statements conform to applicable federal reporting requirements, but also that the Department has trustworthy financial information for good decision-making. Additionally, the Department's complete and accurate financial data enables it to provide accurate and reliable financial reports and transparency about how the Department is spending federal funds. Further information on management's assessment of internal controls can be found in the Analysis of Systems, Controls, and Legal Compliance section that begins on page 39.

Trend Analysis

The tables below summarize trend information about components of the Department's financial condition. The Table of Key Measures summarizes trend information about components of the Department's Consolidated Balance Sheet and Statement of Net Cost, and provides a snapshot of the Department's financial condition as of September 30, 2015, compared with the end of fiscal years 2011–14, displaying assets, liabilities, net position, and net cost, rounded to the millions. The Summarized Financial Data graphic presents the table data, as a graph, for an alternate display over the same five consecutive years.

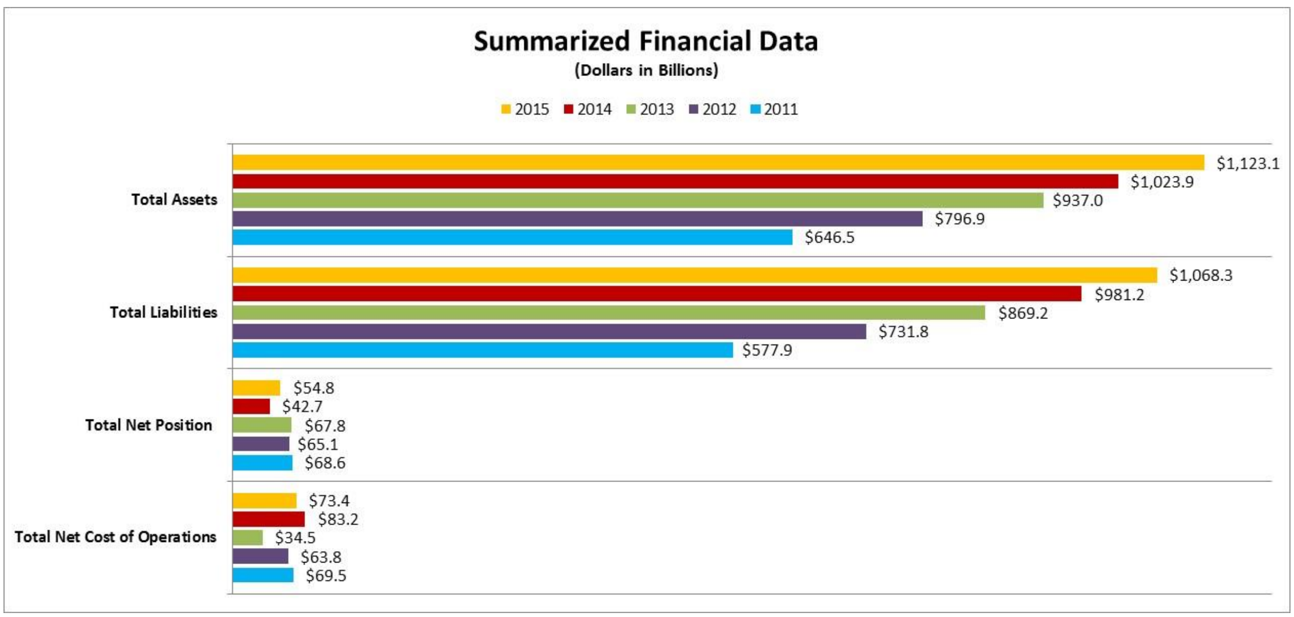
Table of Key Measures

As of September 2015, 2014, 2013, 2012, and 2011

(Dollars in Millions)

	% Change FY 15 / FY 14	FY 2015	FY 2014	FY 2013	FY 2012	FY 2011
Consolidated Balance Sheet						
Fund Balance with Treasury	+5.0%	$ 103,619	$ 98,696	$ 108,732	$ 121,993	$ 114,085
Credit Program Receivables, Net	+10.2%	1,017,733	923,545	826,684	673,488	530,491
Other	+4.9%	1,767	1,685	1,642	1,446	1,966
Total Assets	+9.7%	**1,123,119**	**1,023,926**	**937,058**	**796,927**	**646,542**
Debt	+8.8%	1,051,776	966,671	852,432	715,303	547,108
Liabilities for Loan Guarantees*	-	-	-	-	1,037	10,025
Other	+13.7%	16,540	14,549	16,783	15,432	20,824
Total Liabilities	+8.9%	**1,068,316**	**981,220**	**869,215**	**731,772**	**577,957**
Unexpended Appropriations	-5.6%	62,740	66,447	71,371	72,686	71,729
Cumulative Results of Operations	+66.6%	(7,937)	(23,741)	(3,528)	(7,531)	(3,144)
Total Net Position	+28.3%	**$ 54,803**	**$ 42,706**	**$ 67,843**	**$ 65,155**	**$ 68,585**
Statement of Net Cost						
Gross Costs	-6.4%	$ 105,115	$ 112,295	$ 61,353	$ 89,263	$ 89,910
Earned Revenue	+8.8%	(31,690)	(29,125)	(26,881)	(25,490)	(20,397)
Total Net Cost of Operations	-11.7%	**$ 73,425**	**$ 83,170**	**$ 34,472**	**$ 63,773**	**$ 69,513**

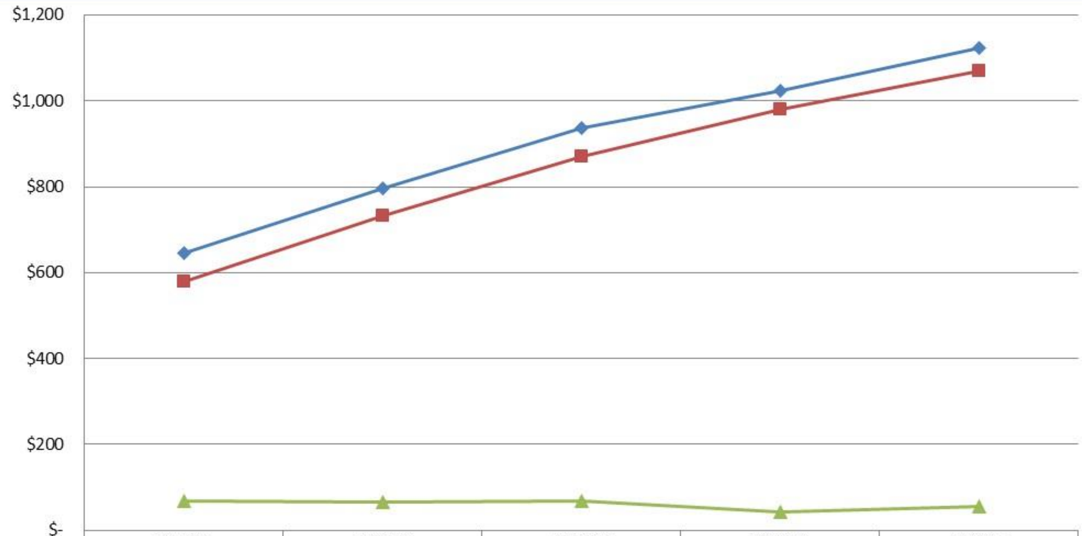
* The presentation of the FY 2011 and FY 2012 liability for loan guarantees is in the liability section of the Department's Balance Sheet; however, the presentation of the same FY 2013, FY 2014, and FY 2015 liability is in the credit program receivables, net balance sheet line item, due to its negative value.



Balance Sheet

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

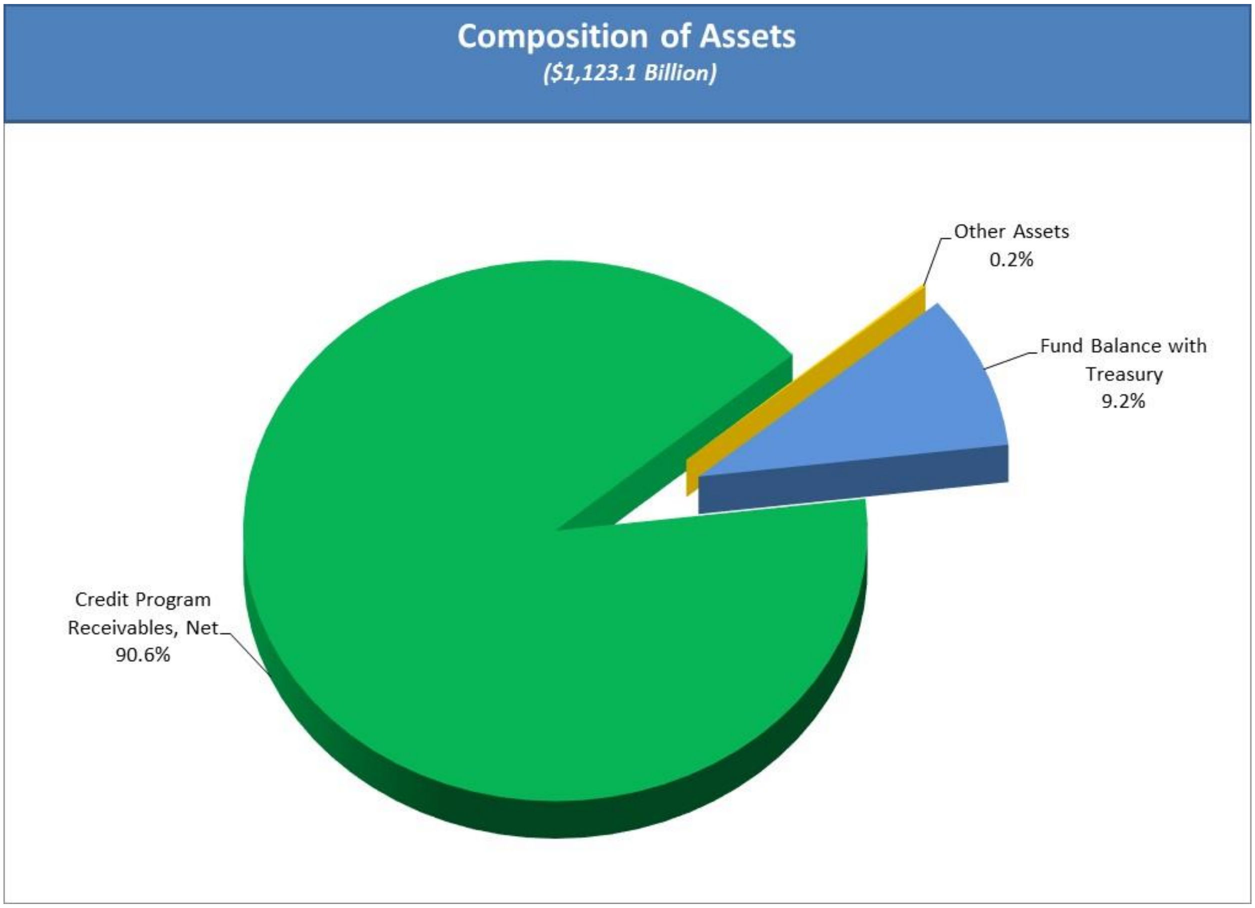
Comparison of Department's Assets, Liabilities & Net Position for Fiscal Years 2011–2015
(Dollars in Billions)



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Total Assets	$646.5	$796.9	$937.0	$1,023.9	$1,123.1
Total Liabilities	$577.9	$731.8	$869.2	$981.2	$1,068.3
Total Net Position	$68.6	$65.1	$67.8	$42.7	$54.8

Analysis of Assets

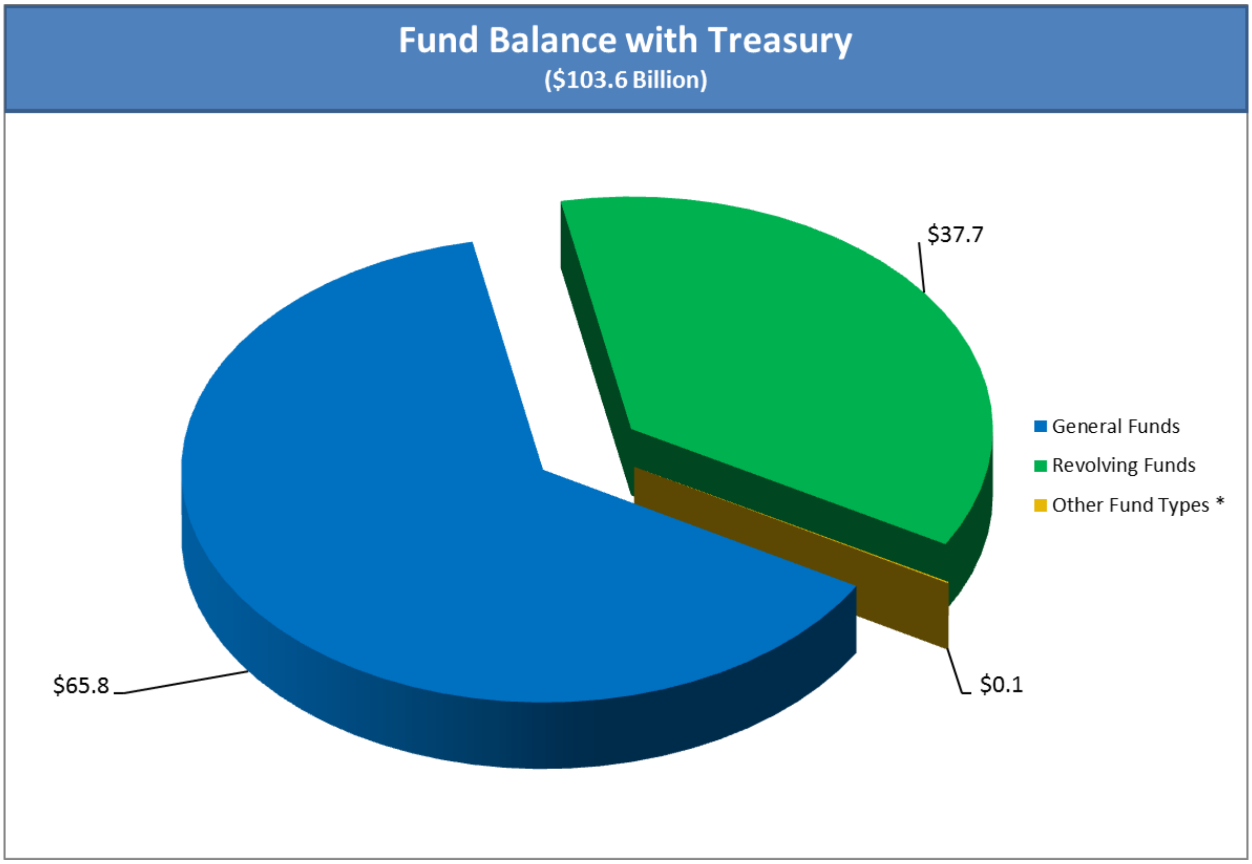
The Department's assets totaled $1,123.1 billion as of September 30, 2015, an increase of $99.2 billion, or approximately 9.7 percent, over the FY 2014 balance of $1,023.9 billion. The vast majority of the increase in assets relates to credit program receivables, net, which increased to $1,017.7 billion, a 10.2 percent increase over $923.5 billion in FY 2014. The credit program receivables increase is largely the result of direct loan disbursements for new loan originations and Federal Family Education Loan (FFEL) consolidations, net of borrower principal and interest collections, which increased the net portfolio for direct loans by $102.0 billion ($46.4 billion was disbursed to consolidate FFEL loans). The Department's total assets are composed of Fund Balance with Treasury, credit program receivables, and other assets.



Assets as of September 30, 2015 and 2014 *(Dollars in Millions)*	**2015**	**2014**
Fund Balance with Treasury	$ 103,619	$ 98,696
Credit Program Receivables, Net	1,017,733	923,545
Other Assets*	1,767	1,685
Total Assets	$ 1,123,119	$ 1,023,926

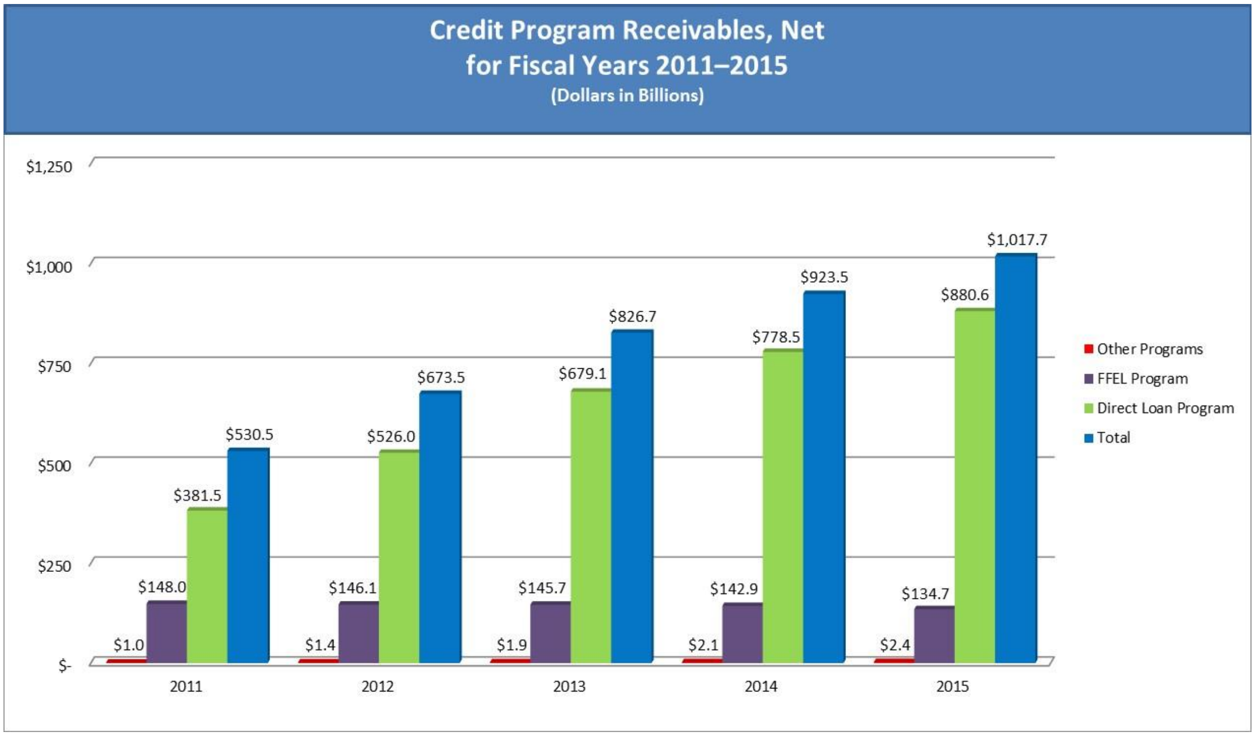
* The other assets amount includes Cash and Other Monetary Assets; accounts receivable; property and equipment, net; and other.

The chart below displays the composition of the Fund Balance with Treasury as of September 30, 2015. A portion of the general funds is provided in advance by multiyear appropriations for obligations anticipated during the current and future fiscal years. Revolving funds are derived from borrowings, as well as collections from the public and other federal agencies. Other funds include special funds that include fees collected on delinquent or defaulted Perkins loans, trust funds, and all other funds.



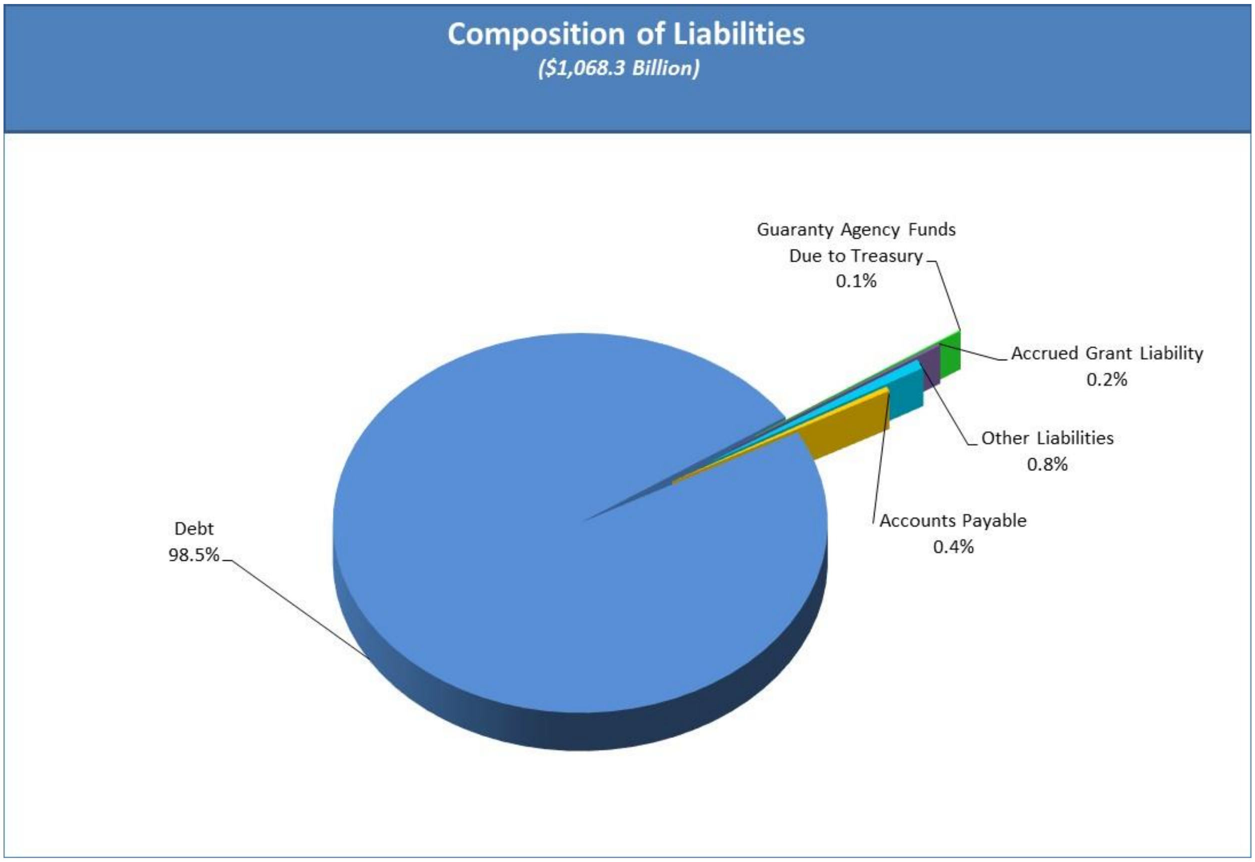
*Other fund types include special, trust, clearing, non-entity deposit, and receipt funds.

The chart below presents the Department's credit program receivables, net, for fiscal years 2011–15. This chart shows the Department's shift in the composition of its loans receivable portfolio from guaranteed loans to direct loans. FFEL guaranteed loans receivable have not grown during the past five years because no new loans were made after June 30, 2010. This shift in the loans receivable portfolio is consistent with the provisions of the *SAFRA Act,* which required the transition from the Department guaranteeing the loans provided by the private sector to full direct lending. As a result, there has been a pronounced increase in the direct loan program. This change caused the Department's credit program receivables, net, to grow significantly, from $530.5 billion in FY 2011 to $1,017.7 billion in FY 2015, a $487.2 billion net increase.



Analysis of Liabilities

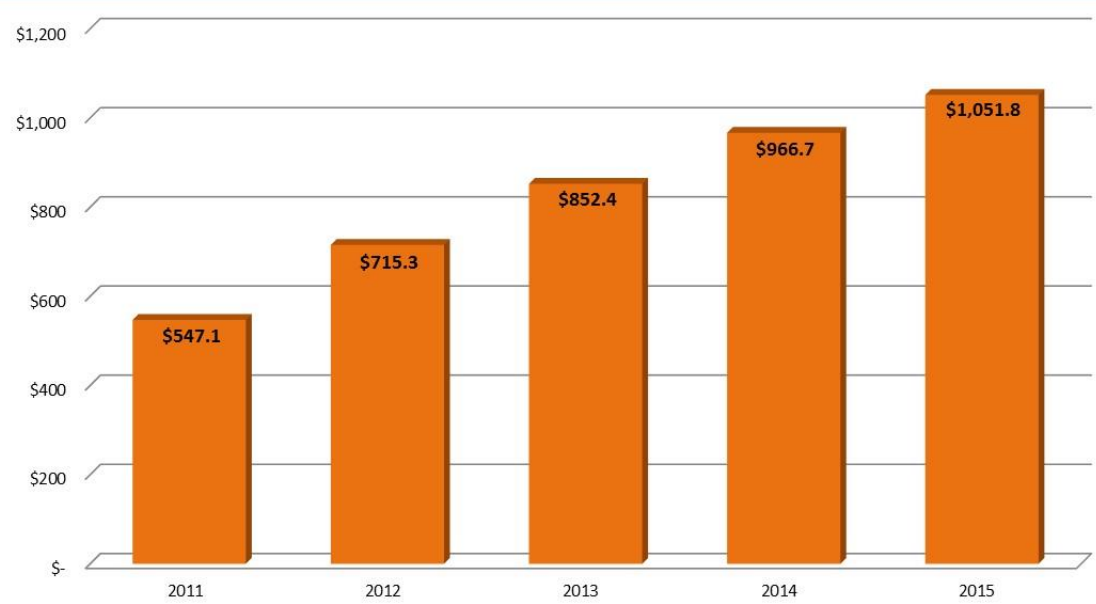
Liabilities of the Department totaled $1,068.3 billion as of September 30, 2015, an increase of $87.1 billion, or approximately 8.9 percent over the FY 2014 balance of $981.2 billion. Total liabilities are primarily made up of debt resulting from credit program receivable activity. The increase is principally related to current year borrowing from Treasury for the Direct Loan and FFEL programs that provided funding for direct loan disbursements and FFEL program payment of credit program outlays. Current year borrowing, net of repayments, resulted in an $85.1 billion increase in debt.



Liabilities as of September 30, 2015 and 2014 *(Dollars in Millions)*	**2015**	**2014**
Accounts Payable	$ 3,696	$ 4,001
Debt	1,051,776	966,671
Guaranty Agency Funds Due to Treasury	1,561	1,471
Accrued Grant Liability	2,377	2,487
Other Liabilities	8,906	6,590
Total Liabilities	$ 1,068,316	$ 981,220

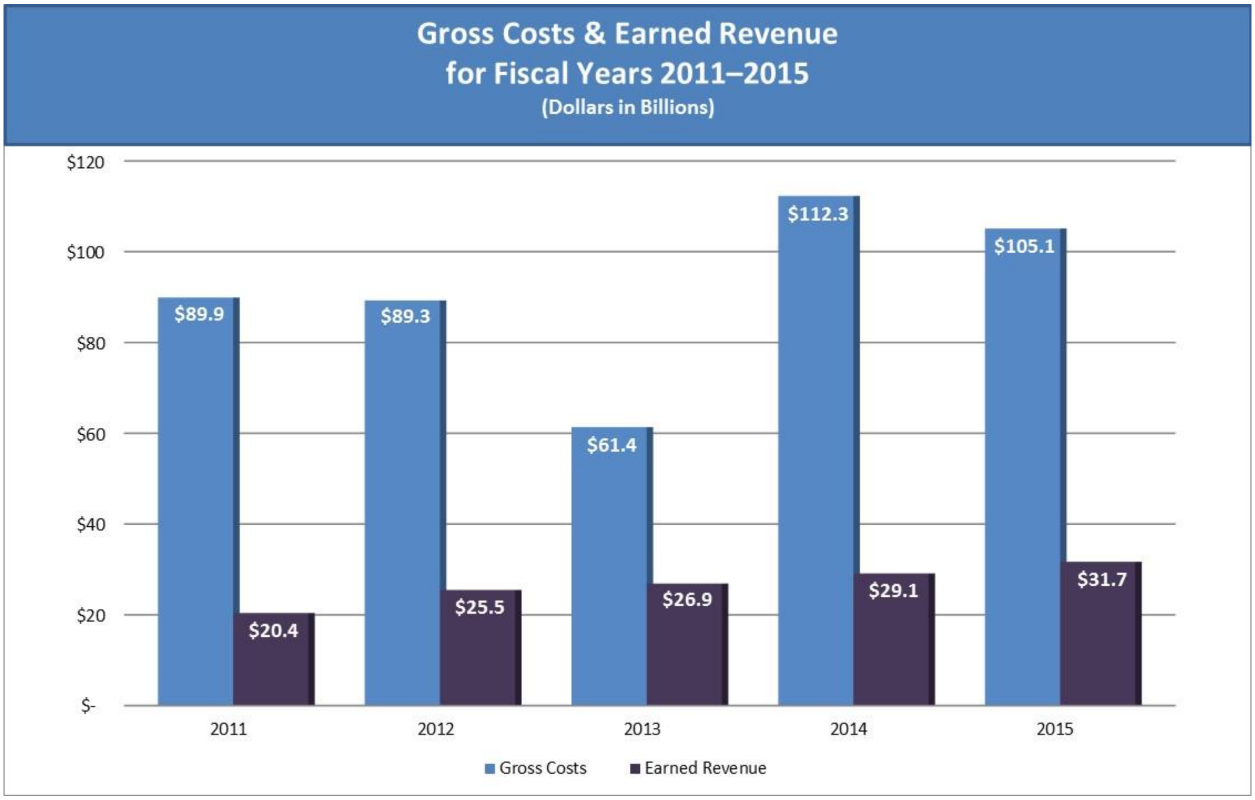
The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays. The majority of the increase in debt is due to the borrowing used to fund the Direct Loan program. During FY 2015, debt increased 8.8 percent from $966.7 billion in the prior year to $1,051.8 billion. The new financing was used to disburse new loans and make negative subsidy transfers to Treasury's General Fund.

Debt
for Fiscal Years 2011–2015
(Dollars in Billions)



Statement of Net Cost

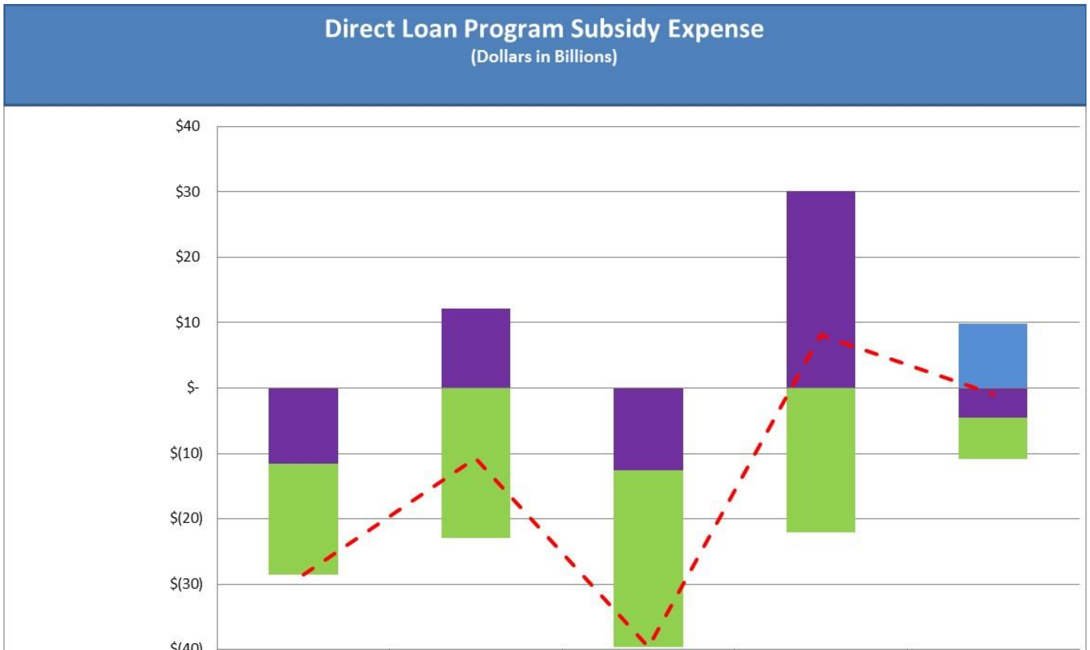
The Consolidated Statement of Net Cost reports the Department's components of the net costs of operations for a given fiscal year. Net cost of operations consists of the gross costs incurred less any exchange (i.e., earned) revenue from activities. Gross costs are composed of the costs of credit and grant programs, and operating costs. Exchange revenues are primarily interest earned on credit program loans.



Analysis of Direct Loan Program Subsidy Expense

One of the components significantly impacting the Department's gross costs pertain to the estimated subsidy expense of the Direct Loan program. The Department's gross costs can fluctuate significantly each year as a result of changes in the estimated subsidy expense. Subsidy expense is an estimate of the cost of providing direct loans, but excludes the administrative costs of issuing and servicing the loans. The Department estimates subsidy expense using economic models that project cash flows on a net present value basis.

The Department estimates subsidy expense annually for new loans disbursed in the current year (subsidy transfers); updates the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates previous cost estimates based on changes to terms of existing loans (subsidy modifications). The following chart shows these three components of the Direct Loan program subsidy expense for the past 5 years.



	2011	2012	2013	2014	2015
Subsidy Transfers	$(17.0)	$(22.9)	$(27.0)	$(22.1)	$(6.2)
Subsidy Re-estimates	(11.6)	12.2	(12.6)	30.2	(4.6)
Subsidy Modification	-	-	-	-	9.9
Total Subsidy Expense	$(28.6)	$(10.7)	$(39.6)	$8.1	$(0.9)

Note: Negative amounts represent negative expense; positive amounts represent positive expense.

Factors such as interest rates charged to the borrower, interest rates on Treasury debt, default rates, fees, and other costs impact the estimated cost calculation and determine whether the overall subsidy expense is positive or negative. Subsidy transfers have been negative in recent years, primarily because lending interest rates charged were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy occurs when the interest and/or fees charged to the borrower are more than sufficient to cover the interest on Treasury borrowings and the costs of borrower default.

The costs of the Direct Loan program are highly sensitive to changes in actual and forecasted interest rates. For example, in FY 2015, a 1 percent increase in projected borrower interest rates would reduce projected Direct Loan subsidy expense by $4.3 billion.

Policy changes to student loan terms and changes in default rates also significantly affect the Direct Loan program subsidy expense. For example, the Department modified Direct Loans in FY 2015. The Pay as You Earn (PAYE) loan repayment option available to eligible borrowers caps monthly payments for many recent graduates at an amount that is affordable based on their income. PAYE, first announced in October 2011, caps payments for Direct Loans at 10 percent of discretionary income for eligible borrowers. Borrowers formerly ineligible for the more generous PAYE repayment plan are now eligible for a modified version of PAYE that changed income-based repayment amounts on qualified loans from 15 percent of discretionary income to 10 percent. This policy change increased subsidy expense by $9.9 billion to reflect the lower expected loan repayments.

Analysis of Net Cost by Program

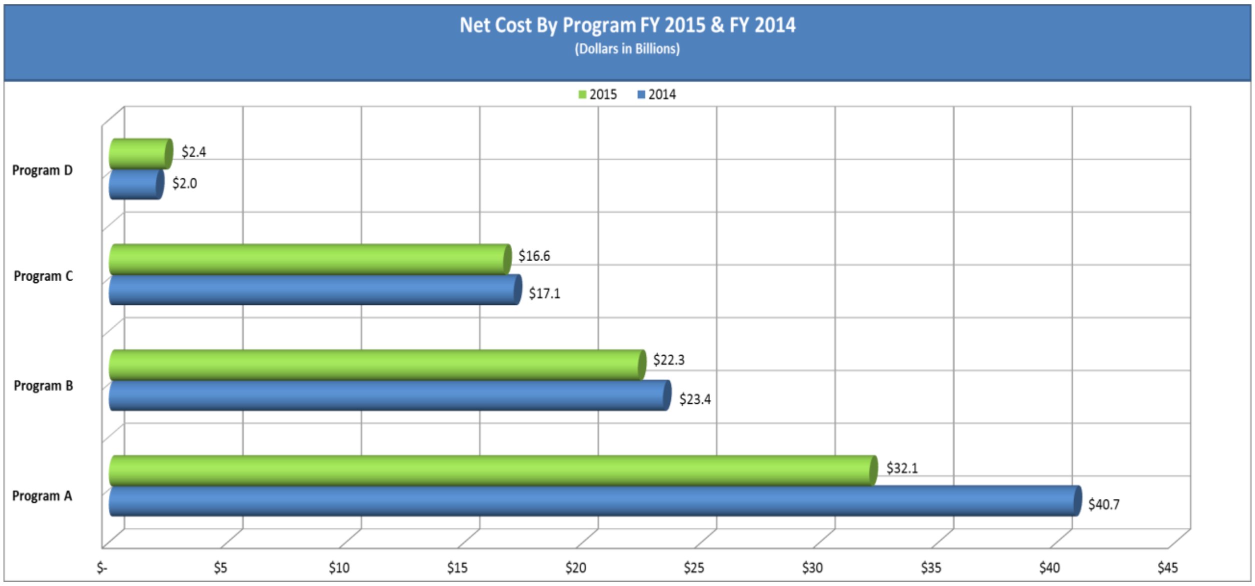
As required by the *GPRA Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the strategic goals presented in the

Department's *FY 2014–2018 Strategic Plan*. As further described in the performance section of the Management's Discussion and Analysis, *Strategic Plan* Goals 1–5 are sharply defined directives that guide the Department's program offices to carry out the vision and programmatic mission; the net cost programs can be specifically associated with these five strategic goals. The Department also has a cross-cutting *Strategic Plan* Goal 6, U.S. Department of Education Capacity, which focuses on improving the organizational capacities of the Department to implement the *Strategic Plan*. As a result, the Department does not assign specific programs to *Strategic Plan* Goal 6 for presentation in the Statement of Net Cost.

The Department has more than 100 grant and loan programs (http://www2.ed.gov/programs/gtep/gtep.pdf). In the Statement of Net Cost, they have been mapped to the applicable strategic goals. The Department's FY 2015 expenditures for grant programs totaled over $78 billion. The three largest grant programs are Title I, Pell, and the *Individuals with Disabilities Education Act* (IDEA) grants. In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, awarded using a competitive process, and formula grants, using formulas determined by Congress with no application process. Among the largest K–12 discretionary grants are RTT and the Teacher Incentive Fund. Among the largest formula grants are Title I Grants to local educational agencies (Title I, ESEA, as amended) and IDEA grants.

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

The following table presents a breakdown of net cost by program for FY 2015 and FY 2014.



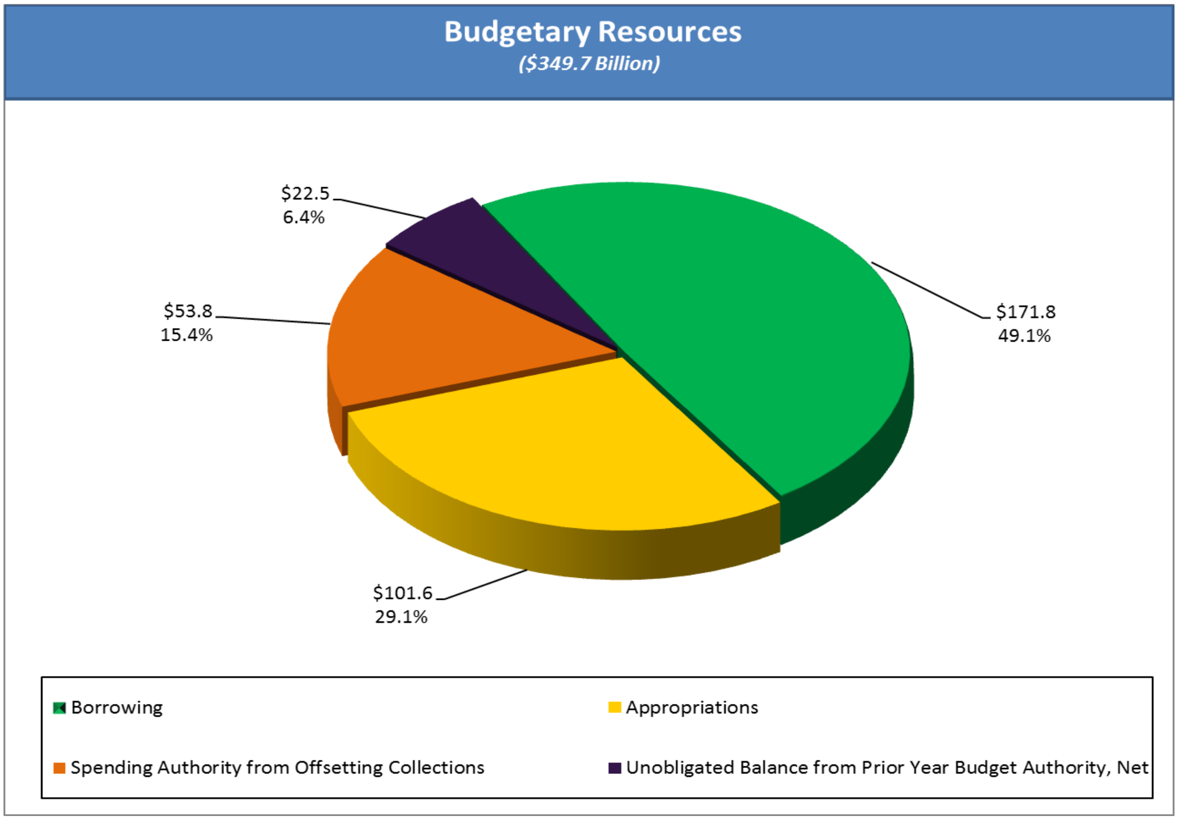
Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position reports the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances for grant and administrative operations. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. Net position of the Department totaled $54.8 billion for the year ended September 30, 2015. This reflects a 28.3 percent increase over the net position of $42.7 billion from the prior fiscal year.

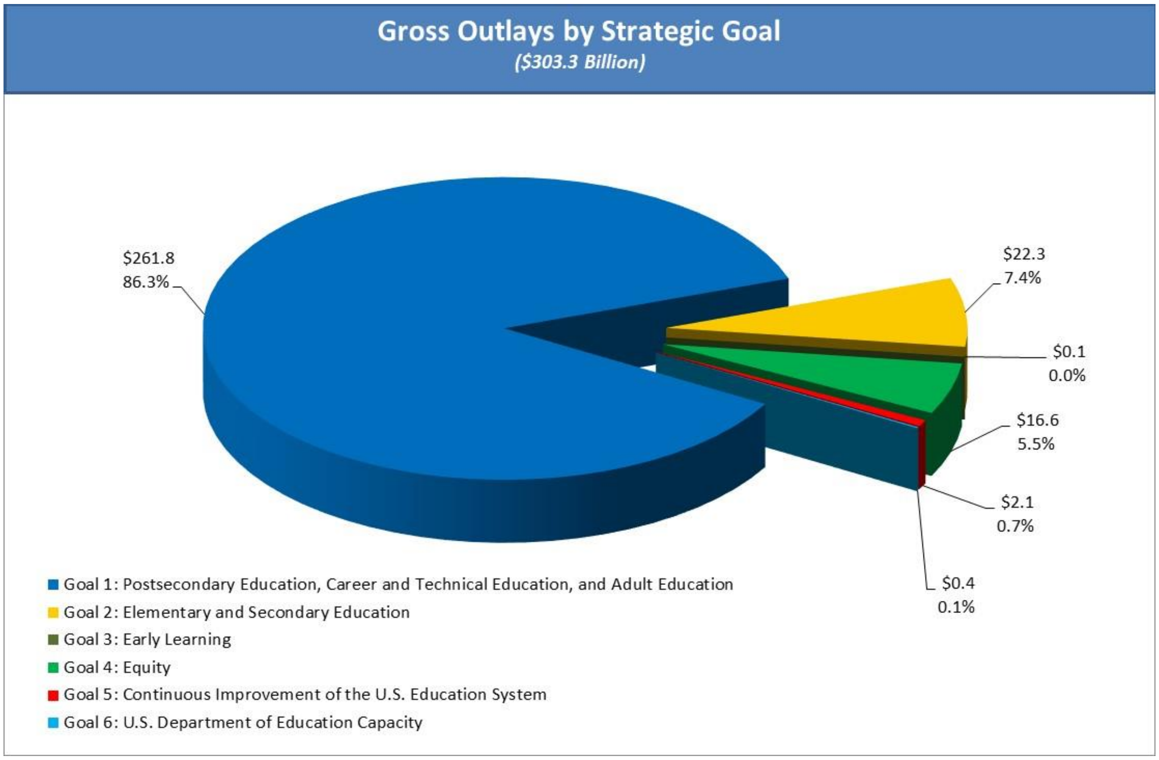
Statement of Budgetary Resources

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

The Department's budgetary resources totaled $349.7 billion for the year ended September 30, 2015, decreasing from $356.0 billion, or approximately 1.8 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $117.2 billion and nonbudgetary credit reform resources of $232.5 billion. The nonbudgetary credit reform resources are predominantly borrowing authority for the loan programs.



Gross outlays of the Department totaled $303.3 billion for the year ended September 30, 2015, and consisted of appropriated budgetary resources of $103.8 billion and nonbudgetary credit program funding of $199.5 billion.



Gross outlays are primarily comprised of credit program loan disbursements and claim payments, and credit program subsidy interest payments to Treasury. Additional information on the Department's sources and uses of funds is shown in the schedule of spending on page 140. This schedule includes sections titled, "What Money Is Available to Spend," "How Was the Money Spent," and "Who Did the Money Go To."

Limitations of the Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the Department for FY 2015 and FY 2014, pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

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

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