Notes to the Financial Statements
For the Years Ended September 30, 2015 and 2014

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

The U.S. Department of Education (the Department), a cabinet-level agency of the Executive Branch of the U.S. Government, was established by Congress under the *Department of Education Organization Act* (Public Law 96-88), which became effective on May 4, 1980. The mission of the Department is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. The Department engages in four major types of activities: establishing policies related to federal educational funding, including the distribution of funds, collecting on student loans, and using data to monitor the use of funds; supporting data collection and research on America's schools; identifying major issues in education and focusing national attention on them; and enforcing federal laws prohibiting discrimination in programs that receive federal funds.

The Department is primarily responsible for administering federal student loan and grant programs and provides technical assistance to loan and grant recipients and other state and local partners. The significant portion of the financial activities of the Department relate to the execution of grant and loan programs which are 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 (Direct Loan) program and the Federal Family Education Loan (FFEL) program.

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 to eligible undergraduate and graduate students and their parents. The FFEL program, authorized by the HEA, operates through state and private nonprofit guaranty agencies which provided loan guarantees on loans made by private lenders to eligible students. The *SAFRA Act,* which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), stated that no new FFEL loans would be made effective July 1, 2010.

The Department also administers loans for the Historically Black Colleges and Universities (HBCU) Capital Financing program, the Health Education Assistance Loan (HEAL) program, the Teacher Education Assistance for College and Higher Education Grant (TEACH) program, 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: Federal Pell Grant (Pell Grant) program to provide need-based grants that provide access to postsecondary education for low-income undergraduate and certain postbaccalaureate students; 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 discretionary grants are the Federal TRIO (TRIO) program, 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* (ESEA), as amended; grants issued under the *Individuals with Disabilities Education Act* (IDEA); and grants to local education agencies.

Program Offices

The Department has three major program offices that administer most of its loan and grant programs.

- Federal Student Aid (FSA) administers need-based financial assistance programs for students pursuing postsecondary education and makes available federal grants, direct loans, and work-study funding to eligible undergraduate and graduate students.
- The Office of Elementary and Secondary Education (OESE) assists state and local educational agencies to improve the achievement of preschool, elementary, and secondary school students, helps ensure equal access to services leading to such improvement—particularly children with high needs, and provides financial assistance to local educational agencies whose local revenues are affected by federal activities.
- The Office of Special Education and Rehabilitative Services (OSERS) supports programs that help provide early intervention and special education services to children and youth with disabilities. OSERS also supports programs for the vocational rehabilitation of youth and adults with disabilities, including pre-employment transition services and other transition services designed to assist students with disabilities to enter postsecondary education and achieve employment.

Other offices that administer programs and provide leadership, technical assistance, and financial support to state and local educational activities and institutions of higher education for reform, strategic investment, and innovation in education include: 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); and Office of Innovation and Improvement (OII). In addition, the Office for Civil Rights (OCR) works to ensure equal access to education, promotes educational excellence throughout the nation, and serves student populations facing discrimination and the advocates and institutions promoting systemic solutions to civil rights issues. (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.

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 subsidy cost of direct loans and loan guarantees at the time the loan is disbursed. 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).

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 subsidy cost to the government (a "positive" subsidy), breakeven (zero subsidy cost), or estimate a negative subsidy cost. Negative subsidy occurs when the estimated cost of providing loans to borrowers from Treasury borrowing, collection costs, and loan forgiveness is less than the value of collections from borrowers for interest and fees, in present value terms.

The subsidy costs 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 is 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 financing, program, and general fund receipt accounts for loan guarantees committed and direct loans obligated after September 30, 1991.

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury's general fund receipt account. Financing accounts are presented separately in the combined statement of budgetary resources (SBR) as nonbudgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the Budget of the United States Government.
- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to

the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.

- General fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of existing loans.

Budgetary Resources

Budgetary resources are amounts available to enter into new obligations and to liquidate them. 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 to cover the cost of the initial loan disbursement as well as any related negative subsidy to be transferred to the general fund receipt account. 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 budgetary resources that are not obligated and that remain 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 to fund subsequent increases to the estimated future costs of the loan programs. 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; allowance for subsidy for direct, defaulted guaranteed, and acquired loans; the liability for loan guarantees; the amount payable or receivable from annual credit program re-estimates and modifications of subsidy cost (general program administration cost); and 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, which consist of expenditure accounts used to record financial transactions funded by congressional appropriations (which include amounts appropriated to fund subsidy and administrative costs of loan programs), as well as receipt accounts; (2) revolving funds, which manage the activity of self-funding programs whether through fees, sales, or other income (which include financing accounts for loan programs); (3) special funds, which collect funds 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 Offset 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 Monetary Assets is primarily comprised of the federal government's interest in the program assets held by state and nonprofit FFEL program guaranty agencies. Section 422A of the HEA required FFEL guaranty agencies to establish federal student loan reserve funds (federal funds). Federal funds 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.

Guaranty agencies' federal funds are classified as non-entity assets with the public and are offset by a corresponding liability due to Treasury. The federal funds are held by the guaranty agencies but can only be used for certain specific purposes listed in the Department's regulations. The federal funds are the property of the U.S. and are reflected in the *Budget of the United States Government*. Payments made to the Department from guaranty agencies' federal funds 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 subsidy 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 defaulted 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 noncancellable 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

Some grant recipients incur allowable expenditures as of the end of an accounting period but have not yet been reimbursed by the Department. The Department will accrue a liability for these allowable expenditures incurred that have not yet been reimbursed. The amount is estimated using statistical sampling of unliquidated balances. (See Note 12)

Other Liabilities

Other liabilities include liabilities to Treasury in miscellaneous receipt accounts and capital transfers. Liabilities to Treasury in miscellaneous receipt accounts reflect negative subsidy for new loans disbursed and downward subsidy estimates that are accrued at year end. Capital transfer liabilities represent net fund balances from pre-1992 loans payable to Treasury upon collection. (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 nonfederal 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 nonvested 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)

Note 2. Non-Entity Assets

As of September 30, 2015 and 2014, non-entity assets consisted of the following:

Non-Entity Assets
(Dollars in Millions)

	2015	2014
Non-Entity Assets		
Intragovernmental:		
Fund Balance with Treasury	$ 69	$ 44
Total Intragovernmental	**69**	**44**
With the Public:		
Cash and Other Monetary Assets	1,561	1,471
Credit Program Receivables, Net	410	387
Accounts Receivable, Net	67	63
Total With the Public	**2,038**	**1,921**
Total Non-Entity Assets	**2,107**	**1,965**
Entity Assets	1,121,012	1,021,961
Total Assets	**$ 1,123,119**	**$ 1,023,926**

The Department's FY 2015 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 receipt account, 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, 2015 and 2014 consisted of the following:

Fund Balance with Treasury

(Dollars in Millions)

	2015					
	General Funds	**Revolving Funds**	**Special Funds**	**Trust Funds**	**All Other Funds**	**Total**
Status of Funds						
Unobligated Balance:						
Available	$ 11,805	$ 550	$ -	$ 1	$ -	$ 12,356
Unavailable	1,394	13,886	14	-	-	15,294
Obligated Balance, Not Yet Disbursed	52,638	23,260	1	1	-	75,900
Other	-	-	-	-	69	69
Fund Balance with Treasury	**$ 65,837**	**$ 37,696**	**$ 15**	**$ 2**	**$ 69**	**$103,619**

	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**

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 balance ($15,294 million) differs from unapportioned amounts on the SBR ($16,855 million) due to the Cash and Other Monetary Assets ($1,561 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, 2015 and 2014, consisted of the following:

Accounts Receivable
(Dollars in Millions)

	2015		
	Gross Receivables	**Allowance**	**Net Receivables**
Intragovernmental	$ 2	$ -	$ 2
With the Public	341	(240)	101
Total	**$ 343**	**$ (240)**	**$ 103**

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

Gross receivables by type, as of September 30, 2015 and 2014, are presented below.

Gross Receivables
(Dollars in Millions)

	2015	**2014**
Category		
Institutional	$ 235	$ 209
Individual	70	72
State and Local	36	43
Intragovernmental	2	3
Total	**$ 343**	**$ 327**

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 agencies' Federal Fund. The net change in the valuation of the Federal Fund on the Department's Balance Sheet increases or decreases the Department's Cash and Other Monetary Assets with a corresponding change in Guaranty Agency Funds Due to Treasury. The table below presents Cash and Other Monetary Assets for the years ended September 30, 2015 and 2014.

Cash and Other Monetary Assets

(Dollars in Millions)

	2015	2014
Beginning Balance, Cash and Other Monetary Assets	**$ 1,471**	**$ 1,482**
Valuation Increase in Guaranty Agency Federal Funds	92	(11)
Less: Collections from Guaranty Agency Federal Funds		
Excess Collections	2	-
Collections Remitted to Treasury	2	-
Ending Balance, Cash and Other Monetary Assets	**$ 1,561**	**$ 1,471**

The balance in the Federal Fund represents consolidated reserve balances of the 29 guaranty agencies based on the Guaranty Agency Financial Reports that each agency submits annually to the Department. Although the Department and the guaranty agencies operate on different fiscal years, all guaranty agencies are subject to an annual audit based on form of organization. A year-end valuation adjustment is made to adjust the Department's balances in order to comply with federal accounting principles and disclose funds held outside of Treasury.

The $92 million valuation increase in the Federal Fund in FY 2015 represents the change in the estimated value of net assets held in the FFEL guaranty agency Federal Fund consolidated for disclosure. The activity on which the balance reflected on the Balance Sheet is adjusted reflects the net activity of guaranty agencies' operations as adjusted based on the Department's procedures. During FY 2015, $2 million was remitted to the Department by a guaranty agency and these funds were returned to Treasury.

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 $1,017.7 billion in outstanding credit program net receivables. This outstanding balance is comprised primarily of Direct Loans, defaulted FFEL loans, and FFEL loans purchased using authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA). 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, 2015 and 2014, consisted of the following:

Credit Program Receivables, Net
(Dollars in Millions)

	2015	2014
Direct Loan Program Loan Receivables, Net	$ 880,557	$ 778,516
FFEL Program Loan Receivables:		
FFEL Guaranteed Loan Program, Net (Pre-1992)	2,365	1,904
FFEL Program (Post-1991):		
FFEL Guaranteed Loan Program, Net	38,180	37,969
Temporary Loan Purchase Authority:		
Loan Purchase Commitment, Net	32,865	36,556
Loan Participation Purchase, Net	59,516	64,513
ABCP Conduit, Net	1,778	1,922
Federal Perkins and Other Loan Program Loan Receivables, Net	410	387
TEACH Program Loan Receivables, Net	631	536
HEAL Program Loan Receivables, Net	123	115
Facilities Loan Programs Loan Receivables, Net	1,308	1,127
Total	**$ 1,017,733**	**$ 923,545**

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, 2015 and 2014, total principal balances outstanding of Direct Loans were approximately $800.8 billion and $694.0 billion, respectively.

The Department records an estimated obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. The Department's estimate may also not reflect the actual amount of awards made. Based on historical averages, the Department expects approximately 8.1% of the amount obligated for new loan awards will not be disbursed.

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)

	2015	2014
Principal Receivable	$ 800,811	$ 694,006
Interest Receivable	44,250	37,152
Total	845,061	731,158
Allowance for Subsidy	35,496	47,358
Direct Loan Program Loan Receivables, Net	**$ 880,557**	**$ 778,516**

Direct Loan program loan receivables are defaulted and nondefaulted loans owned and held by the Department. Of the $845.1 billion in gross receivables, as of September 30, 2015, $44.1 billion (5.2 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $33.9 billion (4.6 percent) as of September 30, 2014. As of September 30, 2015 and 2014, an additional $1.2 billion and $0.5 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. Allowance for subsidy is subject to interest rates, default rates, fees, and other costs. A positive allowance for subsidy is substantially a factor of projected borrower interest exceeding the cost of Treasury borrowings and loan forgiveness.

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)

	2015	2014
Beginning Balance, Allowance for Subsidy	**$ 47,358**	**$ 65,247**
Activity		
Fee Collections	(1,618)	(1,623)
Loan Cancellations	4,777	2,068
Subsidy Allowance Amortization	(16,373)	(11,319)
Other	460	1,111
Total Activity	**(12,754)**	**(9,763)**
Components of Subsidy Transfers		
Interest Rate Differential	8,993	33,161
Defaults, Net of Recoveries	(253)	(1,409)
Fees	641	1,756
Other	(3,195)	(11,418)
Current Year Subsidy Transfers	**6,186**	**22,090**
Loan Modification	**(9,936)**	**-**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(1,506)	(8,344)
Technical and Default Re-estimates	6,148	(21,872)
(Upward)/Downward Subsidy Re-estimates	**4,642**	**(30,216)**
Ending Balance, Allowance for Subsidy	**$ 35,496**	**$ 47,358**

Loan cancellations include write-offs of loans because the borrower died, became disabled, or declared bankruptcy. Subsidy transfers reflect the subsidy cost for loans disbursed during the current fiscal year. 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 reflects the cost of finalizing the Treasury borrowing rate to be used for borrowings received to fund the disbursed portion of the loan awards obligated, and any related negative subsidy.

The following schedule summarizes the Direct Loan interest expense and interest revenue for the years ended September 30, 2015 and 2014:

Direct Loan Program Interest Expense and Revenue

(Dollars in Millions)

	2015	2014
Interest Expense on Treasury Borrowing	$ 27,593	$ 25,152
Total Interest Expense	**$ 27,593**	**$ 25,152**
Interest Revenue from the Public	$ 39,760	$ 32,801
Amortization of Subsidy	(16,373)	(11,319)
Interest Revenue on Uninvested Funds	4,206	3,670
Total Interest Revenue	**$ 27,593**	**$ 25,152**

The following schedule summarizes the Direct Loan subsidy expense for the years ended September 30, 2015 and 2014:

Direct Loan Program Subsidy Expense

(Dollars in Millions)

	2015	2014
Components of Negative Subsidy Transfers		
Interest Rate Differential	$ 8,993	$ 33,161
Defaults, Net of Recoveries	(253)	(1,409)
Fees	641	1,756
Other	(3,195)	(11,418)
Negative Subsidy Transfers	**6,186**	**22,090**
Loan Modification	(9,936)	-
(Upward)/Downward Subsidy Re-estimates	4,642	(30,216)
Direct Loan Subsidy Expense	**$ 892**	**$ (8,126)**

Direct Loan program re-estimated subsidy cost was adjusted downward by $4.6 billion in FY 2015. Updated discount rates for the 2014 and 2013 cohorts decreased cost by $6.2 billion. Higher participation in income dependent repayment plans increased cost by $15 billion. A new model was developed that much more accurately reflects debts and incomes of recent income dependent repayment borrowers. While both debts and incomes increased in the new model, for consolidated borrowers the increase in income compared to debt resulted in debts becoming more affordable resulting in a $5.8 billion decrease in costs. Costs increased $1.8 billion due to increases in default rates. Changes in prepayment rates reflect larger than expected prepayment activity, leading to decreased interest earnings resulting in $3.5 billion in upward subsidy cost. Costs decreased $5.7 billion due to higher forbearance rates. Interest accrues during forbearance and that interest is eventually paid to the Department. Other assumption updates produced offsetting costs, with the remainder attributable to interest on the re-estimate.

Subsidy rates are sensitive to interest rate fluctuations; for example, a 1 percent increase in projected borrower interest rates would reduce projected Direct Loan subsidy cost by $4.3 billion. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2014.

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 subsidy cost by $4.4 billion. Changes in the availability of repayment plans increased subsidy cost by $18.6 billion. Subsidy 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 (PAYE) repayment plan. The modified cost for subsidy of this plan for cohort years 1994–2013 is $8.3 billion.

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 subsidy costs only include those cohorts that are 90 percent disbursed; cohort years 1994–2013.

FY 2015 Modification. 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 the discount rate used to calculate the cost of the modification and the interest rate at which the cohort pays or earns interest.

The Department modified Direct Loans in FY 2015. The 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 Federal Direct Student 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 leading to increased costs resulting in a $9.3 billion upward modification of subsidy cost and a $629 million net upward modification adjustment transfer. In FY 2015, the Department forgave $2.1 billion in interest for borrowers participating in the PAYE/income-based repayment (IBR) plans, which provide that, if the borrower's monthly payment amount is not sufficient to pay the accrued interest on the borrower's direct subsidized loan or the subsidized portion of a direct consolidation loan, the Secretary does not charge the borrower the remaining accrued interest for a period not to exceed three consectutive years from the established repayment period start date on that loan under the PAYE/IBR plan.

The subsidy rates applicable to the 2015 loan cohort year follow:

Direct Loan Subsidy Rates—Cohort 2015

	Interest Differential	Defaults	Fees	Other	Total
Stafford	3.97%	0.12%	(1.07)%	5.73%	8.75%
Unsubsidized Stafford	(14.83)%	0.15%	(1.07)%	6.83%	(8.92)%
PLUS	(22.67)%	0.25%	(4.29)%	5.84%	(20.87)%
Consolidation	(1.50)%	(0.14)%	0.00%	10.68%	9.04%
Total	**(8.45)%**	**0.07%**	**(1.16)%**	**7.69%**	**(1.87)%**

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 2015 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 2017 President's Budget.

The subsidy 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, 2015 and 2014:

Direct Loan Program Loan Disbursements by Loan Type

(Dollars in Millions)

	2015	2014
Stafford	$ (23,953)	$ (25,877)
Unsubsidized Stafford	(52,698)	(54,740)
PLUS	(19,163)	(18,910)
Consolidation	(46,434)	(34,525)
Total Expenditures	**$ (142,248)**	**$ (134,052)**

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 subsidy costs. The net receivables include estimates of future prepayments of existing loans through consolidations; they do not reflect subsidy costs associated with anticipated future consolidation loans.

Direct Loan consolidations increased from $35 billion during FY 2014 to $46 billion during FY 2015. 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*, no new FFEL loans have been made since July 1, 2010. Federal guarantees on FFEL program loans and commitments remain in effect for loans made before July 1, 2010, unless they were sold to the Department through an ECASLA program, consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2015 and 2014, total principal balances outstanding of guaranteed loans held by lenders were approximately $220 billion and $242 billion, respectively. As of September 30, 2015 and 2014, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $215 billion and $236 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies. The rates range from 75 to 100 percent of the loan value depending on when the loan was made and the guaranty agency's claim experience.

FFEL Program Loan Receivables, Net

(Dollars in Millions)

	2015	2014
FFEL Program (Pre-1992)		
Principal Receivable	$ 4,388	$ 4,707
Interest Receivable	6,149	5,810
Total	10,537	10,517
Allowance for Subsidy	(8,162)	(8,586)
Liabilities for Loan Guarantees	(10)	(27)
FFEL Guaranteed Loan Program, Net (Pre-1992)	**2,365**	**1,904**
FFEL Program (Post-1991)		
FFEL Guaranteed Loan Program:		
Principal Receivable	33,415	34,251
Interest Receivable	5,756	5,273
Total	39,171	39,524
Allowance for Subsidy	(4,389)	(5,773)
Liabilities for Loan Guarantees	3,398	4,218
FFEL Guaranteed Loan Program, Net (Post-1991)	**38,180**	**37,969**
Temporary Loan Purchase Authority:		
Loan Purchase Commitment:		
Principal Receivable	26,474	29,401
Interest Receivable	1,981	1,927
Total	28,455	31,328
Allowance for Subsidy	4,410	5,228
Loan Purchase Commitment, Net	**32,865**	**36,556**
Loan Participation Purchase:		
Principal Receivable	48,540	52,782
Interest Receivable	3,403	3,358
Total	51,943	56,140
Allowance for Subsidy	7,573	8,373
Loan Participation Purchase, Net	**59,516**	**64,513**
ABCP Conduit:		
Principal Receivable	1,887	2,036
Interest Receivable	240	218
Total	2,127	2,254
Allowance for Subsidy	(349)	(332)
ABCP Conduit, Net	**1,778**	**1,922**
FFEL Program Loan Receivables, Net	**$ 134,704**	**$ 142,864**

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 $3.4 billion and $4.2 billion as of September 30, 2015 and 2014, 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)

	2015	2014
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 4,218**	**$ 4,260**
Activity		
Interest Supplement Payments	896	1,094
Claim Payments	6,917	8,914
Fee Collections	(1,926)	(2,156)
Interest on Liability Balance	1,826	1,843
Other	(12,797)	(13,785)
Total Activity	**(5,084)**	**(4,090)**
Components of Loan Modifications		
Loan Modification Costs	-	4,020
Modification Adjustment Transfers	-	(581)
Loan Modifications	**-**	**3,439**
(Upward)/Downward Subsidy Re-estimates	**4,264**	**609**
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**3,398**	**4,218**
FFEL Liquidating Account Liability for Loan Guarantees	(10)	(27)
Liabilities for Loan Guarantees	**$ 3,388**	**$ 4,191**

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)

	2015	2014
Beginning Balance, Allowance for Subsidy	**$ 5,228**	**$ 5,188**
Activity		
Subsidy Allowance Amortization	(724)	(749)
Loan Cancellations	274	116
Contract Collection Cost and Other	40	72
Total Activity	**(410)**	**(561)**
(Upward)/Downward Subsidy Re-estimates	**(408)**	**601**
Ending Balance, Allowance for Subsidy	**$ 4,410**	**$ 5,228**

Loan Participation Purchase Reconciliation of Allowance for Subsidy

(Dollars in Millions)

	2015	2014
Beginning Balance, Allowance for Subsidy	**$ 8,373**	**$ 8,208**
Activity		
Subsidy Allowance Amortization	(1,362)	(1,304)
Loan Cancellations	518	224
Contract Collection Cost and Other	44	93
Total Activity	**(800)**	**(987)**
(Upward)/Downward Subsidy Re-estimates	**-**	**1,152**
Ending Balance, Allowance for Subsidy	**$ 7,573**	**$ 8,373**

The following schedule provides FFEL program subsidy expense for the years ended September 30, 2015 and 2014, respectively:

FFEL Program Subsidy Expense

(Dollars in Millions)

	2015	2014
FFEL Guaranteed Loan Program Subsidy Re-estimates	$ 4,264	$ 609
Loan Purchase Commitment Subsidy Re-estimates	(408)	601
Loan Participation Purchase Subsidy Re-estimates	-	1,152
ABCP Conduit Subsidy Re-estimates	-	203
FFEL Program (Upward)/Downward Subsidy Re-estimates	**3,856**	**2,565**
FFEL Guaranteed Loan Program Modification Costs	-	4,020
FFEL Program Subsidy Expense	**$ 3,856**	**$ 6,585**

FFEL guaranteed re-estimated subsidy cost was adjusted downward by $3.9 billion in FY 2015. Subsidy costs decreased $2.1 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. Subsidy costs decreased $706 million due to lower deferment rates on consolidated loans that have subsidized components of outstanding debt. The Department pays interest benefits when loans are in deferment, so lower deferment rates mean less interest benefits when loans are in deferment, so lower deferment rates mean less interest benefit payments to lenders. Other assumption updates produced offsetting subsidy costs, with the remainder attributable to interest on the re-estimate.

Subsidy rates are 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 subsidy costs by $17.5 billion.

FFEL guaranteed re-estimated subsidy cost was adjusted downward by $0.6 billion in FY 2014. Subsidy 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. Subsidy costs decreased $111 million due to maturity and debt distribution assumption updates. Other assumption updates produced offsetting subsidy 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 subsidy costs by $18 billion.

FY 2014 Modification. The Department modified FFEL loans in FY 2014, but not in FY 2015.The *Bipartisan Budget Act of 2013* eliminated guaranty agencies' retention share of original defaulted student loan amounts, and reduced the cap on the amount of collection costs they can charge a borrower. 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, 2015 and 2014, loan and interest receivables, net of allowance for losses, were $410 million and $387 million, respectively. These receivables are valued at net realizable value with estimated allowance for losses of $168 million and $161 million as of September 30, 2015 and 2014, 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, 2015 and 2014, loan receivables were $631 million and $536 million, respectively. The receivable balance is net of allowance for subsidy of $108 million and $120 million as of September 30, 2015 and 2014, respectively.

The subsidy rates applicable to the 2015 loan cohort year follow:

TEACH Subsidy Rates—Cohort 2015

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	**12.39%**	**0.23%**	**0.00%**	**3.95%**	**16.57%**

HEAL Program. The Department assumed responsibility in FY 2014 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, as of September 30, 2015 and 2014 were $123 million and $115 million, respectively. 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 $1.4 billion in outstanding borrowing from the FFB to support loans made to HBCU institutions and approximately $236 million obligated to support near term lending as of September 30, 2015.

The Department administers the College Housing and Academic Facilities Loan (CHAFL) program, 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)

	2015	2014
Principal Receivable	$ 1,463	$ 1,324
Interest Receivable	14	12
Total	1,477	1,336
Allowance for Subsidy	(169)	(209)
Facilities Loan Programs Loan Receivables, Net	**$ 1,308**	**$ 1,127**

Administrative Expenses

Administrative expenses, for the years ended September 30, 2015 and 2014, consisted of the following:

Administrative Expenses
(Dollars in Millions)

	2015		2014	
	Direct Loan Program	FFEL Program	Direct Loan Program	FFEL Program
Operating Expense	$ 653	$ 442	$ 604	$ 390
Other Expense	28	18	22	14
Total	**$ 681**	**$ 440**	**$ 626**	**$ 404**

Note 7. Property and Equipment, Net and Leases

Property and equipment, as of September 30, 2015 and 2014, consisted of the following:

Property and Equipment, Net
(Dollars in Millions)

	2015		
	Asset Cost	Accumulated Depreciation	Net Asset Value
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 196	$ (175)	$ 21
Furniture and Fixtures	3	(3)	-
Property and Equipment, Net	**$ 199**	**$ (178)**	**$ 21**

	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**

The Depreciation expense was $1 million for the years ended September 30, 2015 and 2014.

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.

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 21 privately owned and 12 publicly owned buildings in 20 cities. Building lease expense, as of September 30, 2015 and 2014, was $73 million and $70 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)

2015		2014	
FY	**Amount**	**FY**	**Amount**
2016	83	2015	78
2017	76	2016	83
2018	81	2017	88
2019	79	2018	91
2020	82	2019	97
After 2020	84	After 2019	100
Total	**$ 485**	**Total**	**$ 537**

Note 8. Other Assets

Other intragovernmental assets primarily consist of advance payments to the U.S. Department of the 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 $76 million and $55 million as of September 30, 2015 and 2014, 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 $6 million and $13 million as of September 30, 2015 and 2014, respectively.

Note 9. Accounts Payable

Accounts payable, as of September 30, 2015 and 2014, consisted of the following:

Accounts Payable

(Dollars in Millions)

	2015	2014
Accrual for Unreimbursed Loan Disbursements	$ 2,938	$ 3,027
In Process Disbursements:		
Direct Loans	298	312
Grants	245	264
FFEL Claim Payments	118	311
Contractual Services	159	212
Other	(63)	(126)
Accounts Payable to the public	**3,695**	**4,000**
Intragovernmental Accounts Payable	1	1
Total Accounts Payable	**$ 3,696**	**$ 4,001**

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 2015 and FY 2014 accounts payable other abnormal balances of $(63) million and $(126) million, respectively, are primarily due to temporary adjustments related to FFEL Guaranteed Loan program collections of fees, principal, and interest on defaulted loans.

Note 10. Debt

Debt, as of September 30, 2015 and 2014, consisted of the following:

Debt

(Dollars in Millions)

	2015			
	Beginning Balance	Borrowing	Repayments	Ending Balance
Treasury Debt				
Direct Loan Program	$ 819,007	$ 159,667	$ (68,747)	$ 909,927
FFEL Program				
Guaranteed Loan Program	43,254	-	-	43,254
Loan Purchase Commitment	36,271	732	(3,295)	33,708
Loan Participation Purchase	64,302	1,825	(5,145)	60,982
ABCP Conduit	1,973	-	(146)	1,827
TEACH Program	555	108	(17)	646
Facilities Loan Programs	37	-	(8)	29
Total Treasury Debt	**965,399**	**162,332**	**(77,358)**	**1,050,373**
Debt to the FFB				
HBCU	1,272	160	(29)	1,403
Total Debt to the FFB	**1,272**	**160**	**(29)**	**1,403**
Total	**$ 966,671**	**$ 162,492**	**$ (77,387)**	**$1,051,776**

	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**

The Department borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2015, debt increased 9 percent from $967 billion in the prior year to $1,052 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 86 percent of the Department's debt, as of September 30, 2015, 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 2015 totaled $160 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 2015, TEACH net borrowing of $91 million was used for the advance of new grants and repayments of principal made to Treasury. In FY 2015, debt in HBCU increased by $131 million, or 10 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, 2015 and 2014, consisted of the following:

Other Liabilities
(Dollars in Millions)

	2015		2014	
	Intragovern-mental	**With the Public**	**Intragovern-mental**	**With the Public**
Liabilities Covered by Budgetary Resources				
Current				
Advances From Others	$ 14	$ -	$ 26	$ -
Employer Contributions and Payroll Taxes	3	-	3	-
Liability for Deposit Funds and Clearing Accounts	7	84	(22)	74
Accrued Payroll and Benefits	-	15	-	13
Deferred Revenue	-	18	-	50
Liabilities in Miscellaneous Receipt Accounts	5,527	-	3,783	-
Total Other Liabilities Covered by Budgetary Resources	**5,551**	**117**	**3,790**	**137**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	-	38	-	38
Noncurrent				
Accrued Unfunded FECA Liability	3	-	3	-
Custodial Liability	-	-	2	-
Liabilities in Miscellaneous Receipt Accounts	395	-	376	-
Capital Transfers	2,786	-	2,242	-
Accrued FECA Actuarial Liability	-	16	-	2
Total Other Liabilities Not Covered by Budgetary Resources	**3,184**	**54**	**2,623**	**40**
Other Liabilities	**$ 8,735**	**$ 171**	**$ 6,413**	**$ 177**

Other liabilities include current and noncurrent liabilities. The current liabilities covered by budgetary resources primarily consist of $5.5 billion for executed negative subsidy transfers and executed downward re-estimates.

The noncurrent liabilities not covered by budgetary resources primarily relate to capital transfers, excess unanticipated collections on defaulted loans in liquidating accounts in the amount of $2.8 billion, and the student loan receivables of the Federal Perkins Loan program in the amount of $395 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 $3.2 billion and $2.6 billion as of September 30, 2015 and 2014, respectively.

As of September 30, 2015 and 2014, liabilities totaled $1,068.3 billion and $981.2 billion, respectively. Of this amount, liabilities covered by budgetary resources totaled $1,065.1 billion and $978.6 billion as of September 30, 2015 and 2014, respectively.

Note 12. Accrued Grant Liability

The accrued grant liability by major program office, as of September 30, 2015 and 2014, consisted of the following:

Accrued Grant Liability
(Dollars in Millions)

	2015	2014
FSA	$ 1,571	$ 1,719
OESE	231	386
OSERS	144	182
Other	431	200
Accrued Grant Liability	**$ 2,377**	**$ 2,487**

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, 2015 and 2014, consisted of the following:

Unexpended Appropriations
(Dollars in Millions)

	2015	2014
Unobligated Balances:		
Available	$ 11,768	$ 12,078
Not Available	1,211	1,169
Undelivered Orders	49,761	53,200
Unexpended Appropriations	**$ 62,740**	**$ 66,447**

Cumulative Results of Operations. The cumulative results of operations of $(7,937) million and $(23,741) million as of September 30, 2015 and 2014, 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 $(14,293) million and $(36,767) million as of September 30, 2015 and 2014, respectively. The amount was primarily comprised of Direct Loan and FFEL program activity.

Appropriations Received. Appropriations received was $100,955 million and $95,293 million as of September 30, 2015 and 2014, 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 has 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.

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)
2015

	FSA	OESE	OSERS	Other	Total
Increase College Access, Quality, and Completion					
Gross Cost					
Intragovernmental	$ 33,873	$ -	$ -	$ 80	$33,953
With the Public	25,627	-	-	4,117	29,744
Total Gross Program Costs	**59,500**	**-**	**-**	**4,197**	**63,697**
Earned Revenue					
Intragovernmental	(5,134)	-	-	(11)	(5,145)
With the Public	(26,413)	-	-	(42)	(26,455)
Total Program Earned Revenue	**(31,547)**	**-**	**-**	**(53)**	**(31,600)**
Total Program Cost	**27,953**	**-**	**-**	**4,144**	**32,097**
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs					
Gross Cost					
Intragovernmental	-	179	-	-	179
With the Public	-	22,169	-	2	22,171
Total Gross Program Costs	**-**	**22,348**	**-**	**2**	**22,350**
Earned Revenue					
Intragovernmental	-	(12)	-	-	(12)
With the Public	-	(8)	-	-	(8)
Total Program Earned Revenue	**-**	**(20)**	**-**	**-**	**(20)**
Total Program Cost	**-**	**22,328**	**-**	**2**	**22,330**
Ensure Effective Educational Opportunities for All Students					
Gross Cost					
Intragovernmental	-	-	91	33	124
With the Public	-	-	15,776	756	16,532
Total Gross Program Costs	**-**	**-**	**15,867**	**789**	**16,656**
Earned Revenue					
Intragovernmental	-	-	(2)	-	(2)
With the Public	-	-	(8)	(1)	(9)
Total Program Earned Revenue	**-**	**-**	**(10)**	**(1)**	**(11)**
Total Program Cost	**-**	**-**	**15,857**	**788**	**16,645**
Enhance the Education System's Ability to Continuously Improve					
Gross Cost					
Intragovernmental	-	-	-	100	100
With the Public	-	-	-	2,312	2,312
Total Gross Program Costs	**-**	**-**	**-**	**2,412**	**2,412**
Earned Revenue					
Intragovernmental	-	-	-	(4)	(4)
With the Public	-	-	-	(55)	(55)
Total Program Earned Revenue	**-**	**-**	**-**	**(59)**	**(59)**
Total Program Cost	**-**	**-**	**-**	**2,353**	**2,353**
Net Cost of Operations	**$ 27,953**	**$ 22,328**	**$ 15,857**	**$ 7,287**	**$ 73,425**

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**

Note 15. Interest Expense and Interest Revenue

For FY 2015 and FY 2014, interest expense and interest revenue by program consisted of the following:

Interest Expense and Interest Revenue
(Dollars in Millions)

	2015					
	Expenses			Revenue		
	Federal	Nonfederal	Total	Federal	Nonfederal	Total
Direct Loan Program	$ 27,593	$ -	$27,593	$ 4,206	$23,387	$27,593
FFEL Program :						
Guaranteed Loan Program	2,083	(1,826)	257	257	-	257
Loan Purchase Commitment	1,091	-	1,091	63	1,028	1,091
Loan Participation Purchase	2,018	-	2,018	130	1,888	2,018
ABCP Conduit	60	-	60	4	56	60
TEACH Program	20	-	20	2	18	20
Other Programs	40	-	40	11	32	43
Total	**$ 32,905**	**$(1,826)**	**$31,079**	**$ 4,673**	**$26,409**	**$31,082**

	2014					
	Expenses			Revenue		
	Federal	Nonfederal	Total	Federal	Nonfederal	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**

Federal interest expense is recognized on the Department's outstanding borrowing from Treasury (debt). The Direct Loan and FFEL programs have $910 billion and $140 billion in debt, respectively, as of September 30, 2015. 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.

Nonfederal interest expense results from the amortization of loan subsidy. Nonfederal interest revenue is interest earned from the public on credit program receivables held by the Department. The Department holds $1,017.7 billion in outstanding credit program net receivables as of September 30, 2015.

Note 16. Statement of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2015, budgetary resources were $350 billion and net agency outlays were $167 billion. As of September 30, 2014, budgetary resources were $356 billion and net agency outlays were $180 billion.

Obligations Incurred by Apportionment Type and Category

Obligations incurred by apportionment type and category, as of September 30, 2015 and 2014, consisted of the following:

Obligations Incurred by Apportionment Type and Category
(Dollars in Millions)

	2015	2014
Direct:		
Category A	$ 2,083	$ 1,755
Category B	318,212	329,043
Exempt from Apportionment	104	194
Total Direct Apportionment	320,399	330,992
Reimbursable:		
Category A	4	3
Category B	64	68
Obligations Incurred	**$ 320,467**	**$ 331,063**

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, 2015 and 2014, consisted of the following:

Unused Borrowing Authority
(Dollars in Millions)

	2015	2014
Beginning Balance, Unused Borrowing Authority	**$ 61,327**	**$ 138,695**
Current Year Borrowing Authority	171,807	182,860
Funds Drawn From Treasury	(162,492)	(173,451)
Borrowing Authority Withdrawn	(15,813)	(86,777)
Ending Balance, Unused Borrowing Authority	**$ 54,829**	**$ 61,327**

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, 2015 and 2014, consisted of the following:

Undelivered Orders
(Dollars in Millions)

	2015	2014
Budgetary	$ 49,838	$ 53,332
Nonbudgetary	75,064	76,889
Undelivered Orders (Unpaid)	**$ 124,902**	**$ 130,221**

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, 2015 and 2014, consisted of the following:

Distributed Offsetting Receipts
(Dollars in Millions)

	2015	2014
Negative Subsidies and Downward Re-estimates:		
FFEL Program	$ 4,658	$ 7,945
Direct Loan Program	8,211	31,551
Facilities Loan Programs	83	24
TEACH Program	31	13
HEAL Program	19	-
Total Negative Subsidies and Downward Re-estimates	13,002	39,533
Other	103	119
Distributed Offsetting Receipts	**$ 13,105**	**$ 39,652**

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

The *FY 2017 Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2015, has not been published as of the issue date of these financial statements. The FY 2017 President's Budget is scheduled for release in February 2016.

A reconciliation of the FY 2014 SBR to the FY 2016 President's Budget (FY 2014 actual amounts) for budgetary resources, obligations incurred, distributed offsetting receipts, and net 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	**$ 356,009**	**$ 331,063**	**$ 39,652**	**$ 179,761**
Expired Funds	(1,590)	(438)	-	-
FFEL Guaranty Agency amounts Included in the President's Budget	10,749	10,749	-	-
Distributed Offsetting Receipts	-	-	-	39,652
Other	(1)	(1)	3	5
***Budget of the United States Government*[1]**	**$ 365,167**	**$ 341,373**	**$ 39,655**	**$ 219,418**

[1]Amounts obtained from the Appendix, *Budget of the United States Government*, FY 2016.

Reconciling differences exist because the President's Budget excludes expired funds. Additionally, 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. 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 incurred are estimated and disclosed in the President's Budget to approximate the gross activities of the combined federal fund. Amounts reported on the FY 2014 SBR for the federal fund are compiled by 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, 2015 and 2014, are presented below:

Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

	2015	2014
Resources Used to Finance Activities:		
Obligations Incurred	$ 320,467	$ 331,063
Spending Authority from Offsetting Collections and Recoveries	(145,810)	(196,485)
Offsetting Receipts	(13,105)	(39,652)
Net Budgetary Resources Obligated	**161,552**	**94,926**
Imputed Financing from Costs Absorbed by Others	30	36
Other Financing Sources	(14,293)	(36,767)
Net Other Resources	**(14,263)**	**(36,731)**
Net Resources Used to Finance Activities	**147,289**	**58,195**
Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
(Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided	5,177	85,345
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(20,131)	2,383
Credit Program Collections	102,183	80,365
Acquisition of Fixed Assets	(15)	(4)
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(165,850)	(186,999)
Resources from Non-Entity Activity	14,948	36,787
Net Resources That Do Not Finance the Net Cost of Operations	**(63,688)**	**17,877**
Net Resources Used to Finance the Net Cost of Operations	**83,601**	**76,072**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Change in Depreciation	1	(1)
Subsidy Amortization and Interest on the Liability for Loan Guarantees	16,710	11,615
Other	-	581
Total Components Not Requiring or Generating Resources	**16,711**	**12,195**
Increase/(Decrease) in Annual Leave Liability	-	2
Accrued Re-estimates of Credit Subsidy Expense	2,598	20,130
Increase in Exchange Revenue Receivable from the Public	(29,486)	(25,233)
Change in Accrued Interest with Treasury	1	2
Other	-	2
Total Components Requiring or Generating Resources in Future Periods	**(26,887)**	**(5,097)**
Total Components That Will Not Require or Generate Resources in the Current Period	**(10,176)**	**7,098**
Net Cost of Operations	**$ 73,425**	**$ 83,170**

Note 18. Incidental Custodial Collections

The Department administers certain activities associated with the collection of nonexchange 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 2015 and FY 2014, the Department collected $1.1 million and $2.0 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 2015 or 2014 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 2015, the Department provided funding of 83.0 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 17.0 percent of program funding. For the latest academic year that ended June 30, 2015, approximately 527 thousand loans were made totaling $1.2 billion at 1,474 institutions, making an average of $2,197 per loan. The Department's equity interest was approximately $6.7 billion as of June 30, 2015.

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.

The Federal Perkins Loan program officially ended on September 30, 2015. However, if schools made the first disbursement of a Federal Perkins Loan to a student for the 2015–16 award year prior to October 1, 2015, the school may make any remaining disbursements of that 2015–16 loan after September 30, 2015. In addition, there is a narrow "grandfathering" provision that allows schools to make Federal Perkins Loans to certain students for up to five additional years (through September 30, 2020) to enable students who received loans for award years that end prior to October 1, 2015 to continue or complete courses of study.

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.