Federal Student Aid

An OFFICE of the U.S. DEPARTMENT of EDUCATION

PROUD SPONSOR of the AMERICAN MIND®

ANNUAL REPORT FY 2015

United States Department of Education
Arne Duncan
Secretary

Federal Student Aid
James W. Runcie
Chief Operating Officer

Finance Office
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Chief Financial Officer

November 13, 2015

About This Report

Federal Student Aid, a principal office of the United States Department of Education, is required by legislation to produce an *Annual Report*, which details Federal Student Aid's financial and program performance. The *Federal Student Aid Annual Report FY 2015* is a comprehensive document that provides an analysis of Federal Student Aid's financial and program performance results for Fiscal Year 2015. The report enables the President, Congress, and the public to assess the organization's performance relative to its mission, and determine whether Federal Student Aid has demonstrated accountability for the resources entrusted to it.

This report presents information about Federal Student Aid's performance as a Performance-Based Organization, its initiatives, accomplishments, and challenges, as required by Office of Management and Budget Circular A-11, *Preparation, Submission and Execution of the Budget, Part 6, Section 260,* and Circular A-136, *Financial Reporting Requirements*. The report also satisfies the requirements included in the following federal statutes:

- *Federal Managers' Financial Integrity Act of 1982*
- *Chief Financial Officers Act of 1990*
- *Government Performance and Results Act of 1993*
- *Government Management Reform Act of 1994*
- *Federal Financial Management Improvement Act of 1996*
- *Higher Education Amendments of 1998*
- *Reports Consolidation Act of 2000*
- *Improper Payments Information Act of 2002, amended*
- *Federal Information Security Management Act of 2002*
- *Government Performance and Results Modernization Act of 2010*
- *Digital Accountability and Transparency Act of 2014*

The United States Department of Education produces the ***U.S. Department of Education FY 2015 Agency Financial Report***. This report provides a comprehensive view of the Department's stewardship over its resources and includes a summary of the information contained in the *Federal Student Aid Annual Report FY 2015.*

Letter From the Chief Operating Officer of Federal Student Aid

Federal Student Aid
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Dear Federal Student Aid Colleagues, Partners, and Customers:

It is an honor to present to you the Fiscal Year (FY) 2015 Annual Report for Federal Student Aid. This report contains the results of Federal Student Aid's performance throughout the past year and demonstrates our efforts to increase customer service, expand data analytics, improve cybersecurity, enhance borrower communications, and ensure strong consumer protections.

James W. Runcie
Chief Operating Officer

Federal Student Aid witnessed a number of significant organizational milestones in FY 2015. The federal student loan portfolio grew to more than $1.2 trillion, representing an increase of over 7 percent compared to FY 2014. In total, Federal Student Aid delivered over $128 billion in aid to almost 12 million students at over 6,100 schools this past fiscal year. Our administration continues to strive for the highest standards in the delivery and oversight of federal financial aid programs while responsibly safeguarding taxpayer interest.

A key accomplishment for Federal Student Aid in FY 2015 was its on-going efforts to execute the President's Student Aid Bill of Rights. President Obama announced the Student Aid Bill of Rights in March of this year and described it as a set of guiding principles behind his vision for affordable, quality postsecondary education. To help realize this vision, the President directed the Department of Education and other federal agencies to work across the federal government to do more to help borrowers afford their monthly loan payments. In addition, the directive ensures strong consumer protections for student loan borrowers, including protecting social security benefits for disabled borrowers, providing additional clarity to borrowers seeking bankruptcy protections, and modifying the debt collection process to increase transparency and fairness.

In order to enhance customer service and provide borrowers with additional resources, Federal Student Aid implemented multiple updates to the *Free Application for Federal Student Aid* (FAFSA®) and increased borrower communication and outreach efforts concerning the Department's loan repayment and forgiveness programs. In September 2015, the President announced several changes to the FAFSA process. The first major change involves moving the start date for applying for aid for the 2017–18 award year from January 1, 2017 to October 1, 2016. This will provide students and families with financial aid eligibility information much earlier in the application process and enable families to better assess the true cost of attendance and make informed decisions.

The second major change President Obama announced involves changing which tax year income borrowers report on the FAFSA. Starting with the 2017–18 FAFSA, applicants will provide income information from one tax year earlier, known as the "prior-prior" year. This means that the 2017–18 FAFSA will collect income information from 2015 rather than income information from 2016. This change will allow more students and families to complete their FAFSA using income information imported electronically from the Internal Revenue Service (IRS), through our IRS Data Retrieval Tool (DRT). Electronically transferring data nearly

eliminates the need to correct estimated tax information and prevents families from having to wait to complete a FAFSA until the previous year's tax return has been filed.

Federal Student Aid has enhanced its borrower outreach initiatives, including implementing direct email campaigns in FY 2015 regarding affordable loan repayment options, recertifying eligibility for income-driven repayment (IDR) plans, making on-time payments, and rehabilitating defaulted loans. In total, these campaigns have reached more than 2 million borrowers and the campaign results show a positive correlation to borrower action. In addition, Federal Student Aid worked in collaboration with the U.S. Treasury Department and tax preparers during the 2015 tax filing season to increase federal student loan borrowers' awareness of IDR plans. This year, two of the largest tax preparers in the country, H&R Block and Intuit, Incorporated, used their online tax preparation tools and newsletters to share information about repayment options, including the President's Pay As You Earn plan, with millions of their customers. Because of efforts such as these, as well as changes to the contracts of federal student loan servicers to incentivize effective outreach to borrowers, approximately 4 million Direct Loan borrowers are currently enrolled in IDR plans. Enrollments in IDR plans have increased more than 50 percent over the past year and are at an all-time high with loan servicers enrolling several thousands of borrowers in IDR plans daily.

Federal Student Aid implemented new Gainful Employment regulations in FY 2015. These regulations are a specific instance of tightening the focus on transparency and accountability for institutions to protect students and taxpayers. The regulations require institutions to provide important information about their programs, and focus on student outcomes; factors such as what their former students are earning, their success at graduating, and the amount of debt they accumulated. The closure of Corinthian Colleges and subsequent transition of locations to the Zenith Education Group demonstrated the importance of for-profit and publically traded school oversight. Additionally, in FY 2015, Federal Student Aid was able to strengthen oversight and compliance related to for-profit and publically traded schools, and oversight of campus security requirements under the *Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act* (Clery Act). Federal Student Aid worked to improve Clery Act enforcement efforts by streamlining the intake and tracking process to resolve complaints efficiently.

In our continued effort to increase transparency and accountability, Federal Student Aid expanded the FSA Data Center to include additional information about IDR plans, as well as, updated contracts and program reviews. We made strides to increase cybersecurity protection for applicants and borrowers through the enterprise-wide implementation of the FSA ID, which will help to safeguard borrower information. In addition, we commenced a security review of all guaranty agencies and, as of the end of the fiscal year, started the government-wide Cybersecurity Sprint to ensure the integrity of customer's financial and personal information.

Federal Student Aid owes its success to our nearly 1,300 employees, and I am honored to work with them. This report represents merely a few of the many accomplishments achieved in FY 2015 and is a testament to our staff's dedication to the mission of Federal Student Aid.

Sincerely,

James W. Runcie
Chief Operating Officer
Federal Student Aid
United States Department of Education
November 13, 2015

Table of Contents

Letter From the Chief Operating Officer of Federal Student Aid

iii **Federal Student Aid at a Glance**

iv **How Federal Student Aid Benefits the Public**

v **Guide to Federal Student Aid Programs**

vii **Introduction to the *Federal Student Aid Annual Report***

1 **Management's Discussion and Analysis**

3 **Mission And Organizational Structure**

7 Federal Student Financial Aid Programs

12 **Performance Management**

14 FY 2015 Strategic Goals, Objectives, and Performance Metrics

26 Agency Priority Goal

27 Quality of Performance Data

28 **Financial Management Discussion and Analysis**

29 Balance Sheet

34 Statement of Net Cost

35 Statement of Changes in Net Position

36 Statement of Budgetary Resources

37 Financial Management Risks

40 **Analysis of Systems, Controls, and Legal Compliance**

44 **Limitations of Financial Statements**

45 **Annual Performance Report**

47 **Introduction to the Annual Performance Report**

49 **Performance Results by Strategic Goal**

50 Strategic Goal A: *Provide superior service and information to students and borrowers.*

55 Strategic Goal B: *Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.*

57 Strategic Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*

59 Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests.*

62 Strategic Goal E: *Strengthen FSA's performance culture and become one of the best places to work in the federal government.*

Annual Performance Report *(cont'd)*

63 FY 2015 Accomplishments of Federal Student Aid
66 Legislative and Regulatory Recommendations
67 Annual Bonus Awards
68 Report of the Federal Student Aid Ombudsman

77 **Financial Section**

79 Message From the Chief Financial Officer
81 Financial Statements
85 Notes to the Financial Statements
118 Required Supplementary Stewardship Information
120 Required Supplementary Information
127 Independent Auditors' Report

145 **Other Information**

149 **Appendices**

151 Appendix A: Glossary of Acronyms and Terms
155 Appendix B Availability of the *Federal Student Aid Annual Report*

Federal Student Aid at a Glance

(As of September 30, 2015)

Established as a Performance-Based Organization	**1998**
Headquarters	**830 First Street, NE Washington, DC 20202**
Website	**StudentAid.gov**
FY 2014 Administrative Budget	**$1.4 billion**
Total Employees	**1,291 employees**
Regional Offices	**10**
Total Applications Processed	**19.9 million**
Total Postsecondary Students Receiving Aid in 2015	**11.9 million**
Total Federal Student Aid Delivered	**$128.7 billion**
Mission	***Funding America's Future, One Student at a Time***

How Federal Student Aid Benefits the Public

Designated as a Performance-Based Organization in 1998, Federal Student Aid (FSA) performs a vital service within the system of funding postsecondary education in the United States. As a principal office of the United States Department of Education (the Department), FSA ensures that all eligible Americans have access to federal financial assistance for education or training beyond high school. In Fiscal Year (FY) 2015, FSA supported the funding of billions of dollars in federal financial aid, which enabled millions of students to attend college or career school. The list below details some of the ways in which the organization serves the public. FSA ensures that students and their families benefit from its programs by:

- Informing students and families of the availability of the federal student aid programs and on the process of applying for and receiving aid from those programs;
- Developing the *Free Application for Federal Student Aid* (FAFSA®) and processing FAFSA submissions;
- Offering free assistance to students, parents, and borrowers throughout the entire financial aid process; and
- Providing oversight and monitoring of all program participants—schools, financial entities, and students—to ensure compliance with the laws, regulations, and policies governing the federal student aid programs.

While FSA employees are committed to assisting students in achieving their postsecondary education goals, they also provide benefits to the community through community service activities. The ideals of public service are demonstrated through their participation in various government, Departmental, and FSA-sponsored community service programs. Among the ways that employees have positively impacted the community are:

- Tutoring students at local area schools;
- Conducting Back to School drives for students at local area schools;
- Contributing to various charities through the Combined Federal Campaign;
- Donating food to various food banks, through the Feds Feed Families program, a government-wide food drive; and
- Donating holiday gifts to children in local schools though the Operation Santa program.

Guide to Federal Student Aid Programs

FSA delivers billions of dollars in federal financial aid to students. This aid covers expenses, such as tuition and fees, room and board, books and supplies, and transportation. The three main categories of federal student aid are:

- Loans
  - Student aid funds that are borrowed to help pay for eligible education programs and must be repaid with interest;
- Grants
  - Student aid funds that do not have to be repaid (unless other conditions apply); and
- Work-Study
  - A part-time employment program that allows students enrolled in college to earn money to help pay for school.

The information below presents a brief overview of the various aid types included in each category.

Loans

- Direct Subsidized Loans
  - Federal loans based on financial need made to undergraduate students for which the federal government generally does not charge interest while the borrower is in school, in grace, or in deferment status. For Direct Subsidized Loans first disbursed between July 1, 2012, and July 1, 2014, the borrower is responsible for paying any interest that accrues during the grace period. If the interest is not paid during the grace period, the interest will be added to the loan's principal balance.

- Direct Unsubsidized Loans
  - Federal loans made to undergraduate students and graduate students for which the borrower is fully responsible for paying the interest regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement and continues throughout the life of the loan.

- Direct PLUS Loans
  - Federal loans made to graduate or professional students and parents of dependent undergraduate students for which the borrower is fully responsible for paying the interest regardless of the loan status.

- Direct Consolidation Loans
  - Federal loans that allow the borrower to combine one or more existing federal student loans into one new loan. The borrower will only have to make one monthly payment on the consolidation loan and the repayment term of the loan may be longer than the terms on the original loans, which may result in a lower monthly payment.

- Federal Perkins Loans
  - Federal loans made by schools to undergraduate and graduate students who demonstrate financial need. Participating schools receive a certain amount of funds each year from FSA for distribution under this program, which supplement funds in a

school's revolving fund, from which new disbursements are made. Once the full amount of the school's funds has been awarded to students, no more loans can be made under this program for the year.

Grants

- Federal Pell Grants
  - Federal financial aid awarded to undergraduate students with demonstrated financial need. This form of aid does not require repayment.

- Federal Supplemental Educational Opportunity Grants
  - Federal grants distributed under this program are administered directly by the financial aid office at each participating school. Each participating school receives a certain amount of Federal Supplemental Educational Opportunity Grant funds each year from FSA. Once the full amount of the school's grant funds has been awarded to students, no more awards can be made under this program for the year.

- Teacher Education Assistance for College and Higher Education Grants
  - Federal grants awarded annually to eligible undergraduate or graduate students who agree to teach mathematics, science, or other specialized subjects in high-need schools for at least four years, within eight years of their graduation. Eligible students may be awarded grants totaling up to $4,000 annually. If students fail to fulfill the service requirements, the grants will convert to Direct Unsubsidized Loans, with interest accrued from the time of the award.

- Iraq and Afghanistan Service Grants
  - Federal grants awarded to students who are not eligible for a Federal Pell Grant on the basis of financial need, but meet the remaining Federal Pell Grant eligibility requirements, and:
    - Have a parent or guardian who was a member of the U.S. Armed Forces and died as a result of military service performed in Iraq or Afghanistan after the 9/11 events; and
    - Were under 24 years old or enrolled in college at least part-time at the time of the parent or guardian's death.

Federal Work-Study

- Federal program that provides part-time jobs for undergraduate, graduate, and professional students with financial need, allowing them to earn money to help pay education expenses. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. It is administered by the schools who participate in the Federal Work-Study program.

To obtain federal financial aid, prospective aid recipients must complete the FAFSA. For more information on obtaining federal student aid, visit **StudentAid.gov.**

Introduction to the *Federal Student Aid Annual Report*

The *Federal Student Aid Annual Report FY 2015 (Annual Report)* provides financial and performance information that enables the President, Congress, and the public to assess how FSA has performed in accomplishing its mission and achieving its goals. The report is organized into the following sections:

The **Management's Discussion and Analysis** section provides an overview of the entire *Annual Report.* It includes a synopsis of FSA's mission and its organizational structure, as well as the organization's fiscal year financial and performance highlights, which are discussed in more detail within the subsequent sections of this report. This section also contains a discussion of the organization's systems, controls, and compliance with laws and regulations. The section concludes with the subsection **Limitations of Financial Statements**, which provides the context in which the financial statements should be reviewed.

The ***Annual Performance Report*** presents the strategic goals included in the *Federal Student Aid: Strategic Plan, Fiscal Years 2012–16 (FSA Strategic Plan, FY 2012–16)* and discusses the results of the various performance metrics as related to each strategic goal. Targets established for each performance metric are compared to FSA's actual performance during the year. These results demonstrate the organization's effectiveness in accomplishing its mission. The *Annual Performance Report* also presents the fiscal year accomplishments of the organization and discusses the process by which it provides legislative and regulatory recommendations to the Department on issues that affect federal student financial aid. The *Annual Performance Report* concludes with the following subsections: **Annual Bonus Awards**, which details executive compensation in the organization, and the **Report of the Federal Student Aid Ombudsman**, which details its processes in assisting borrowers in obtaining resolutions to federal student aid issues.

The **Financial Section** provides a detailed view of FSA's stewardship and accountability for its resources. The section includes the **Message from the Chief Financial Officer,** the audited financial statements, and the accompanying notes to the financial statements. It concludes with the subsections: **Required Supplementary Stewardship Information**, **Required Supplementary Information**, and the **Independent Auditors' Report**.

As part of the Financial Section, the **Independent Auditors' Report** subsection presents the combined audit report issued by the Independent Auditors. The subsection consists of the Office of Inspector General Audit Transmittal Letter and the combined Independent Auditors' Report, which includes the Report on the Financial Statements, the Report on Internal Control, and the Report on Compliance and Other Matters. The subsection concludes with the Management's Response to the Audit, which is the official response of FSA's executive management to the findings and recommendations contained in the audit report.

The **Other Information** section includes the Schedule of Spending, which presents an overview of how and where FSA spent its money during the fiscal year. This section also provides links to the ***U.S. Department of Education FY 2015 Agency Financial Report***, which includes a discussion of FSA's improper payments in compliance with the *Improper*

Payments Information Act of 2002, as amended. The section concludes with a link to the Summary of Financial Statement Audit and Management Assurances and a link to FSA's Management Challenges.

The **Appendices** section includes the glossary of acronyms and terms; and the details on the availability of this *Annual Report,* the *FSA Strategic Plan, FY 2012–16,* and previous fiscal years' *Annual Reports and Strategic Plans.*

Management's Discussion and Analysis

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Fiscal Year 2015 Financial and Performance Highlights of Federal Student Aid

Operational Highlights

	For the year ended, September 30, 2015	For the year ended, September 30, 2014	Difference	Percentage Change
Total Student Aid Loan Portfolio[1]	$ 1,212 billion	$ 1,130 billion	$ 82 billion	7.3%
Total Federal Student Loan Borrowers Outstanding	42 million	41 million	1 million	2.4%
Total Number of Postsecondary Education Institutions	6,101	6,142	(41)	(0.7)%
Audit Opinion	Unmodified	Unmodified	Not applicable	Not applicable

Financial Highlights

Dollars in Millions	For the year ended, September 30, 2015	For the year ended, September 30, 2014	Difference	Percentage Change[2]
Total Assets	$ 1,086,058	$ 985,520	$ 100,538	10.2%
Total Liabilities	$ 1,065,750	$ 978,850	$ 86,900	8.9%
Net Position	$ 20,308	$ 6,670	$ 13,638	204.5%
Net Cost of Operations	$ 27,953	$ 36,491	$ (8,538)	(23.4)%
Total Budgetary Resources Available for Spending (Budgetary)	$ 69,669	$ 64,531	$ 5,138	8.0%
Total Budgetary Resources Available for Spending (Non-Budgetary Credit Reform Financing Accounts)	$ 231,957	$ 243,151	$ (11,194)	(4.6)%
Total Outlays, Net (Budgetary)	$ 44,605	$ 13,238	$ 31,367	236.9%
Total Outlays, Net (Non-Budgetary Credit Reform Financing Accounts)	$ 76,935	$ 120,029	$ (43,094)	(35.9)%

Performance Highlights

Performance Measures	FY 2015 Target	FY 2015 Actual	Performance Results
% of first-time FAFSA filers among high school seniors	59.1–61.1%	60.5%	Met
Percent of Borrowers>90 Days Delinquent	10.4%	9.8%	Met
Improper Payment Rate	1.65%	1.44%	Met

[1] The amounts provided for the Total Federal Student Aid Portfolio include federal student loan amounts managed by Federal Student Aid and those held by lenders or schools.

[2] Note that the percentage change is calculated as the FY 2014–FY 2015 difference, divided by the FY 2014 amount. In some instances, where the current year amount has an opposite sign to the prior year amount, the percentage change may be negative even though the annual change is positive (and vice versa). Similarly, if the current year negative amount has a larger negative value than the prior year negative amount, the difference will be negative but the percentage change will be positive.

Mission and Organizational Structure

Federal Student Aid (FSA), a principal office of the United States (U.S.) Department of Education (the Department), seeks to ensure that all eligible individuals can benefit from federal financial assistance for education beyond high school. As the nation's largest provider of student financial aid, FSA is responsible for implementing and managing federal student financial assistance programs authorized under the *Higher Education Act of 1965,* as amended (HEA). Specifically, Title IV of the HEA (Title IV) authorizes the federal student assistance programs for which FSA is responsible. These programs provide grants, loans, and work-study funds to students attending college or career school.

In order to execute the Title IV programs, FSA is responsible for a range of functions across the student aid lifecycle, which include:

- Educating students and families about the process of obtaining financial aid;
- Processing millions of student financial aid applications;
- Disbursing billions of dollars in student financial aid;
- Insuring billions of dollars in guaranteed student loans previously issued by financial institutions;
- Enforcing financial aid rules and regulations;
- Servicing millions of student loans and helping borrowers avoid default;
- Securing repayment from borrowers who have defaulted on their loans; and
- Partnering with schools, financial institutions, and guaranty agencies to prevent program fraud, waste, and abuse.

This complex, multifaceted mission calls on a range of staff skills and demands coordination by all levels of management. Designated a Performance-Based Organization (PBO) by Congress in 1998, FSA emphasizes tangible results and efficient performance, as well as the continuous improvement of the processes and systems that support its mission.

FSA Fact

FSA's mission is "*Funding America's Future, One Student at a Time*." In supporting that mission, FSA delivered approximately $128.7 billion in federal financial student aid under the Title IV programs. The Title IV programs include the Federal Direct Loan, Federal Pell Grant, and Federal Work-Study programs. To learn more about these and other Title IV programs administered by FSA, visit StudentAid.gov/Types.

Legislative Authority That Determines the Mission of Federal Student Aid

Historically, there have been several legislative acts that have significantly impacted FSA's mission. The *Higher Education Amendments of 1998* established FSA as a PBO, to administer the Title IV programs at the Department. Other key pieces of legislation that have influenced FSA's mission are detailed in the following table.

Overview of Legislative Authority

- ***Higher Education Act of 1965, as amended***
  Created the federal student financial assistance programs known as the Title IV programs.

- ***Higher Education Amendments of 1992***
  Initially authorized the William D. Ford Federal Direct Loan Program as a demonstration pilot.

- ***Student Loan Reform Act of 1993***
  Authorized a multi-year phased implementation of the William D. Ford Federal Direct Loan Program.

- ***Higher Education Amendments of 1998***
  Amended the HEA and authorized the designation of FSA as the first PBO in the federal government.

- ***Higher Education Reconciliation Act of 2005***
  Allowed graduate and professional students to utilize the PLUS Loan Program.

- ***College Cost Reduction and Access Act of 2007***
  Authorized the Teacher Education Assistance for College and Higher Education Grant Program, created the Public Service Loan Forgiveness Program, and established the Income Based Repayment plan.

- ***Ensuring Continued Access to Student Loans Act of 2008***
  Provided the Department with the authority to implement programs to ensure that eligible students and parents were not denied access to federal student loans during the credit market disruptions of 2008.

- ***SAFRA Act of 2009***
  Provided that beginning July 1, 2010, no new loans will be originated under the Federal Family Education Loan Program.

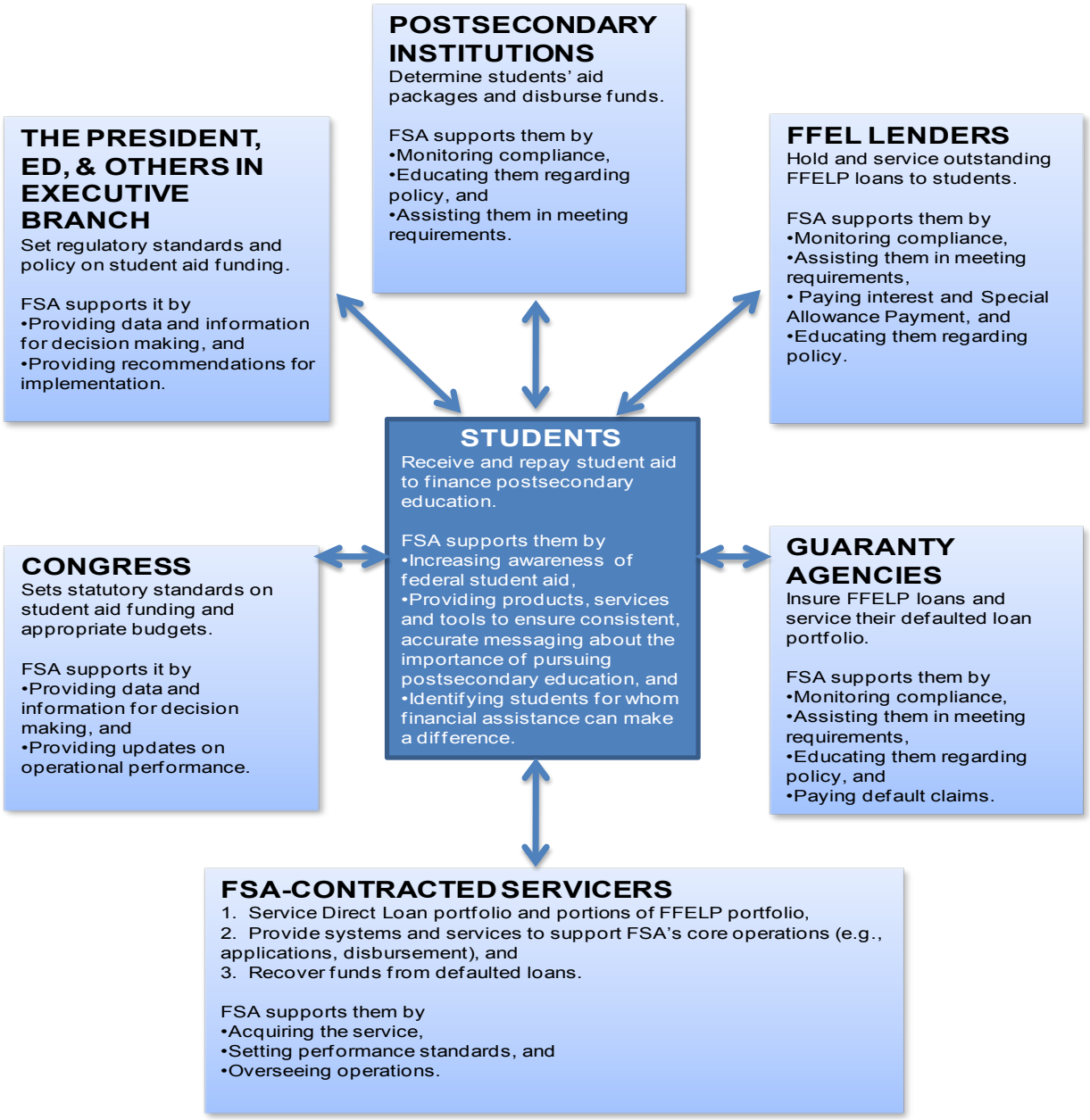
- ***Bipartisan Student Loan Certainty Act of 2013***
  Established that federal student loan interest rates will be tied to financial markets and that each loan will have a fixed interest rate for the life of the loan.

- ***Consolidated Appropriations Act, 2014***
  Transferred all Health Education Assistance Loan program loans as of July 1, 2014 from the Department of Health and Human Services to the Department.

FSA Stakeholders

The community of stakeholders in the student aid delivery system includes students and parents, lenders, guaranty agencies, postsecondary institutions, contracted servicers and collection agencies, as well as the taxpayers and other federal entities, such as Congress and the U.S. Office of Management and Budget (OMB).

Role of FSA and Participants in the Federal Student Aid System

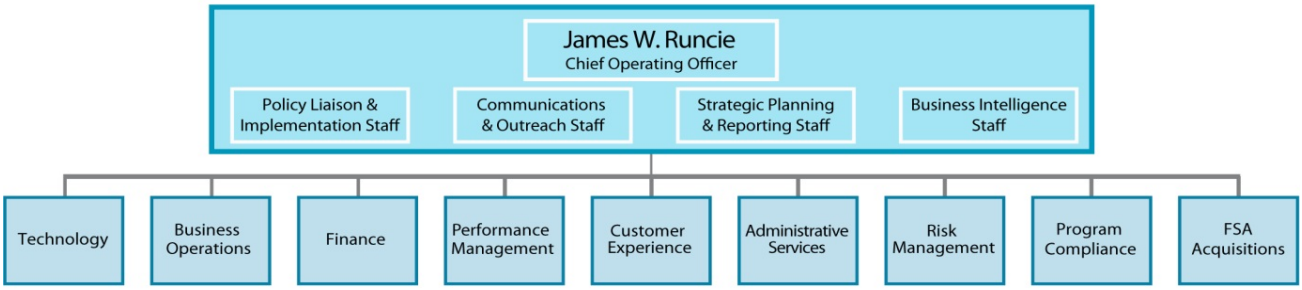


One of FSA's responsibilities is to coordinate and monitor the activity of the large number of federal, state, nonprofit, and private entities involved in federal student aid delivery, within a statutory framework established by Congress, and a regulatory framework established by the Department.

FSA Organizational Structure

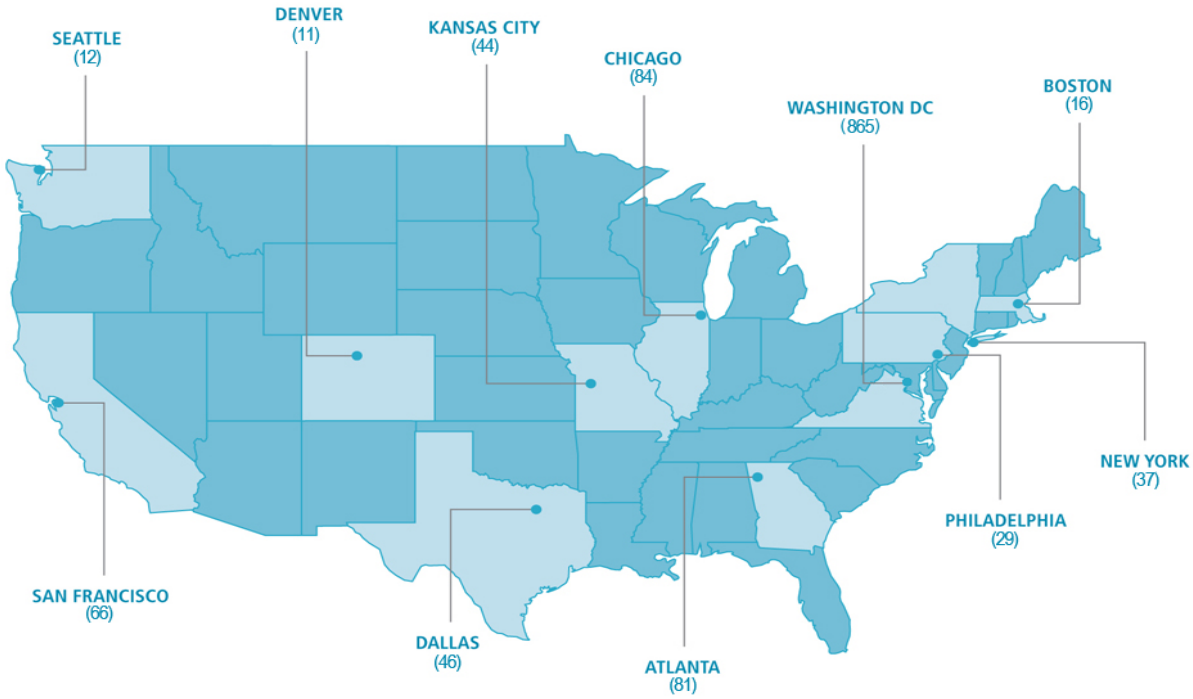
FSA currently operates under a functional organizational structure that aligns the organization closely with its strategic drivers, business objectives, and mission goals. A Chief Operating Officer (COO), who is appointed to a five-year term by the Secretary of Education (Secretary), leads FSA. The Secretary appointed James W. Runcie as the COO on September 15, 2011. The following graphic illustrates the current functional organizational structure of FSA.

Federal Student Aid Functional Organizational Structure



During Fiscal Year (FY) 2015, the organization operated on an annual administrative budget of approximately $1.4 billion. FSA is staffed by 1,291 full-time employees and is augmented by contractors who provide outsourced business operations. The workforce is based in Washington, D.C., with ten regional offices located throughout the country as reflected in the following graphic. The number of full-time employees at each location is shown in parentheses immediately following the location name.

Federal Student Aid Regional Map



Federal Student Financial Aid Programs

The federal student financial assistance programs collectively represent the nation's largest source of federal financial aid for postsecondary students. In FY 2015, FSA processed more than 19.9 million *Free Applications for Federal Student Aid* (FAFSA®), resulting in the delivery of approximately $128.7 billion in Title IV aid to almost 11.9 million postsecondary students and their families. These students attend 6,101 active institutions of postsecondary education that participate in student aid programs and are accredited by dozens of agencies.

On August 2, 2011, Congress passed the *Budget Control Act of 2011* (Pub. L. 112-25), which put into place automatic federal budget cuts, known as "sequestration", to take effect if Congress did not enact legislation to reduce the federal deficit by March 1, 2013. Because Congress did not act, these budget cuts went into effect. The impact of sequestration reduced the aid available to students for various programs. These reductions, along with numerous other factors, including economic conditions and decreases in student aid applicants, affected the student aid disbursement amounts presented in the following table. The table below presents a comparison of the amounts of Title IV aid disbursed to students by program in 2015 and 2014. A summary of each of the Title IV student assistance programs is presented in the paragraphs that follow the table.

Summary of Federal Aid Disbursed to Students by Program[3]

(*Dollars in Millions*)

Programs	2015 Aid Disbursed to Students	2014 Aid Disbursed to Students	Difference	Percentage Increase/ (Decrease)
Loan Programs				
William D. Ford Federal Direct Loan Program	$ 95,853	$ 99,355	$ (3,502)	(4)%
Federal Perkins Loan Program	1,158	1,167	(9)	(1)
Subtotal Loan Programs	**$ 97,011**	**$ 100,522**	**$ (3,511)**	**(3)%**
Grant Programs				
Federal Pell Grant Program	$ 29,909	$ 31,554	$ (1,645)	(5)%
Federal Supplemental Educational Opportunity Grant Program	730	694	36	5
The Teacher Education Assistance for College and Higher Education Grant Program	91	97	(6)	(6)
Other Grant Programs/Rounding	–	–	–	N/A
Subtotal Grant Programs	**$ 30,730**	**$ 32,345**	**$ (1,615)**	**(5)%**
Work-Study Programs				
Federal Work-Study Program	$ 950	$ 928	$ (22)	2%
Rounding	-	1	(1)	-
Grand Total	**$ 128,691**	**$ 133,796**	**$ (5,105)**	**(4)%**

[3] Aid disbursed to students as cited in the table above, and in the following sections concerning the Federal Loan Programs, the Federal Grant Programs and the Federal Work-Study Program in the Management's Discussion and Analysis section, excluding the Federal Perkins Loan Program amounts, are derived from amounts from FSA's and the Department's financial systems. All amounts are fiscal year-to-date amounts, except for the Federal Perkins Loan Program, which is reported as an award year amount. The number of awards or recipients reported in the Management's Discussion and Analysis section is derived from a variety of sources including FSA's Common Origination and Disbursement System and amounts used to support the President's Budget. Recipient counts are based on award year.

Federal Loan Programs

In fulfilling its program responsibilities, FSA directly manages or oversees more than $1.2 trillion in outstanding loans—representing more than 193 million student loans to approximately 42 million borrowers. These loans were made primarily through the first two federal student loan programs described below.

The William D. Ford Federal Direct Loan (Direct Loan) Program lends funds directly to students and parents through participating schools. Created in 1993, this program is funded primarily by U.S. Department of the Treasury (Treasury) borrowings, as well as an appropriation for subsidy costs. As of September 30, 2015, FSA's portfolio of Direct Loans included $880.6 billion in credit program receivables, net of a negative subsidy allowance in the amount of $35.5 billion. In FY 2015, the Department made $95.9 billion[4] in net loans to 9.1 million recipients.

Under the **Federal Family Education Loan (FFEL) Program,** students and parents obtained federal loans through private lenders. Guaranty agencies insure lenders against borrower default; the federal government, in turn, reinsures guaranty agencies. Federal subsidies ensure private lenders earn at least a certain yield on the loans they made.

The passage of the *SAFRA Act*, which was included as part of the *Health Care and Education Reconciliation Act of 2010* (HCERA) (Pub. L. 111-152), ended the origination of new FFEL Program loans as of July 1, 2010. Nevertheless, FSA, lenders, and guaranty agencies continue to service and collect outstanding FFEL Program loans. FSA, FFEL lenders, and guaranty agencies held a FFEL Program loan portfolio of approximately $ 363.6 billion, as of September 30, 2015. In FY 2015, FSA made gross payments of approximately $0.9 billion to lenders for interest and special allowance subsidies and $7.3 billion to guaranty agencies for reinsurance claims and fees paid for account maintenance, default aversion, and collection activities.

The *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA) authorized the Department to implement a number of programs to ensure credit market disruptions did not deny eligible students and parents access to federal student loans for the 2008–09 and 2009–10 academic years. Under this authorization, the Department implemented three activities, two of which allowed for loan purchase commitments and purchases of loan participation interests. The authority to make these purchases expired after September 30, 2010; as a result, loan purchase commitments and purchases of loan participation interests concluded. Although these programs were closed-out successfully on October 15, 2010, FFEL Program loans purchased under the ECASLA authorization are owned and continue to be serviced by FSA.

A third program the Department implemented under the authority of ECASLA was the Asset-Backed Commercial Paper (ABCP) Conduit Program (Conduit). Under this program, which began operations in mid-2009, the Department entered into forward purchase commitments with a Conduit. The Conduit issued commercial paper backed by qualifying student loans made between October 1, 2003, and September 30, 2009. If no other financing was available to retire this paper as it matured, the Department committed to providing the needed funds by purchasing the underlying student loans, thereby providing a federal subsidy that had the effect of providing low cost capital to private lenders. Lenders were able to place loans into the Conduit until June 30, 2010. The option to sell loans to the Department ended in January 2014.

[4] Excludes consolidation loans of $46.3 billion.

The **Federal Perkins Loan Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer low-interest loans to students based on financial need. In FY 2015, approximately $1.2 billion were disbursed through approximately 527,000 Perkins awards.

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 2015–2016 award year prior to October 1, 2015, the school may make any remaining disbursements of that 2015–2016 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.

The **Health Education Assistance Loan (HEAL) Program** was transferred to the Department from the U.S. Department of Health and Human Services in FY 2014 under the *Consolidated Appropriations Act, 2014* (Pub. L. 113-76). This program enabled graduate students in schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, or chiropractic, or in programs in health administration and clinical psychology to obtain federally insured loans through participating lenders. As of September 30, 1998, no new loans were originated through this program; however, borrowers are still obligated to repay any outstanding loans obtained through the program.

The Department assumed responsibility for the program and the authority to administer, service, collect, and enforce the loans. In addition, the functions, assets, and liabilities of the Secretary of Health and Human Services that are associated with the HEAL program were permanently transferred to the Secretary of Education. Credit program receivables, net of allowance for subsidy, were $123.0 million for FY 2015.

Federal Grant Programs

In its responsibility for administering Title IV aid, FSA oversaw the disbursement of $30.7 billion in grants to 7.1 million recipients. The following provides a summary for each grant program, including aid disbursed for FY 2015.

The **Federal Pell Grant (Pell Grant) Program** helps ensure financial access to postsecondary education by providing grant aid to low-income and middle-income undergraduate students. Considered the foundation of a student's financial aid package, Pell Grants vary according to the financial circumstances of students and their families. In FY 2015, the Department disbursed $29.9 billion in Pell Grants averaging approximately $3,679 to more than 7.0 million students. The maximum Pell Grant award was $5,730 for the 2014–15 award year and increased to $5,775 for the 2015–16 award year.

The **Federal Supplemental Educational Opportunity Grant Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer grants to students based on need. In FY 2015, approximately $730.0 million were disbursed through approximately 1.6 million campus-based awards.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program provides up to $4,000 per year to students agreeing to teach mathematics, science, or other specialized subjects in a high-poverty school for at least four years within eight years of their graduation. Under sequestration, award amounts for any TEACH Grant first disbursed on or after October 1, 2014 and before October 1, 2015, were reduced by 7.3 percent from the award amount for which a recipient would otherwise have been eligible. The maximum award of $4,000 was reduced by approximately $292, resulting in a maximum award amount of $3,708. If students fail to fulfill the service requirements, their TEACH Grants convert to Direct Unsubsidized Loans, with interest accrued from the time of the award. This grant program began in the 2008–09 school year, starting July 1, 2008. In FY 2015, the Department disbursed approximately 25,500 grants totaling $90.8 million under the TEACH Grant Program.

The Iraq and Afghanistan Service Grant Program, which became effective July 1, 2010, provides non-need-based grants to students whose parent or guardian was a member of the Armed Forces and died in Iraq or Afghanistan as a result of performing military service after September 11, 2001. These grants are equal to the maximum Pell Grant for a given award year. Under sequestration, award amounts for any Iraq and Afghanistan Service Grant first disbursed on or after October 1, 2014 and before October 1, 2015 were reduced by 7.3 percent from the award amount for which a recipient would otherwise have been entitled. For example, the 2014–15 maximum award of $5,730 was reduced by approximately $418, resulting in a maximum award amount of $5,312. The Department disbursed approximately $294,700 to support more than 100 awards in FY 2015.

Federal Work-Study Program

The **Federal Work-Study (FWS) Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer employment to students based on financial need. In FY 2015, approximately $950.0 million were disbursed through approximately 703,100 campus-based awards.

FSA Fact

The Federal Pell Grant has enabled millions of students to go to college. Almost $30 billion were disbursed for Pell Grants during FY 2015. For more information about obtaining a Pell Grant, go to StudentAid.gov/types/grants-scholarships/Pell.

Vision, Mission, and Core Values

FSA's vision and mission focus on students and position FSA as not only a provider of federal student financial aid and services, but also as a trusted source of information to help students and families make better decisions about their postsecondary education funding options. The core values reflect FSA employees' desire to create a high-performing organization and work environment while improving operations and services.

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

PROUD SPONSOR of the AMERICAN MIND®

Vision

To be the most trusted and reliable source of student financial aid, information, and services in the nation.

Mission

Funding America's Future, One Student at a Time

Core Values

- **Integrity**
- **Respect**
- **Customer Service**
- **Stewardship**
- **Excellence**
- **Teamwork**

As discussed in detail in the next section, FSA has translated this vision into a set of clearly defined strategic goals and objectives and related measurable performance metrics. The realization of these goals will enable the organization to accomplish its mission successfully.

Performance Management

This section of the *Federal Student Aid Annual Report FY 2015 (Annual Report)* provides a general overview of the performance management processes at FSA; a summary of FSA's FY 2015 performance metrics, objectives, and results; discussion of FSA's Agency Priority Goal; and discussion of FSA's efforts to validate the quality of performance data reported.

Performance Management Processes at Federal Student Aid
FSA uses three tools to establish goals, and to communicate, measure, and report performance. These tools are the following:

- *Five-Year Strategic Plan*;
- *Annual Performance Report*; and
- Annual Organizational Performance Review (OPR).

Five-Year Strategic Plan
As part of the strategic planning process, FSA continuously identifies and evaluates key drivers that significantly influence FSA's long-term goals and objectives. FSA analyzes these drivers to identify long-term core strategic goals that will serve as the foundation of FSA's long-term strategic planning. These strategic goals collectively provide the framework for continuous improvement at FSA, guiding the organization in managing its programs more effectively and providing clear strategic direction to all of FSA's internal and external constituencies. The strategic goals developed must be:

- appropriate to the mission of the organization;
- realistic and measurable;
- achievable in the time frame established and challenging in their targets; and
- understandable to the layperson (i.e., language is unambiguous and terminology is adequately defined).

Each strategic goal encompasses objectives and identifies performance metrics to measure FSA's level of success in meeting the strategic goal. For each performance metric, FSA identifies a target level of performance for each fiscal year. FSA sets the target level of performance at a challenging, but realistic level that is achievable within the timeframe. Meeting or exceeding the target indicates that FSA succeeded in attaining the established performance metric, while falling short of the target indicates that FSA did not attain the performance metric. The following table summarizes the key components of the *Federal Student Aid: Strategic Plan, FY 2012–16* (*FSA Strategic Plan, FY 2012–16).*

Key Components of the *FSA Strategic Plan, FY 2012–16*

Key Component	Description
Strategic Goals	Statements of long-term purpose outlined in the *FSA Strategic Plan, FY 2012–16* that define how FSA will accomplish its mission. These goals are aligned to FSA's responsibilities as a PBO.
Objectives	Statements that describe the tactical activities FSA will perform to achieve the associated strategic goal.
Performance Metrics	Levels of performance over a period of time used to gauge FSA's success in reaching its strategic goals. These metrics include targets and timeframes.
Targets	Indicators of the desired performance levels or specific desired results targeted for a given fiscal year. Targets are expressed in quantifiable terms and are compared to the actual result to determine level of performance.

Throughout the fiscal year, FSA measures and analyzes performance based upon performance metric results. For any performance metrics not on track, FSA's analysis includes identifying the root cause of the unexpected result and determining the appropriate corrective actions necessary to improve performance.

Annual Performance Report
To report progress on meeting the strategic goals, FSA prepares and publishes an *Annual Performance Report,* which is included in FSA's *Annual Report.* In addition to the *Annual Performance Report*, the *Annual Report* includes FSA management's discussion and analysis of financial and performance results, its audited financial statements and notes, and the report of the independent auditors.

Annual Organizational Performance Review
The annual OPR is part of the Department-wide performance management system. It operates at the principal office level and is designed to integrate and align all of the Department's performance management elements, including the Department's *Strategic Plan*, Agency Priority Goals, the priorities of the principal offices, and other requirements of law and of the President. The OPR framework primarily focuses on process improvements and capacity building, providing principle offices an opportunity to establish specific milestones. FSA tracks the status of its OPR metrics and reports on its progress to the Department.

FY 2015 Strategic Goals, Objectives, and Performance Metrics

In its earlier strategic plans, FSA focused primarily on achieving operational efficiency and system integration, both of which are vital to its designation as a PBO. As part of the initial update to its earlier plans, FSA developed and implemented a strategic plan that would improve the overall system of funding for postsecondary education. The strategic plan outlined steps that would improve the system by (1) equipping students and their families with better information to make improved decisions about postsecondary education; and (2) actively shaping the behavior of participants in education funding, by using FSA's knowledge, data, oversight authority, and relationships to improve the coordination of all participants in the system.

FSA's current strategic plan, the *FSA Strategic Plan, FY 2012–16*, builds upon the most recent goals established in the previous year's strategic plan, by clarifying the organization's objectives and updating performance standards to reflect more clearly the progress made in meeting the stated objectives. As part of the process of developing this plan, FSA identified the key strategic drivers listed in the following table. In FY 2016, FSA will be unveiling a new Strategic Plan, the *FSA Strategic Plan, FY 2015–19*, which will update the Strategic Goals found in this section.

Key Strategic Driver	Relevance to FSA's Strategic Planning Process
The Higher Education Act of 1965 legislation	Prescribes Title IV program and PBO requirements (i.e., improve service, reduce costs, improve and integrate support systems, develop delivery and information systems, and enhance staff development and talent).
Student and borrower needs	Students and borrowers are key customers of FSA services and products.
Key trends and conditions for the financial aid environment	Indicates student aid environment within which FSA must operate. Listed below are key trends that may affect the financial aid environment. • Rising cost of attendance for postsecondary education. • Decline in availability of nonfederal sources of postsecondary education funding. • Anticipated increase in enrollment. • Increase in enrollment at two-year and proprietary institutions, and distance learning. • Increased role of the federal government in providing funding for postsecondary education.

Key Strategic Driver	Relevance to FSA's Strategic Planning Process
The Department's Five-Year *Strategic Plan*	Requires FSA's support of the Department's strategic goals related to postsecondary education.
President Obama's higher education goal that, by 2020, America will have the highest proportion of college graduates in the world	Requires the Department's and FSA's support to achieve the goal.
The Office of Inspector General's Management Challenges	Requires the Department and FSA senior management's consideration for establishing priorities. The Office of Inspector General's Management Challenges for FY 2015 include: • Improper Payments; • Information Technology Security; • Oversight and Monitoring; • Data Quality and Reporting; and • Information Technology System Development and Implementation.
The Office of Inspector General and Government Accountability Office audits	Requires FSA senior management's consideration for establishing priorities to address findings and recommendations.
Federal financial management laws and regulations	Prescribes financial management requirements.
Federal performance reporting legislation and requirements	Prescribes performance and reporting requirements.
Federal budget deficits	Requires FSA to look for opportunities to reduce operating costs through improved efficiency.

FSA identified the following five Strategic Goals based upon analysis of the above key strategic drivers:

- **Strategic Goal A:** *Provide superior service and information to students and borrowers.*
- **Strategic Goal B:** *Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.*
- **Strategic Goal C:** *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*
- **Strategic Goal D:** *Ensure program integrity and safeguard taxpayers' interests.*
- **Strategic Goal E:** *Strengthen FSA's performance culture and become one of the best places to work in the federal government.*

The remainder of this section provides a discussion of each strategic goal, including the associated objectives and a summary of performance metric results. For a more detailed discussion, refer to the ***Annual Performance Report*** section of this document.

How the Remainder of this Section is Organized. This section is organized by the five strategic goals. For each strategic goal, this section provides an overview of the goal, lists the associated objectives that support the strategic goal, and details the performance metrics used to measure performance. Specifically, the following information is included for each strategic goal:

- **Strategic Goal:** States the strategic goal and provides a discussion of the relevance of this goal to FSA's mission.
- **Objective:** Includes a brief discussion of the objectives identified for the strategic goal.
- **Performance Metrics:** Includes a brief summary of FSA's performance as measured by the performance metrics for the strategic goal, followed by a table that details, for each performance metric, the prior year actual results, the current reporting period target, the actual result, and the page reference to the detail contained in the *Annual Performance Report* section of this document. The following is the legend for the performance result indicator included in the table.

Performance Result Indicator Legend

Performance result met or exceeded the target.	**Met**
Performance result did not meet the target.	**Not met**
Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion.	**N/A**

The performance metric results reported are as of fiscal year-end (i.e., September 30, 2015) unless otherwise noted. If the required data are not available as of fiscal year-end in sufficient time for inclusion, data as of the most recent period available is used. Data as of fiscal year-end may not be available in some instances, where the required data are obtained from external sources (i.e., state and private nonprofit guaranty agencies, lenders and loan servicers, grant and loan recipients, etc.).

FSA Fact

In FY 2015, more than 5,500 financial aid professionals attended the FSA's Annual Training Conference to obtain the latest information related to FSA policies and procedures.

Strategic Goal A: *Provide superior service and information to students and borrowers.*

A major component of FSA's mission is to ensure that all eligible individuals have access to federal student aid. In order to achieve this goal, FSA provides information about funding options for eligible students to help them and their families make well-informed decisions. As a customer-facing organization, FSA also has an obligation to uphold the highest standards of service when interacting with its customers: students and their families.

Strategic Goal A aims to actively inform all eligible individuals of their funding options, help customers make well-informed decisions, provide better services, and improve customer experience.

Objectives supported: To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Take a data-driven approach to better understand our customers and develop insights from these customers.
- **Objective 2:** Reach out to potential students more effectively to expand access to postsecondary education.
- **Objective 3:** Aggregate and distribute information on the costs and benefits of postsecondary education programs and on funding options to improve financial literacy and support the customers' decision-making.
- **Objective 4:** Identify students for whom financial assistance can make a difference in completing a degree or credential and develop a plan to support the President's 2020 college completion goal.
- **Objective 5**: Enhance customer-facing processes to improve the customer experience.

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2015 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target for four performance metrics and did not meet the target for one performance metric under this strategic goal.

Performance Summary for Strategic Goal A

Performance Metrics	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	Result	Reference Page
% of first-Time FAFSA filers among high school seniors	59.2%	60.1%	59.1%–61.1%	60.5%	Met	50
Persistence among first-time filing aid recipients	–	79.6%	78.6%–80.6%	79.5%	Met	51
Customer Visits to StudentAid.gov	–	32.7 million	>=32.7 million	43.3 million	Met	52
Social Media Channel Subscribership	–	368,042	>=368,000	454,066	Met	53
Customer Satisfaction Score (ACSI)	78.4	78.4	77.4–79.4	77.2	Not met	54

FSA Fact

In addition to its website, StudentAid.gov, FSA has also increased its presence in social media. To get the latest information updates on federal student financial aid, *like FSA* on Facebook; follow FSA on Twitter @FAFSA or find it on YouTube.

Strategic Goal B: ***Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.***

FSA plays a vital role within the system of postsecondary education funding in the United States. While the Department's Office of Postsecondary Education is responsible for any matters related to the setting of postsecondary education policy and regulation, FSA collaborates with its colleagues across the Department and Congress to inform policy and regulations relating to student financial assistance. Specifically, FSA provides timely and relevant information to the Department and policymakers to support their decision-making processes concerning issues related to funding postsecondary education. In addition, FSA has a leadership role in the universe of postsecondary education funding to ensure that all system participants effectively serve the interests of students.

To execute delivery of financial assistance, FSA works closely with partners: it coordinates the activities of different contractors, including servicers and private collection agencies; it provides oversight of postsecondary institutions; guaranty agencies and lenders; and it directly interacts with students and their families.

Strategic Goal B aims to increase FSA's role in working with postsecondary institutions, contractors, and other major participants in the overall aid delivery system, to fulfill the organization's mission more effectively and consistently champion the promise of postsecondary education for all Americans.

Objectives supported: To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Improve FSA's support, communications, and processes for postsecondary and financial institutions.
- **Objective 2:** Provide ideas, data, and analyses to inform policymakers about opportunities and challenges in postsecondary education funding.
- **Objective 3:** Support system participants in implementing legislative, regulatory, executive, and other requirements.

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2015 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target for one performance metric and did not meet the target for one performance metric under this strategic goal.

Performance Summary for Strategic Goal B

Performance Metrics	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	Result	Reference Page
Ease of Doing Business school survey (1-100 scale)	74	77	75.9–77.9	75.8	Not met	55
Percent of Borrowers > 90 days Delinquent	–	9.9%	10.4%	9.8%	Met	56

FSA Fact

The Pay as You Earn Plan, recently made available for eligible borrowers, enables borrowers with eligible loans to limit monthly payments to 10 percent of their discretionary income. For more information on this repayment option, visit StudentAid.gov/repay-loans/understand/plans/pay-as-you-earn.

Strategic Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*

FSA is responsible for managing the operational functions associated with delivering Title IV grants, work-study, and loan programs, while continually improving operating efficiency. To maintain credibility and confidence in the overall student aid delivery system, it is important for FSA to anticipate and plan for changes in volume that impact capacity requirements. As part of the ability to respond to changing demands, FSA must consider budgetary resources available to support increasing capacity. Historically, FSA's budget has not grown proportionally to the increase in the volume of aid, and that is likely to remain true going forward. As a result, FSA will need to pursue further efficiencies in order to fund the initiatives outlined in its strategic plan.

FSA will also continue to improve its internal efficiency and capabilities across key functions, particularly in technology, acquisition, risk management, and business management, by comparing the current state of these functions with best practices and benchmarks across public and private sectors. The objectives under this goal will build the foundation and capability to support the first two strategic goals, providing better service and information to FSA customers and playing an integral role in the overall student aid delivery system.

Strategic Goal C aims to pursue further efficiencies to free up additional resources in the operating budget by integrating systems, improving acquisition processes, improving risk management, and improving project management.

Objectives supported: To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Deliver funds to students accurately, efficiently, and promptly, to create high levels of customer satisfaction.
- **Objective 2:** Strengthen FSA's Information Technology (IT) function to achieve systems modernization and active management of technology to ensure that FSA's delivery systems are secure and privacy of personal information is maintained.
- **Objective 3:** Continuously refine and manage FSA's acquisition strategy and contract performance to realize cost savings and operating efficiencies, and mitigate risk.
- **Objective 4:** Improve the organizational capacity to anticipate and manage external change.
- **Objective 5:** Enhance the risk management organization, systems, and processes.
- **Objective 6:** Develop a methodology to measure and track cost reductions to increase efficiency and productivity.
- **Objective 7:** Build stronger business management capabilities and increase operational transparency to improve cross-functional coordination.

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2015 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target for both performance metrics.

Performance Summary for Strategic Goal C

Performance Metrics	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	Result	Reference Page
Aid Delivery Costs per Application	$11.16	$11.43	$12.28	$10.73	Met	57
Loan Servicing Costs per Borrower	$21.42	$21.59	$22.47	$22.36	Met	58

FSA Fact

The Direct PLUS Loan Program can be used to help pay for an undergraduate, graduate, or professional education. For more information on the Direct PLUS Loan program, go to StudentAid.gov/types/loans/PLUS.

Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests.*

As the nation's largest provider of federal student assistance, FSA's role requires the organization to provide careful oversight of taxpayer dollars. FSA annually disburses more than $120 billion in aid and administers a loan portfolio valued at more than $1.2 trillion. Even small variances in the financial performance of this portfolio can have a large impact on the U.S. federal budget. FSA is committed to upholding the highest standards of integrity with the Title IV Programs and continues to work with institutions on increased monitoring and oversight efforts.

FSA will strive to better manage taxpayer resources and minimize program costs. As part of this goal, FSA will concentrate its limited resources on those areas that have been identified as having the greatest potential risk for fraud and abuse. In addition, FSA will focus on data gathering and analysis to better understand and manage FSA's growing student aid portfolio. Through these efforts, FSA will be able to better identify, understand, and mitigate all enterprise risks, including the student aid portfolio risk.

Strategic Goal D aims for continuous improvement of FSA's oversight functions to maintain program integrity and safeguard taxpayers' interests by using program dollars effectively and efficiently. FSA has oversight and enforcement responsibility for 6,101 schools and 1,548 financial institutions. FSA must, therefore, leverage and focus its resources to optimize oversight and monitoring activities; and its administrative, sanction, and enforcement actions when warranted.

Objectives supported: To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Improve quality control and reduce errors, waste, fraud, abuse, and mismanagement in the delivery of Title IV aid.
- **Objective 2:** Manage funds owed to the Department and provide transparency about student aid portfolio risk exposure.

Performance Metrics measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a set of performance metrics, including a target level of performance. For this strategic goal, the following table lists the performance metrics, prior year actual results, FY 2015 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met or exceeded the target for each of these performance metrics.

Performance Summary for Strategic Goal D

Performance Metrics	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	Result	Reference Page
Improper Payment Rate	Pell Grant 2.26% Direct Loan 1.03% FFEL <0.005%	1.54%	1.65%	1.44%	Met	59
Percentage of contract dollars competed by FSA	—	88.7%	87.7%—89.7%	90.3%	Met	60
Collection rate[5]	$41.57	$35.90	$36.56	$51.58	Met	61

FSA Fact

The Income-Based Repayment/Pay As You Earn/Income-Contingent Repayment Plan Request is an online application, which enables borrowers with eligible loans to apply for repayment options with greater ease and accuracy. For more information on repayment through Income-Driven Repayment Plans, visit StudentAid.gov/repay-loans/understand/plans/income-based.

[5]Collection Rate for the purpose of Performance Metric D.3 is defined as the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect.

Strategic Goal E: *Strengthen FSA's performance culture and become one of the best places to work in the federal government.*

FSA achieved substantial improvement in operational performance after its transformation to a PBO in 1998, successfully and reliably delivering aid under changing legislative conditions. Despite these improvements, FSA's workforce still faces several challenges today. For example, the results of the previous Federal Employee Viewpoint Surveys (FEVS) highlighted additional areas in need of improvement and a significant number of FSA's staff is eligible for retirement over the next several years. In order to meet the performance challenges facing FSA and to fulfill its rapidly expanding role, the organization will have to rebuild its human capital foundations.

Strategic Goal E aims to meet the performance challenges facing FSA. To do so, FSA will need to empower its employees to accept new challenges, while ensuring the knowledge accumulated by the retirement of experienced staff is not lost upon their departure.

Objectives supported: To support this strategic goal, FSA identified a set of objectives, which includes detailed initiatives designed to assist FSA with meeting each objective. Meeting each objective will result in accomplishing the strategic goal. The objectives that support this strategic goal include:

- **Objective 1:** Improve the integrity of core human capital processes to attract, develop, and retain talented FSA employees from diverse backgrounds; help them achieve their full performance potential and recognize their contribution to FSA's mission.
- **Objective 2:** Further develop a student-centric culture among all managers and employees that will fully deliver on FSA's mission, vision, and strategy.

Performance Metric measured: To determine the success of FSA's efforts to meet this strategic goal, FSA identified a performance metric, including a target level of performance. For this strategic goal, the following table lists the performance metric, FY 2015 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the *Annual Performance Report* section of this document. In summary, FSA met the target for this performance metric.

Performance Summary for Strategic Goal E

Performance Metrics	FY 2013 Actual	FY 2014 Actual	FY 2015 Target	FY 2015 Actual	Result	Reference Page
Employee Engagement Index	—	67.7%	66.7%—68.7%	67.9%	Met	62

Agency Priority Goal

An Agency Priority Goal is a measurable commitment to a specific result the federal government will deliver for the American people. These goals represent high priorities for both the administration and the Department, have high relevance to the public or reflect the achievement of key agency missions, and will produce significant results over a 24-month period. As required by OMB's guidance for implementing the *Government Performance and Results Modernization Act of 2010* (Pub. L. 111-352), the Department identified a limited number of Priority Goals for FY 2014–15 during the budget, policy, and strategic planning processes.

These Priority Goals reflect the importance of teaching and learning at all levels of the education system. Because they reflect a limited number of priorities, they do not fully reflect the agency's strategic goals nor cover the entire agency mission. Consequently, FSA is not responsible for one specific Priority Goal for FY 2014–15. Instead, FSA will continue to provide support as needed to the Department in accomplishing the Departmental Priority Goals. For more information on the Department's Priority goals, see **The Department's FY 2014–15 Priority Performance Goals.**

FSA Fact

FSA offers a publication titled, College Preparation Checklist, to assist students and parents in preparing for college. This publication provides several checklists with suggested steps that will prepare students (of all age levels) both academically and financially for college. To download a copy of the College Preparation Checklist, visit StudentAid.gov/sites/default/files/college-prep-checklist.pdf

Quality of Performance Data

Ensuring the integrity of the data required to determine performance results is a critical step in reporting performance. For this step, FSA developed and implemented a Validation and Verification Matrix. Specifically, FSA uses this matrix as a tool to validate the completeness and reliability of the underlying data gathered and used to calculate each performance metric for the reporting period, including the performance results reported in this *Annual Report*.

For each performance metric, this matrix is used to document the following: measurement definition and owner; data source, availability, security procedures, and known limitations; whether data are subject to FSA's A-123 Internal Control Review process; and procedures for accessing the data, calculating the performance metric, and validating and verifying the data gathered.

For a discussion of data quality and limitations for each performance metric, please see the section Performance Results by Strategic Goal, contained in the *Annual Performance Report* section of this *Annual Report*.

Financial Management Discussion and Analysis

The financial management discussion and analysis provides an overview of FSA's financial results for FY 2015. This section is included to assist readers in understanding FSA's financial results, position, and condition as portrayed in the financial statements and notes located in the Financial Section of this report. The financial analysis discussion explains major changes in assets, liabilities, costs, and budgetary resources. It also includes comparisons of the current year to the four prior years and discusses the relevance of significant balances, amounts, and trends reflected in the financial statements and notes.

FSA is committed to providing sound management, financial systems, and controls to ensure that students receive aid and repay loans according to applicable laws and regulations. FSA's financial statements are prepared in accordance with established federal accounting standards. The financial statements are subject to an annual independent audit to ensure that FSA's financial position has been presented fairly. In FY 2015, FSA achieved an unmodified audit opinion on its financial statements for the fourteenth consecutive year.

FSA presents its financial statements and notes in the format required by the OMB Circular A-136, *Financial Reporting Requirements*. For the comparative fiscal years, FY 2015 and FY 2014, the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position were prepared on a consolidated basis, whereas the Statement of Budgetary Resources was prepared on a combined basis. The Independent Auditors' Report on these statements, which includes the Report on the Financial Statements, the Report on Internal Control, and the Report on Compliance and Other Matters, can be found in the subsection ***Independent Auditors' Report***.

Federal Student Aid has oversight responsibilities for over $1.2 trillion in federal student loans, of which approximately $979.0 billion is directly owned and managed by FSA. As described in **Note 1** and **Note 6**, FSA reports this portfolio on its Balance Sheet as the line item Credit Program Receivables, net of allowances for loss, accrued grant liability and subsidy cost, that adjust the portfolio amount to its present value. As of September 30, 2015, FSA reported $1.0 trillion in Credit Program Receivables, Net including a negative allowance for subsidy cost of approximately $37.4 billion. In practical terms, a negative subsidy occurs when the interest rate and/or fees charged to the borrower are more than sufficient to cover the costs of the risk of default. FSA's portfolio of Credit Program Receivables, Net has seen significant growth, increasing by 10.2 percent over the FY 2014 net portfolio balance. This growth continues to be driven by the expansion of the Direct Loan program. Operationally, FSA must manage the resources it has available to ensure that this portfolio is serviced efficiently and effectively, and that quality customer service is provided to its borrowers. FSA must mitigate several risks to ensure this portfolio is managed effectively. These risks are discussed at the conclusion of the analysis of the financial statements.

The FY 2015 FSA Financial Highlights tables presented below provide a condensed summary of the significant balances in FSA's financial statements over a five year period, beginning with FY 2011 and the percentage change between the prior and current fiscal years as of September 30, 2014 and 2015 respectively.

FSA Financial Highlights
Condensed Balance Sheet
Fiscal Years 2011–15

(Dollars in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Percentage Change[6]
Fund Balance with Treasury	$ 62,214	$ 78,452	$ 69,997	$ 61,506	$ 67,985	10.5%
Credit Program Receivables, Net	529,965	672,835	825,660	922,418	1,016,425	10.2
Remaining Assets	1,815	1,451	1,588	1,596	1,648	3.3
Total Assets	**$ 593,994**	**$ 752,738**	**$ 897,245**	**$ 985,520**	**$ 1,086,058**	**10.2%**
Debt	$ 546,264	$ 714,324	$ 851,258	$ 965,362	$ 1,050,344	8.8%
Other Intragovernmental Liabilities[7]	10,025	7,009	8,786	6,382	8,684	36.1
Remaining Liabilities	19,402	8,632	7.207	7,106	6,722	(5.4)
Total Liabilities	**$ 575,691**	**$ 729,965**	**$ 867,251**	**$ 978,850**	**$ 1,065,750**	**8.9%**
Unexpended Appropriations	$ 21,441	$ 30,361	$ 33,595	$ 30,485	$ 28,325	(7.1)%
Cumulative Results of Operations	(3,138)	(7,588)	(3,601)	(23,815)	(8,017)	(66.3)
Net Position	**$ 18,303**	**$ 22,773**	**$ 29,994**	**$ 6,670**	**$ 20,308**	**204.5%**
Total Liabilities & Net Position	**$ 593,994**	**$ 752,738**	**$ 897,245**	**$ 985,520**	**$ 1,086,058**	**10.2%**

Cost Summary
Fiscal Years 2011–15

(Dollars in millions)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Percentage Change[6]
Gross Cost	$ 16,839	$ 35,989	$ 13,266	$ 65,470	$ 59,500	(9.1)%
Less: Earned Revenue	(20,212)	(25,306)	(26,688)	(28,979)	(31,547)	8.9
Net Cost of Operations	**$ (3,373)**	**$ 10,683**	**$ (13,422)**	**$ 36,491**	**$ 27,953**	**(23.4)%**

Balance Sheet

The Balance Sheet presents the recorded value of assets and liabilities retained or managed by FSA as of a specific point in time. The assets represent resources available for use by FSA to pay its liabilities or to satisfy its future service needs. The liabilities are amounts FSA owes, the probable and measurable future outflows of its resources arising from past transactions or events. The difference between the assets and the liabilities represents FSA's net position.

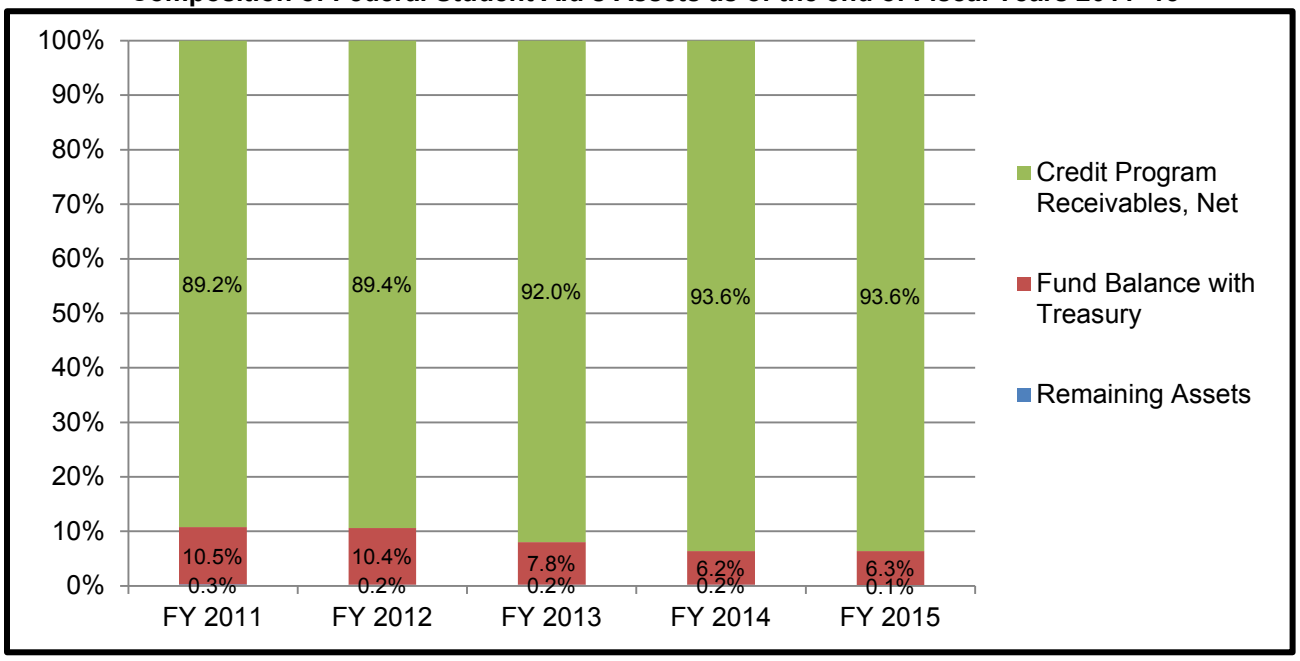
Composition of FSA Assets. The consolidated Balance Sheet shows that FSA had total assets of $1.1 trillion as of September 30, 2015, an increase of $100.5 billion, or 10.2 percent over the September 30, 2014 total assets balance of $985.5 billion. The difference resulted primarily from an increase in net Credit Program Receivables ($94.0 billion), together with an increase in Fund Balance

[6] Note that the percentage change is calculated as the FY 2014–15 difference, divided by the FY 2014 amount. In some instances, where the current year amount has an opposite sign to the prior year amount, the percentage change may be negative even though the annual change is positive (and vice versa). Similarly, if the current year negative amount has a larger negative value than the prior year negative amount, the difference will be negative but the percentage change will be positive.

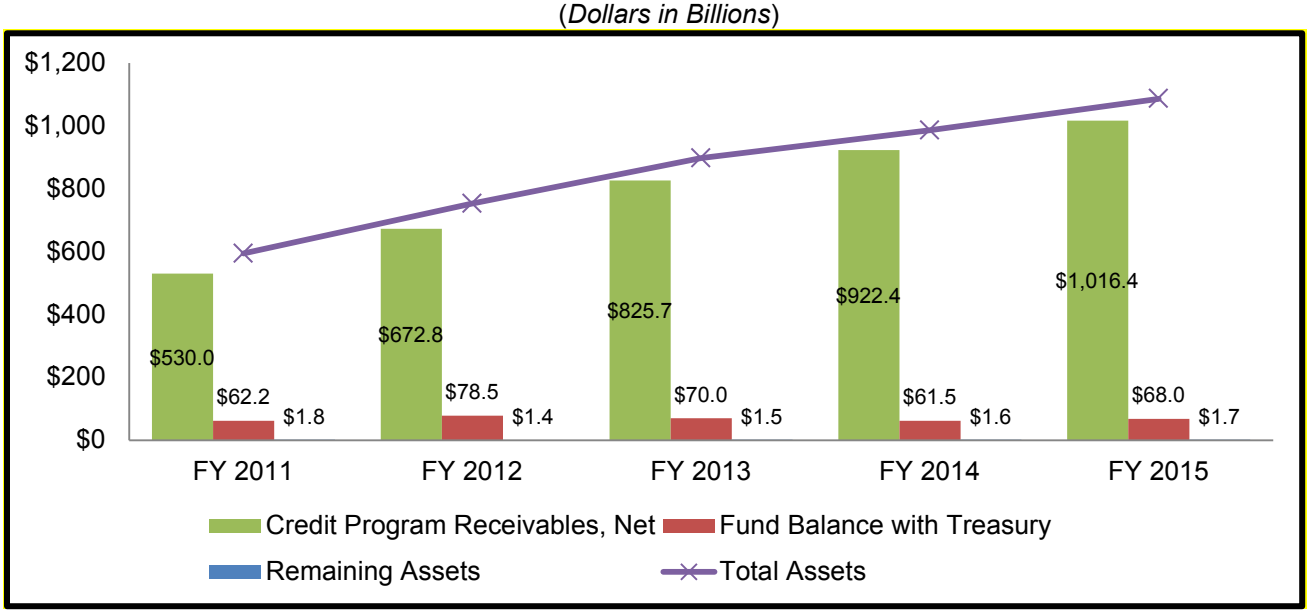
[7] The FY 2011 Liability for Loan Guarantees are presented in the liability section of the FSA's Balance Sheet, while the FY 2012–15 Liability for Loan Guarantees are presented in the Credit Program Receivables. During FY 2013, as required by Treasury and Departmental guidance, excess collections from pre-1992 FFEL loan guarantees, which are payable to Treasury, were reported for the first time as non-current liabilities not covered by budgetary resources. This reclassification resulted in a $3 billion reduction of the FY 2012 reported balance of Intragovernmental Accounts Payable and a corresponding increase in the FY 2012 reported Other Liabilities balance

with Treasury ($6.5 billion). Together, FSA's Fund Balance with Treasury and its net Credit Program Receivables accounted for almost 99.9 percent of Total Assets as of September 30, 2015, as illustrated in the Composition of Assets chart below. Following the Composition of Assets chart is the Comparison of Assets chart that presents the growth of these two principal Balance Sheet line items over the past five fiscal years.

Composition of Federal Student Aid's Assets as of the end of Fiscal Years 2011–15

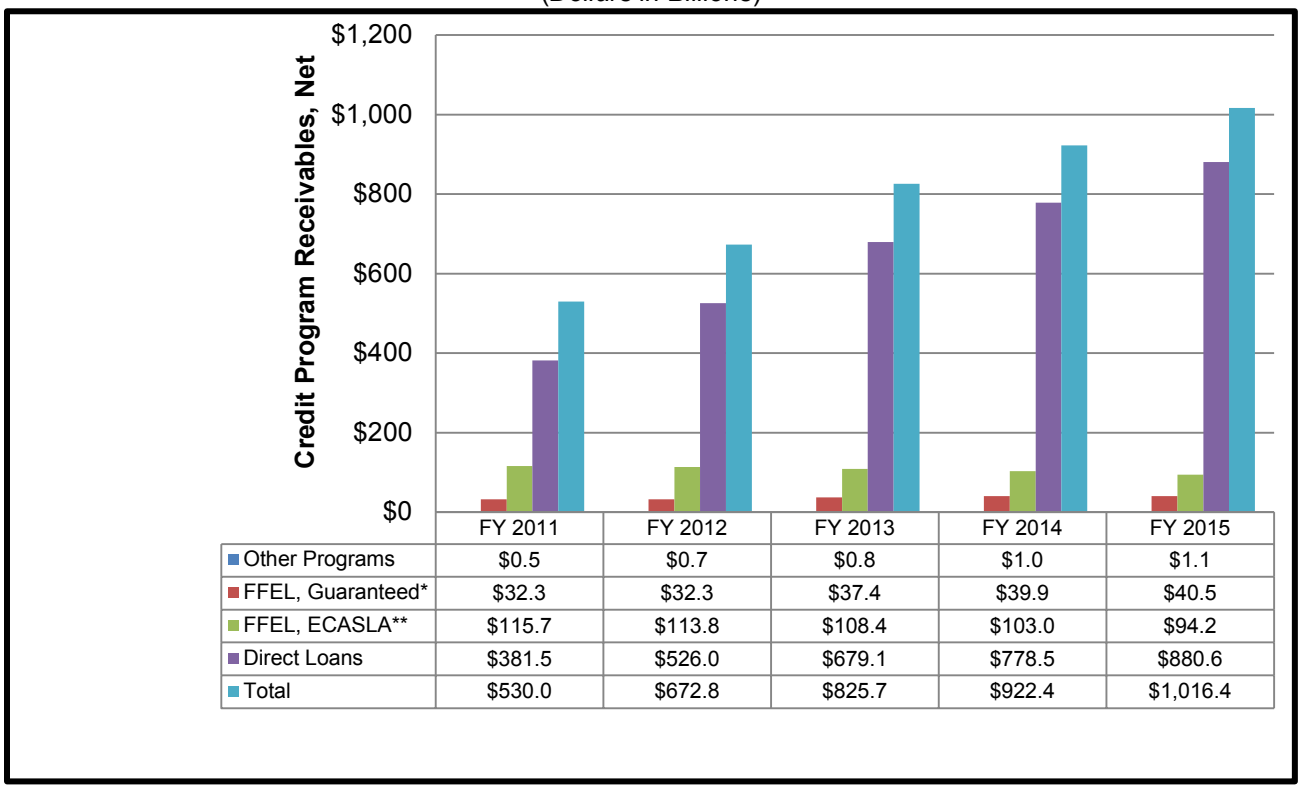


Comparison of Federal Student Aid's Assets as of the end of Fiscal Years 2011–15
(*Dollars in Billions*)



Credit Program Receivables, Net. With a $1.0 trillion balance as of September 30, 2015, Credit Program Receivables, Net represent FSA's most important asset category and accounted for 93.6 percent of Total Assets. This balance included $979.0 billion in principal, interest, and fees relating to Direct Loans, TEACH Grants, Perkins loans, HEAL loans and FFEL loans acquired under the Conduit, Loan Participation Purchase, Loan Purchase Commitment, and defaulted guaranteed loan programs, together with a negative allowance for subsidy cost of approximately $37.4 billion that adjusted the loan portfolio to its estimated present value. The Direct Loan Credit Program receivables continue to be the major component of this portfolio and as of September 30, 2015 comprised 86.6 percent of the net balance, for a total of $880.6 billion. This total included $845.1 billion in principal, interest, and fees, net of a negative subsidy allowance in the amount of $35.5 billion. Of the $845.1 billion in receivables, $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.

Total Federal Student Aid Loan Portfolio as of the end of Fiscal Years 2011–15
(*Dollars in Billions*)



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Other Programs	$0.5	$0.7	$0.8	$1.0	$1.1
FFEL, Guaranteed*	$32.3	$32.3	$37.4	$39.9	$40.5
FFEL, ECASLA**	$115.7	$113.8	$108.4	$103.0	$94.2
Direct Loans	$381.5	$526.0	$679.1	$778.5	$880.6
Total	$530.0	$672.8	$825.7	$922.4	$1,016.4

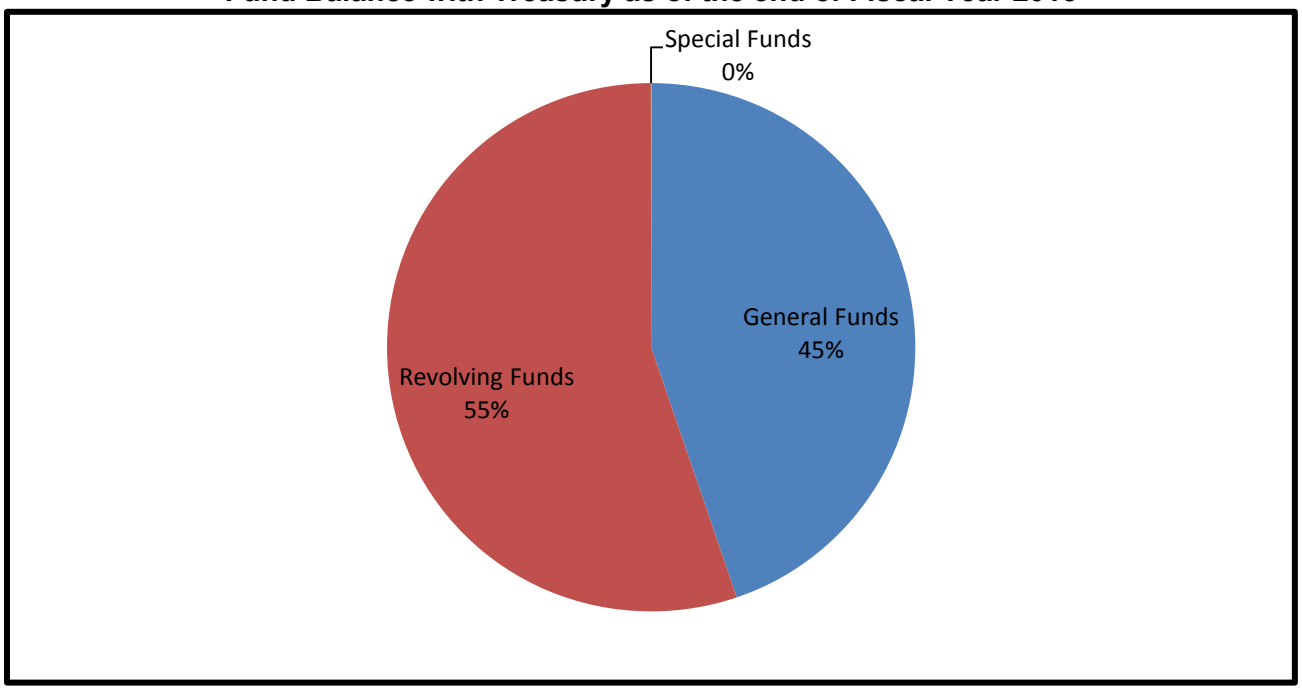
*FFEL Guaranteed (Non-ECASLA) Program
**FFEL ECASLA Acquired Loan Program

The majority of the $94.0 billion increase in net Credit Program Receivables during the 12 months ended September 30, 2015 was also due to the Direct Loan Program, which increased $102.1 billion or 13.1 percent. Of this increase, $113.9 billion was due to growth in the outstanding amount owed by borrowers, driven mainly by new loan originations ($95.9 billion) and new consolidated loan disbursements ($46.3 billion), and interest and fee accruals and adjustments ($39.8 billion), offset by collections of principal, interest and fees from borrowers. This increase in the borrower-owed amount was offset by a $11.9 billion reduction in the negative subsidy allowance that reduced Credit Program Receivables, Net by the same amount, which is explained in more detail in **Note 6**.

The increase in net Direct Loan Credit Program Receivables was offset by a reduction of $8.2 billion in the net FFEL Credit Program Receivables to $134.7 billion, a 5.7 percent decrease compared to the September 30, 2014 balance. The changes observed in both the Direct Loan and FFEL net credit program receivables are principally related to the impact of the *SAFRA Act*, which as of June 30, 2010, eliminated all new loan disbursements under the FFEL Program in favor of direct lending, and also due to continued loan consolidations that allow borrowers to take advantage of lower interest rates. In addition, the increase in direct loans, and offsetting decrease in FFEL receivables, can also be partially attributed to an increase in borrowers taking advantage of income based or income contingent repayment plans

Fund Balance with Treasury. FSA's Fund Balance with Treasury represents the funds it has available to pay its current liabilities, make purchases and finance authorized loans to borrowers. Treasury processes cash receipts from borrowers and cash disbursements for FSA's loan and grant programs. As of September 30, 2015, FSA reported a Fund Balance with Treasury amount of $68.0 billion of which $30.4 billion represented general funds. Revolving funds accounted for a further $37.5 billion, derived from borrowings, as well as collections from the public and other federal agencies. FSA also reported $15.0 million in Special funds (including fees collected on delinquent or defaulted Perkins loans). Please refer to **Note 3** for more details.

Fund Balance with Treasury as of the end of Fiscal Year 2015



The September 30, 2015 Fund Balance with Treasury amount was 10.5 percent above the FY 2014 year-end balance, a $6.5 billion increase. The increase was principally attributable to activities in the Direct Loan and FFEL programs, which increased by $5.7 billion and $3.1 billion respectively. The Direct Loan Program contributed to the increase because of new borrowings ($107.0 billion) and collections ($64.4 billion) offset by disbursements to borrowers ($142.2 billion), net interest payments to Treasury ($23.4 billion) and other costs to maintain the Direct Loan Program. The increase due to the FFEL Program was the net result of where default claim payments ($7.1 billion), debt repayments

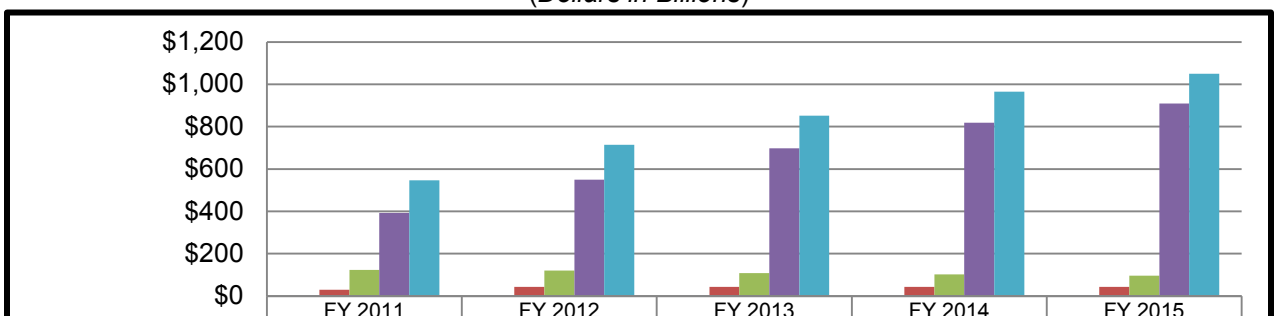
($8.6 billion), interest payments to Treasury ($5.3 billion) and subsidy-related transactions ($4.7 billion), were offset by collections of principal, interest, and fees ($27.8 billion), subsidy appropriations/borrowings ($3.9 billion) and other activity ($3.0 billion).

Offsetting these increases were reductions that were mostly in the combined Perkins Loan and Grants Programs ($2.3 billion), primarily attributable to a decrease in funding due to the sequestration order required by the *Budget Control Act of 2011*, net of a decrease in Pell Grant Disbursements during FY 2015.

Composition of FSA Liabilities. FSA's liabilities represent probable and measurable future outflows of resources arising from past transactions or events. As of September 30, 2015, FSA had total liabilities of $1.1 trillion, an increase of $86.9 billion or 8.9 percent over the September 30, 2014 total, a lower rate of increase than the 10.2 percent growth in total assets.

Debt. With a September 30, 2015 ending balance of $1.1 trillion, FSA's debt represented the primary component of its liabilities and was $85.0 billion (8.8 percent) above the September 30, 2014 amount. This increase was primarily a result of new borrowings to support the growing loan volume in the Direct Loan Program, and for subsidy related costs affecting the entire portfolio of credit program receivables. Overall, the Direct Loan portion of FSA's debt increased by $90.9 billion (11.1 percent) to $909.9 billion as of September 30, 2015, representing 86.6 percent of FSA's total debt balance. Over the same period, FFEL-related debt decreased by $6.0 billion (4.1 percent) to $139.8 billion. These changes, like those in the Credit Program Receivable, Net portfolio discussed above, reflect the impact of the SAFRA Act on disbursements, interest-rate driven loan consolidations, and related changes in estimated subsidy costs for the two programs that all affect program borrowings. As illustrated in the following chart, this trend has continued throughout the past five years, with the annual rate of increase in Direct Loan related debt averaging 19.2 percent throughout that period compared to an overall rate of debt increase of 15.3 percent.

Comparison of Federal Student Aid Debt as of the end of Fiscal Years 2011–15
(*Dollars in Billions*)



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
TEACH	$0.3	$0.4	$0.5	$0.6	$0.6
FFEL, Guaranteed*	$29.5	$43.3	$43.3	$43.3	$43.3
FFEL, ECASLA**	$124.1	$121.4	$109.2	$102.5	$96.5
DL Program	$392.4	$549.3	$698.4	$819.0	$909.9
Total Debt	$546.3	$714.3	$851.3	$965.4	$1,050.3

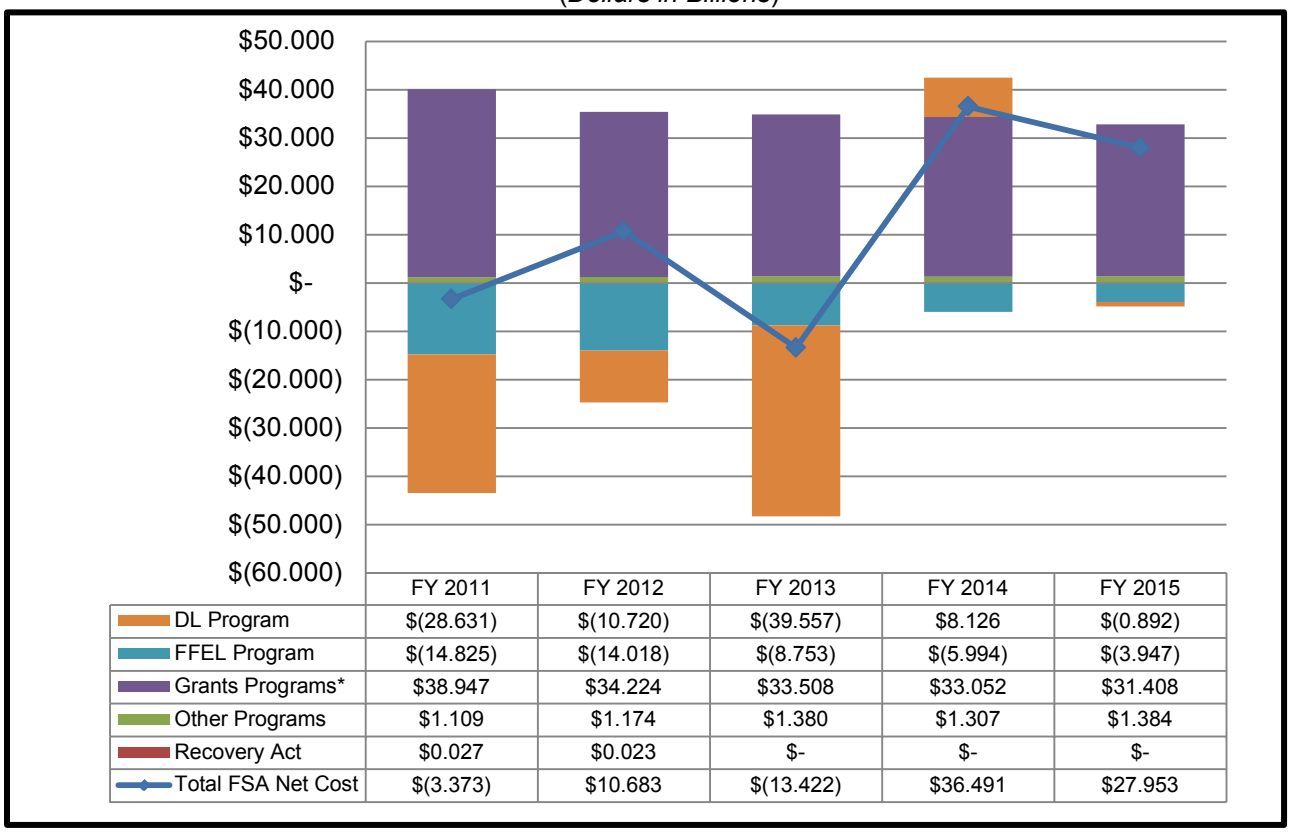
*FFEL Guaranteed (Non-ECASLA) Program
**FFEL ECASLA Acquired Loan Program

Other Intragovernmental Liabilities. Other Intragovernmental Liabilities increased by $2.3 billion or 36.1 percent, from $6.4 billion to $8.7 billion of which $1.3 billion was attributable to Direct Loan activity and a further $0.9 billion was related to the FFEL program. As detailed in **Note 11**, these changes result principally from a $1.7 billion increase in current liabilities in miscellaneous receipt accounts covered by budgetary resources. These represent an increased liability for downward subsidy re-estimates resulting from updated economic assumptions, including probabilistic estimating, discount rates, and interest rates. When executed, the remaining $5.5 billion in downward subsidy re-estimates will be paid to Treasury's General Fund. Please refer to **Note 11** for further details.

Statement of Net Cost

The Statement of Net Cost is the federal financial statement that presents the net cost of operations for FSA programs. FSA net cost is the gross cost incurred during its operations less any revenues earned from its activities.

Composition of FSA Net Cost for Fiscal Years 2011–15
(*Dollars in Billions*)



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
DL Program	$(28.631)	$(10.720)	$(39.557)	$8.126	$(0.892)
FFEL Program	$(14.825)	$(14.018)	$(8.753)	$(5.994)	$(3.947)
Grants Programs*	$38.947	$34.224	$33.508	$33.052	$31.408
Other Programs	$1.109	$1.174	$1.380	$1.307	$1.384
Recovery Act	$0.027	$0.023	$-	$-	$-
Total FSA Net Cost	$(3.373)	$10.683	$(13.422)	$36.491	$27.953

*Includes Federal Perkins Loan and Grants Programs

FSA reported net costs for the year ended September 30, FY 2015 of $28.0 billion, compared to $36.5 billion for the twelve months ended September 30, FY 2014. In other words, FSA's total costs exceeded its revenues in both years, but by a smaller margin in FY 2015. The net change was the result of a $6.0 billion decrease in Gross Costs (of which $6.3 billion was attributable to the Direct Loan Program) offset by a $2.6 billion increase in Earned Revenue (of which $2.7 billion was attributable to the Direct Loan Program). Therefore the Direct Loan Program, which reported an

FY 2015 negative net cost where revenues exceeded costs by $0.9 billion, accounted for $9.0 billion of the $8.5 billion overall reduction in net costs, a 111.0 percent decrease over the prior year Direct Loan net cost of $8.1 billion.

This overall change was mainly the result of subsidy related transactions. Both FFEL and Direct Loans are mandatory programs whose costs are largely driven by Federal borrowing costs, prevailing interest rates, in-school interest benefits for borrowers, the costs related to borrower defaults, and loan volume demand. The programs are funded by mandatory and indefinite budget authority and therefore do not receive annual appropriations. A loan subsidy, the portion of cost paid by the federal government, is calculated for groups of loans known as cohorts, based on the fiscal year in which the loan award is made or the funds are committed. Under the *Federal Credit Reform Act of 1990*, this subsidy cost reflects the Department's estimate of the net present value of future cash flows associated with the Direct Loan or FFEL Programs, and must be recalculated for all outstanding loans by cohort group on an annual basis. Program changes, economic conditions and borrower repayment patterns all impact subsidy estimates and re-estimates, but the biggest factor is the changing relationship between the Government's estimated cost of borrowing and the interest rate at which borrowers repay their loans. As discussed in **Note 6**, even small changes in economic projections may produce substantial movement, up or down, in the subsidy rate, resulting in an upward or downward re-estimate of the subsidy cost relating to outstanding loans, which will in turn be reflected in an increase or decrease in FSA's gross and net costs.

The net impact of these various factors in FY 2015 was a $4.6 billion downward adjustment of Direct Loan re-estimated subsidy cost compared to a $30.2 billion upward adjustment for the prior year, an overall decrease in the Direct Loan Program subsidy cost of $34.8 billion. As described more fully in **Note 6**, a variety of offsetting factors caused this overall effect, including changes to the subsidy estimation model and updated discount rates in FY 2015 that tended to reduce costs, while costs were increased by large increases in the use of income dependent repayment plans ($15 billion) among other factors. Offsetting these reductions to net costs, was a $15.9 billion cost increase due to current year Direct Loan subsidy transfers, primarily attributable to the interest rate differential, together with a $9.9 billion additional cost due to loan modifications. Please refer to **Note 6** and **Note 15** for more details.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents those amounts that caused the net position section of the Balance Sheet to change from the beginning to the end of the reporting period.

FSA's net position as of September 30, 2015 was $20.3 billion, an increase of $13.6 billion, or 204.5 percent compared to the previous September 30 net position of $6.7 billion. The difference reflects an increase in the cumulative results of operations by the amount of $15.8 billion, from $(23.8) billion, to $(8.0) billion, of which $15.6 related to the Direct Loan Program, primarily attributable to changes in the unfunded liability for Direct Loan upward subsidy re-estimates. In addition, there was an overall decrease in unexpended appropriations of $2.2 billion that mainly related to the Perkins Loan and Grants Programs, mostly attributable to a decrease in funding as a result of the sequestration order required by the *Budget Control Act of 2011*, and to a decrease in Pell Grant disbursements. Please refer to **Note 13** for more details.

Statement of Budgetary Resources

The Statement of Budgetary Resources compares the budgetary resources provided with the status or execution of those resources. It also details the composition of the resources and shows the amount of net outlays. Appropriations are available to cover the subsidy cost of each loan program and administrative expenses. Subsidy expense represents the difference between the net present value of expected future cash flows and the face value of each loan portfolio. Appropriation authority is available as needed on a permanent basis to finance costs resulting from loans guaranteed in the years before FY 1992. The Pell Grant Program receives appropriations to cover actual grant disbursements.

This statement shows that as of September 30, 2015, FSA had $301.6 billion in combined budgetary resources, of which $15.9 billion remained unobligated and unapportioned. This compared to $307.7 billion in budgetary resources twelve months earlier of which $11.8 billion were unobligated and unapportioned. The $6.1 billion change in budgetary resources represented a 2.0 percent decrease. The FFEL Program accounted for $3.3 billion of this reduction in budgetary resources, mainly due a $2.6 billion decrease in unobligated balance brought forward. There was another $1.5 billion reduction attributable to the Perkins Loan and Grants Programs, due primarily to a decrease in the unobligated balance brought forward, with a further $1.3 billion decrease attributable to the Direct Loan.

FSA's Net Outlays after Distributed Offsetting Receipts as of September 30, 2015 were $121.5 billion, a decrease of $11.7 billion or 8.8 percent compared to the prior September 30 amount of $133.3 billion. The Direct Loan Program accounted for $6.4 billion of this change, with additional reductions attributable to FFEL Program, and to the combined Perkins Loan, and Grants Programs of $3.8 billion and $1.6 billion respectively. Additional information is provided in **Note 16**.

More details on FSA's sources of funds and spending are presented in the **Schedule of Spending** located in the *Other Information* section. This schedule includes the sections, "What Money is Available to Spend" and "How Was the Money Spent".

Financial Management Risks

As mentioned previously, FSA must mitigate several financial management risks in order to protect borrower and taxpayer interests. While not directly reflected on the financial statements as detailed, they are overarching risks going forward that cannot be ignored. These risks include:

System/Service Implementations. Recent major financial system implementation efforts continue to be very successful, including the re-compete of Title IV origination and disbursement processes, the implementation of an Enterprise Data Warehouse, and the implementation of a new Person Authentication Service. Over the next few years, FSA will continue to re-compete contracts associated with several of its major business processes, primarily those that focus on application processing, loan servicing, and its technology infrastructure. Managing multiple re-competes and new system implementations at the same time creates a number of risks. To mitigate risks of these large and complex implementations, FSA must be vigilant in many ways, including the following.

- Ensure that knowledgeable staff have sufficient time to work on all of the relevant implementations, given FSA's large and complex operating environment.
- Ensure that FSA's tightly integrated systems that are in the process of changing at the same time do not implement conflicting requirements.
- Ensure that project and portfolio management practices are in place to maintain effective management control over all of the implementations.

Exacerbating this risk associated with contract re-competes are the numerous program changes that FSA has been asked to implement in recent years, and which will continue to be required of FSA into the foreseeable future.

FSA continues to manage the risks associated with system/service implementations through a robust and dynamic investment management process. This includes the use of an active investment review board, the application of a lifecycle management methodology, and at least monthly reviews of the investment portfolio's performance. In addition, FSA is expanding needed oversight and monitoring capacity throughout its operating environment.

Improper Payments. Based on OMB criteria, risk susceptible programs administered by FSA include the Direct Loan Program and the Pell Grant Program. FY 2015 outlays for these programs were as follows:

- Direct Loan Program – $98.8 billion
- Pell Grant Program – $29.9 billion

In FY 2015, FSA documented and assessed 292 improper payment related controls in its internal control framework and found that the risk of improper payments is effectively mitigated. FSA has implemented a framework of continuous controls monitoring and process evaluation, striving for zero improper payments. While zero percent improper payments is infeasible, that continues to be the goal until the Department, working with OMB, can establish the appropriate risk tolerance threshold.

For more information regarding FSA's assessment of improper payment risk and planned strategies to mitigate this risk, please refer to the Improper Payments Reporting Details narrative in the Other Information section located in the ***U.S. Department of Education FY 2015 Agency Financial Report (AFR).***

Debt Collection. As of September 30, 2015, the Department managed a Net Credit Program Receivable portfolio of approximately $1,016.4 billion, an increase of 10.2 percent from FY 2014. This portfolio includes the Direct Loan Program, FFEL Program (guaranteed loans held by guaranty agencies or FSA), FFEL loans acquired via authorization of the ECASLA, Federal Perkins Loans Program receivables, HEAL loans, and TEACH Program receivables. As of September 30, 2014, the Department was responsible for administering 82 percent of the net loans receivable for the federal government and that percentage will likely grow from year to year. FSA realizes that as the size of the loan portfolio grows so does the level of financial risk associated with the collections on these loans.

FSA manages what can sometimes appear to be opposing outcomes of maximizing collections, while minimizing negative borrower impacts. During FY 2015, FSA saw a decline in the portfolio's 3-year default rate, from 13.7 percent to 11.8 percent and an increase in its collection rate from $35.90 to $51.58. This demonstrates continued progress in default rate reductions, while increasing the efficiency of funds spent on collections and maintaining customer satisfaction along the entire aid lifecycle. More information on FSA's performance, as it relates to debt collection, can be found in the ***Annual Performance Report*** section of this *Annual Report*.

While FSA is proud of these outcomes, the very size of the Federal student loan portfolio presents a significant financial management risk to the Federal government. Therefore, FSA continuously seeks to improve on these results. For example, FSA has been working with other offices in the Department, Treasury, and OMB to implement and monitor more effective performance metrics. Through coordinated efforts with an OMB/Treasury Debt Collection working group, FSA has clarified the requirements of the Treasury Report on Receivables and continues to implement those clarified requirements with 13 of its loan-servicing contractors. These more detailed and consistent performance metrics will assist FSA, the Department, and the federal government in making more informed debt collection decisions.

Guaranteed Loan Portfolio. As of September 30, 2015, the $277.7 billion guaranteed loan portfolio (non-ECASLA FFEL) included principal balances owned by private lenders and the guaranty agencies, and principal, interest and fees held by FSA (unassigned serviced by guaranty agencies or assigned serviced by FSA). This is an overall decrease of 7.9 percent in the guaranteed FFEL portfolio since the end of last fiscal year. Because the SAFRA Act ended the origination of new FFEL loans, FSA needs to ensure that the infrastructure (i.e., participating organizations processes, controls, and systems) continues to be sufficient to administer federal student loans consistent with relevant laws and regulations.

FSA monitors the balances of Guaranty Agency Operating Funds and federal student loan reserve funds (Federal Funds) to identify risks associated with those funds. Specifically, these funds are monitored to protect federal assets, to ensure timely payment of lender claims, and to ensure that FFEL borrowers receive the service to which they are entitled. While FSA understands the need to remain constantly vigilant, there have been no losses of federal funds, it is not aware of any lender claims being paid untimely, nor is it aware of any instance where an insufficient Operating Fund level has caused a FFEL borrower to not receive the services to which the borrower was entitled.

Administrative Budget. Many of the organization's costs are driven by volume activities, such as grant or loan origination and disbursement, and loan servicing. For example, loan-servicing costs are driven by the number of borrower accounts, the repayment status of a borrower's loan(s), and the timing of the borrowers' loan disbursements. The number of grant and loan origination and disbursement transactions drives the origination and disbursement costs. The budgeting formulation process generally sets the initial administrative budget for a fiscal year 18 months before the start of that fiscal year. However, even a small variation in any of FSA's volumes can significantly impact its budget. This places all other expenditures and plans associated with those expenditures at risk. This risk must be managed as long as the federal government pays for mandatory Direct Loan expenditures using discretionary administration funding.

As of the end of this fiscal year, Federal Student Aid is facing potential budgets from the House and Senate at levels $135 million and $220 million below the 2016 President's Budget level. This level of funding would have devastating impacts on the operations of Federal Student Aid. A few examples are listed below:

- Increases the likelihood of a data breach or system intrusion, which would place personally identifiable information of nearly 11.9 million students and borrowers at risk;
- Increases the risk of school oversight failures and limits the ability to address school oversight challenges for over 6,100 schools;
- Decreases ability to provide loan servicing oversight necessary to protect over 42 million borrowers and limits the ability to address contractor oversight and system implementation issues;
- Increases the risk of a systems infrastructure failure and limits the ability to manage system change, which would jeopardize the delivery of over $128.7 billion of aid annually;
- Decreases transparency to the public and limits the ability to support policy decisions with data;
- Decreases the outreach and awareness efforts to tens of thousands of students that are most in need of assistance; and
- Eliminates plans to address thousands of Office of Inspector General (OIG) fraud referrals. In January 2013, OIG estimated there was $187 million in fraud from student aid fraud rings between Award Years 2009 and 2012.

Analysis of Systems, Controls, and Legal Compliance

FSA management adheres to the Government Accountability Office (GAO) published guidance on internal control and recognizes that internal control is an integral part of managing an organization. Internal control includes the plans, methods, and procedures that are used to meet the organization's missions, goals, and objectives. In carrying out these components of internal control, FSA supports an environment for performance-based management. Internal control also serves as the first line of defense in safeguarding assets, and preventing and detecting errors and fraud. Internal control helps government program managers achieve desired results through effective stewardship of public resources.

Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the following categories:

- Effectiveness and efficiency of operations, including the use of the entity's resources;
- Reliability of financial reporting, including reports on budget execution, financial statements, and other reports for internal and external use; and
- Compliance with applicable laws and regulations.[8]

FSA management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982*. FSA conducted its assessment of the effectiveness and efficiency of its internal controls over operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control* (OMB Circular A-123). Based on the results of this assessment, FSA reported to the Department's management that its internal control over operations and compliance with applicable laws and regulations, as of September 30, 2015, was operating effectively, except where noted in the *Legal Compliance* section of the Department's ***AFR***.

In addition, FSA, working with the Department's management, conducted its current year assessment of the effectiveness of internal control over financial reporting in accordance with the requirements of Appendix A of OMB Circular A-123. The scope of FSA's assessment included, based on a rotation plan, the following processes and select sub-processes (notated in parentheses below), and systems that impact the Department's financial statements:

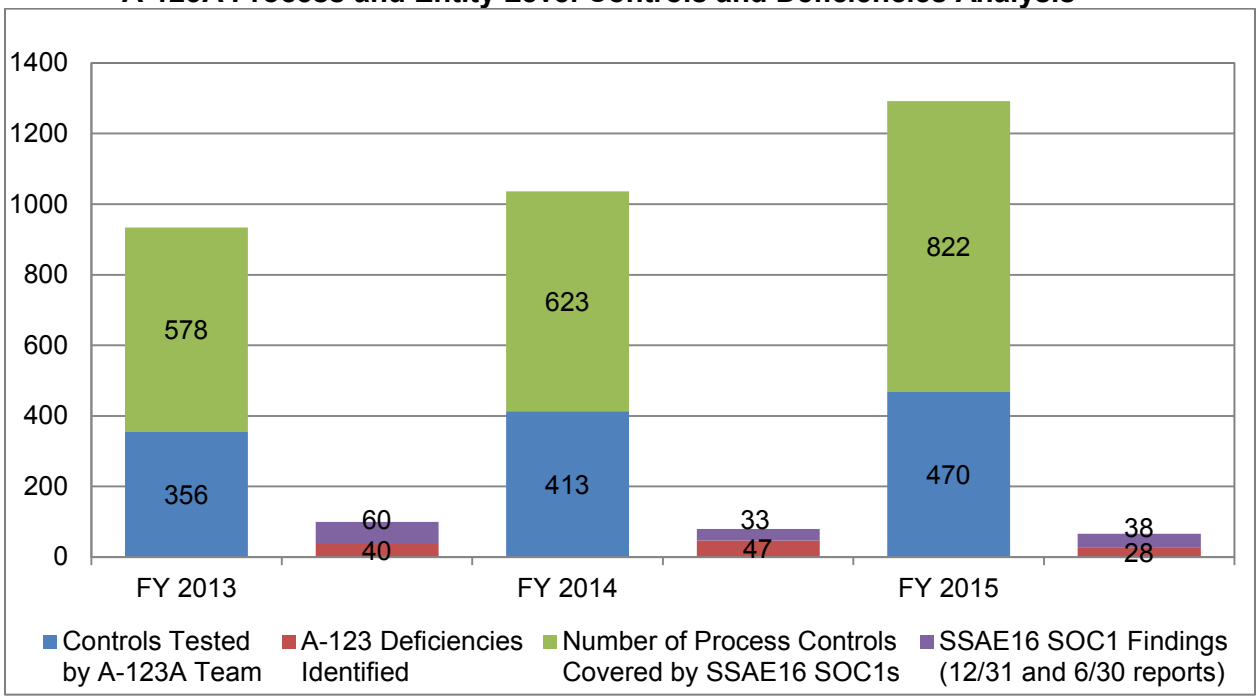
[8] Government Accountability Office Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, November 1999, p. 4-5.

- Debt Collection*
- FFEL – Financial Partner Invoicing (Lender Reporting System 799 and Monthly Consolidation Rebate Fees, Guaranty Agencies Invoicing and Payment Process)
- Student Eligibility Service Group
- Financial Institution Oversight Service Group
- Direct Loan Origination
- Grant Program Operations (Pell Grant and TEACH*)
- Student Eligibility
- Operations Performance Division Forms 2000
- Financial Reporting (Analytics, Monthly Reconciliations, Journal Entries, Month-End Close, Preparation of FSA Annual Report, Year-End Closing, Treasury Report on Receivables Compilation Process)
- Funds Control Management (Automated Budget Entries, Budget Execution, Budget Formulation, Cross Validation Rules, Summary Templates, Segment Value Updates)
- Procurement Management (Contract Acquisition, Invoice Processing, Monthly Contract Accruals)
- Human Resource Management (Time and Attendance, Personnel Transactions)
- Total and Permanent Disability (TPD)
- Servicing of Direct Loans and ECASLA-acquired FFEL Program Loans by four Title IV Additional Servicers (TIVAS)* and seven Not-For-Profits (NFPs)*
- Servicer Oversight
- Federal Perkins Loans*
- HEAL
- Entity-Level controls
- IT Controls over the following systems: Financial Management System, Debt Management and Collections System*, Central Processing System, National Student Loan Data System (NSLDS), Common Origination Disbursement*, the Virtual Data Center*, four TIVAS Servicing Systems*, seven NFP Servicing Systems*, and the Federal Perkins Loan Servicing System*.

In FY 2015, FSA continued to rely significantly on audits of loan servicers conducted by independent public accountants in accordance with Statement on Standards for Attestation Engagements (SSAE) Number 16, Reporting on Controls at a Service Organization. In the list above, an asterisk (*) indicates full or partial reliance on SSAE16 Service Organization Control 1 (SOC1) reports for relevant process and IT controls.

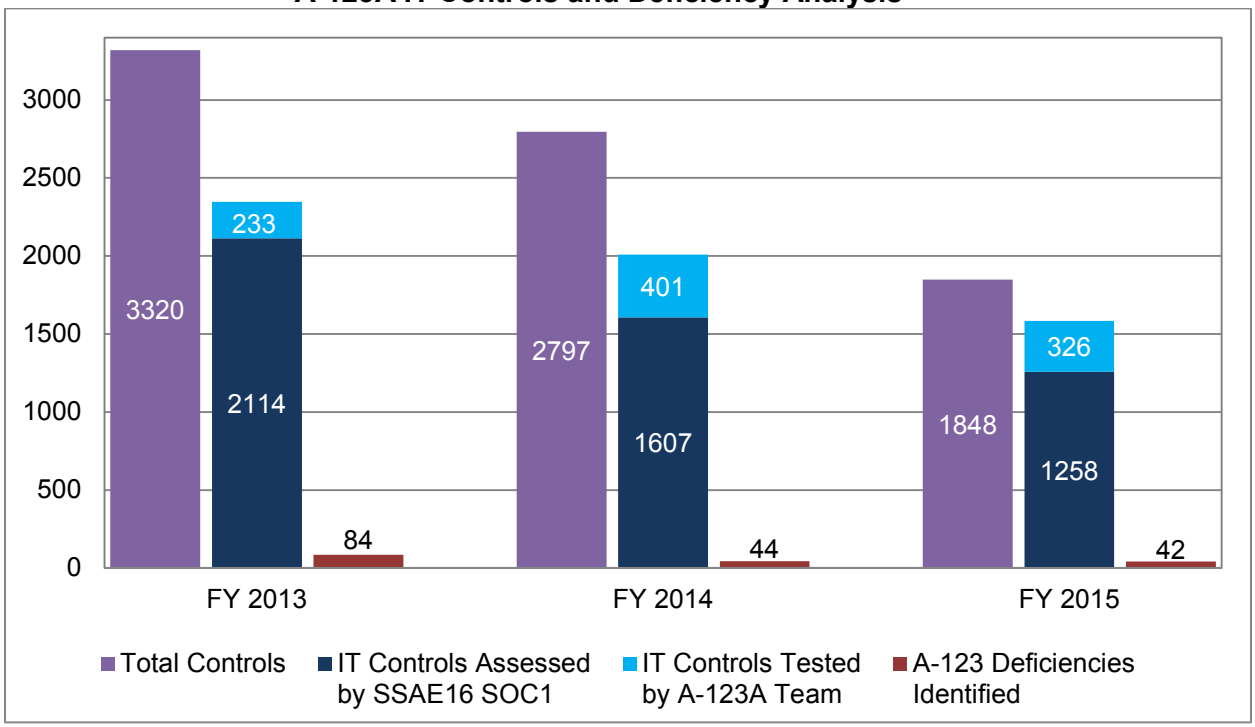
With this reliance on SSAE 16 SOC1s, the number of key process controls assessed in FY 2015 was 1,292 process and entity level controls, and demonstrates an increase from prior year totals. As illustrated below, the breakdown of this total number of key process controls assessed includes 822 controls covered by SSAE 16 SOC1s and 470 tested by the FSA self-assessment team. While the number of controls assessed increased, the total number of deficiencies identified in FY 2015 decreased in total number, and as a percentage of total controls assessed, from FY 2014. The number of deficiencies depicted below for FY 2015 (66) includes deficiencies identified from both SSAE16 SOC1 reports (38) and A-123A testing (28). These deficiencies individually and taken together do not materially affect financial reporting. Corrective actions have been and are being established to prevent reoccurrence and ensure control objectives are achieved.

FSA FY 2013–15
A-123A Process and Entity Level Controls and Deficiencies Analysis



As illustrated in the chart below, the total number of IT controls subject to assessment decreased from FY 2014 to FY 2015. This reduction is the result of a modified Federal Information Systems Controls Audit Manual (FISCAM) approach that focuses on testing high-risk controls within each FISCAM control family and scoping out secondary/low-risk controls. As part of the modified FISCAM approach, 88 FISCAM controls were assessed per in-scope system rather than 126 controls, as was the case in FY 2014. The total number of IT controls assessed was 1,584 and includes 1,258 controls covered by SSAE16 SOC1s and 326 tested by the FSA self-assessment team. The number of deficiencies depicted below for FY 2015 (42) includes deficiencies identified from both SSAE16 SOC1 reports (26) and A-123A testing (16). These deficiencies individually and taken together do not materially affect financial reporting. Corrective actions have been and are being established to prevent reoccurrence and ensure control objectives are achieved.

FSA FY 2013–15
A-123A IT Controls and Deficiency Analysis



Based on the results of this evaluation, FSA provided reasonable assurance to the Department's management that its internal control over financial reporting as of June 30, 2015 was operating effectively.

FSA's participation in the Department's implementation of the requirements of OMB Circular A-123, including Appendix A, enables it to continue to build upon its internal control framework. This framework will be used in continuing efforts to monitor and improve internal control. Please refer to the *Analysis of Systems, Controls and Legal Compliance* section of the Department's ***AFR*** for additional information related to management's assurances and disclosures.

Please also refer to the *Analysis of Systems, Controls and Legal Compliance* section of the Department's ***AFR*** for information related to the Department's compliance with the *Federal Financial Management Improvement Act of 1996*.

FSA's financial management systems strategy is formulated and managed as part of the Department's strategy. For details on FSA's financial management systems strategy, please refer to the Financial Management Systems Strategy narrative found in the *Management's Discussion and Analysis* section of the Department's ***AFR.***

Limitations of Financial Statements

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

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

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

Annual Performance Report

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

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FY 2015 Performance Highlights of Federal Student Aid

Performance Metrics	FY 2015 Target	FY 2015 Actual	Result	Reference Page
Strategic Goal A: ***Provide superior service and information to students and borrowers.***				
% of first-time FAFSA filers among high school seniors	59.1%–61.1%	60.5%	Met	50
Persistence among first-time filing aid recipients	78.6%–80.6%	79.5%	Met	51
Customer Visits to StudentAid.gov	>=32.7 million	43.3 million	Met	52
Social Media Channel Subscribership	>=368,000	454,066	Met	53
Customer Satisfaction Score (ACSI)	77.4–79.4	77.2	Not met	54
Strategic Goal B: ***Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.***				
Ease of Doing Business school survey	75.9–77.9	75.8	Not met	55
Percent of borrowers > 90 days delinquent	10.4%	9.8%	Met	56
Strategic Goal C: ***Develop efficient processes and effective capabilities that are among the best in the public and private sectors.***				
Aid delivery costs per application	$12.28	$10.73	Met	57
Loan servicing costs per borrower	$22.47	$22.36	Met	58
Strategic Goal D: ***Ensure program integrity and safeguard taxpayers' interests.***				
Improper Payment rate	1.65%	1.44%	Met	59
Percent of contract dollars competed by FSA	87.7%–89.7%	90.3%	Met	60
Collection rate[9]	$36.56	$51.58	Met	61
Strategic Goal E: ***Strengthen FSA's performance culture and become one of the best places to work in the federal government.***				
Employee Engagement Index	66.7%–68.7%	67.9%	Met	62

[9] The Collection Rate for the purpose of Performance Metric D.3 is defined as the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect.

Introduction to the *Annual Performance Report*

To guide FSA towards achieving its vision "To be the most trusted and reliable source of student financial aid, information, and services in the nation," the organization updated its *Five-Year Strategic Plan* to document the strategic goals, objectives, and performance metrics of the organization. FSA is required by the PBO-enabling legislation to report annually its level of performance. This section, the *Annual Performance Report*, satisfies this annual reporting requirement.

For additional performance related information, including a more complete discussion of FSA's mission, organization, and performance management, refer to the Management's Discussion and Analysis section of this document.

The current strategic plan, *FSA Strategic Plan, FY 2012–16* was implemented at the beginning of FY 2012. This plan builds on the previous strategic plan by clarifying FSA's objectives and updating organizational performance standards to reflect more clearly its progress in meeting the stated objectives. The strategic goals are as follows:

- **Strategic Goal A:** *Provide superior service and information to students and borrowers.*
- **Strategic Goal B:** *Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.*
- **Strategic Goal C:** *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*
- **Strategic Goal D:** *Ensure program integrity and safeguard taxpayers' interests.*
- **Strategic Goal E:** *Strengthen FSA's performance culture and become one of the best places to work in the federal government.*

To gauge its success in meeting these strategic goals, FSA identified 13 performance metrics. For more information on FSA's strategic goals and its performance metrics, click on the following link to go directly to the *FSA Strategic Plan, FY 2012–16*.

StudentAid.gov/strategic-planning-reporting

In FY 2016 and beyond, FSA will base its performance on new Strategic Goals and Objectives identified in the forthcoming *FSA Strategic Plan, FY 2015–19.*

FSA Fact

FSA, the first federal government office designated as a PBO, focuses on providing tangible results and efficient management. For more information about FSA's performance as a PBO, visit StudentAid.gov/strategic-planning-reporting.

The following table provides a summary of results, by Strategic Goal, as measured by the FY 2015 performance metrics.

Summary of Performance Results by Strategic Goal

Strategic Goal	Met	Not met	No target	N/A	Total
Goal A: *Provide superior service and information to students and borrowers.*	4	1	–	–	**5**
Goal B: *Work to ensure that all participants in the system of funding postsecondary education serve the interests of students, from policy to delivery.*	1	1	–	–	**2**
Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*	2	–	–	–	**2**
Goal D: *Ensure program integrity and safeguard taxpayers' interests.*	3	–	–	–	**3**
Goal E: *Strengthen FSA's performance culture and become one of the best places to work in the federal government.*	1	–	–	–	**1**
Total	**11**	**2**	–	–	**13**

FSA Fact

The College Scorecard assists students and their families in making educated decisions about college by providing information such as college's graduation rate, net costs, average amount borrowed, etc. The College Scorecard can be accessed at whitehouse.gov/issues/education/higher-education/college-score-card.

Performance Results by Strategic Goal

This section presents detailed performance results including a discussion of progress made to date in achieving the strategic goal and the data used to assess performance.

How this Section is Organized. This section is organized by the five strategic goals and the associated performance metric(s). The section contains the following information for each performance metric:

- **Table:** Identifies the performance metric associated with the strategic goal and provides the historical actual results for the four previous fiscal years (if available); the target and actual result for the current fiscal year; and an indicator as to whether FSA met the performance metric for each fiscal year reported. The following is the legend for the performance result indicator included in the table.

Performance Result Indicator Legend

Performance result met or exceeded the target.	**Met**
Performance result did not meet the target.	**Not met**
Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion.	**N/A**

The performance metric results reported are as of fiscal year-end (i.e., September 30, 2015) unless otherwise noted. If the required data are not available as of fiscal year-end in sufficient time for inclusion, data as of the most recent reporting period available are presented. Fiscal year-end data may not be available in instances where the required data are obtained from external sources (i.e., state and private nonprofit guaranty agencies, lenders and loan servicers, grant and loan recipients, etc.).

- **Target Context:** Explains the parameters or rationale for targets, especially where anomalies exist.

- **Analysis of Progress:** Provides a discussion of FSA's progress in meeting its targets and includes explanations for unmet targets and actions being taken or planned.

- **Data Quality and Limitations:** Describes the source of data required to calculate the actual result for the performance metric, any calculation required to determine the actual result, and any known data quality issues or limitations. For an overview of FSA's business process to confirm the quality of performance data, please see Quality of Performance Data in the Management's Discussion and Analysis section of this *Annual Report*.

Strategic Goal A: *Provide superior service and information to students and borrowers.*

Performance Metric A.1: % of first-time FAFSA filers among high school seniors

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	58.7%	58.4%	59.2%	60.1%	59.1%–61.1%	60.5%
Performance Result	Met	Met	Met	Met	Met	

Target Context:
A major component of FSA's mission is to ensure that all eligible individuals have access to federal student aid. In order to achieve this goal, FSA works diligently to increase awareness about the availability of student financial assistance. This performance indicator measures the largest and most visible outcome of FSA's customer engagement efforts: the percent of graduating high school seniors who successfully file a FAFSA as a first step in furthering their education beyond the secondary level.

Analysis of Progress:
FSA met its target for this metric with a result of 60.5 percent.

FSA's record of improving year-over-year performance on this metric demonstrates the success of the programs designed to increase the percent of Americans who attend institutions of higher education. In particular, improvements to the FAFSA Completion Tool, strategic partnerships with external stakeholders, and targeted engagement campaigns have helped FSA achieve continued progress.

Data Quality and Limitations:
The denominator is the number of graduating high school seniors according to the most recent projection by National Center for Education Statistics. The numerator is based on the number of applications during the first nine months of the application cycle that are—as of September 30 of the first year of the application cycle—complete (not rejected); first-time filers; incoming freshmen, with or without previous college attendance; age 18 or less as of June 30 of the first year of the application cycle; reporting high school diploma attainment; and attended a high school in the 50 states and Washington, DC.

Performance Metric A.2: Persistence among first-time filing aid recipients

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Performance metric established in FY 2014			79.6%	78.6%–80.6%	79.5%
Performance Result	Prior-year data not available			Met	Met	

Target Context:

This metric helps track performance across one of the desired outcomes of federal student aid and its impact on program completion. By following first-time filing aid recipients, such as college freshmen or first-time adult learners, into their second year, it is possible to see whether FSA is making improvements in how applicants are translating the aid that they receive into educational persistence. The metric provides FSA with a key contribution to the President's 2020 Goal attainment progress and calculation methodology.

Analysis of Progress:
FSA met its target with a result of 79.5 percent.

FSA has undertaken various initiatives to improve persistence levels among aid filers, including the expansion of the FAFSA Completion Initiative, the development of sophisticated outreach and digital engagement campaigns, and the initiation of partnerships with external stakeholders.

Data Quality and Limitations:
The denominator is the number of first-time FAFSA filers in the previous cycle with a program or degree length greater than one year that received aid for that award year (grants and/or loans). The numerator is the number of 2014–15 return applicants (by September 30 of the first year of the application cycle) that were identified in the denominator.

FSA Fact

As a result of FSA's continuous effort to make the process of completing the FAFSA easier and more efficient, the time to complete the FAFSA online continues to be reduced. This effort has resulted in fewer paper FAFSAs being submitted.

Performance Metric A.3: Customer Visits to StudentAid.gov

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Performance metric established in FY 2014			32.7 million	>=32.7 million	43.3 million
Performance Result	Prior-year data not available			Met	Met	

Target Context:
By focusing on overall customer visits to FSA's premier site, this performance metric helps gauge the success of FSA's efforts to become the most trusted source for accurate and accessible student aid information for Americans nationwide.

Analysis of Progress:
FSA met its target with a result of 43.3 million.

FSA greatly exceeded its target on this metric again in FY 2015 with a result of 43.3 million customer visits. This represents a more than 32 percent increase in visits over the prior year.

FSA's performance on this metric is a testament to the success of its effort to consolidate disparate sites and systems into a single integrated student experience. Since its launch in 2012, **Studentaid.gov** has evolved into FSA's premier information interface for student aid tools, resources, and services.

Data Quality and Limitations:
The metric value is based on the number of visits (as opposed to unique visitors and page views).
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FSA Fact

The Repayment Estimator is a tool that is available on StudentAid.gov. Borrowers can use the Repayment Estimator to estimate the monthly payments on their loans under each repayment plan and make informed decisions about the repayment of their loans. To use the Repayment Estimator, visit StudentAid.gov

Performance Metric A.4: Social Media Channel Subscribership

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Performance metric established in FY 2014			368,042	>=368,000	454,066
Performance Result	Prior-year data not available			Met	Met	

Target Context:
By focusing on overall subscribership across FSA's most prolific social media channels, this metric helps FSA measure the success of enterprise efforts to increasingly become the trusted source for accurate and accessible student aid information across the organization's digitally engaged customer base.

Analysis of Progress:
FSA met its target with a result of 454,066.

FSA greatly exceeded its target on this metric for the second year in a row, with a result of 454,066 subscribers to Facebook, Twitter, and YouTube social media channels.

In today's information age, digital media techniques are becoming increasingly critical for effective customer engagement. Over the past several years, FSA has aggressively leveraged social media tools to drive awareness, uncover insights, engage and interact with students and borrowers, and drive traffic to FSA's websites. This metric helps track FSA's progress in this domain.

Data Quality and Limitations:
This metric is calculated as the aggregate sum of likes, followers, and subscribers across Facebook, Twitter, and YouTube.

Performance Metric A.5: ACSI Aid Life Cycle Surveys

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	78.0	78.5	78.4	78.4	77.4–79.4	77.2
Performance Result	Met	Met	Met	Met	Not met	

Target Context:
To measure the overall customer satisfaction level throughout the student aid lifecycle, FSA calculates a weighted score for the ACSI surveys for applicants, students in school, and borrowers in repayment. This performance metric measures how FSA is improving in terms of streamlined processes for customer interaction and the accessibility of information FSA provides to customers.

Analysis of Progress:
FSA did not meet its target on this metric in FY 2015, with a final score of 77.2.

The score incorporates the following sub-scores: the FAFSA On The Web (FOTW) score, the borrowers score, and the aid recipients score. Three mitigating factors impacted the A5 average. First, the FOTW ACSI score is down from FY 2014, primarily due to changes relating to the implementation of the FSA ID. Second, the total number of applicants is down from FY 2014; because the A5 metric is a weighted average, and the FOTW score (for applicants) is the highest of the three scores, the reduction in weight for this component lowered the overall score. Third, the borrower score, which is weighted most heavily, came in just below the score in FY 2014.

It is also possible that the addition of delinquent borrowers, who were previously not incorporated in the borrowers score, negatively impacted the score, as delinquent borrowers report a lower ACSI score than their non-delinquent counterpart. Due to the methodology used, the decrease in overall score as a result of this change was eliminated in rounding.

In order to improve FSA's performance on this score in FY 2016 and beyond, FSA is making enhancements to the FSA ID online experience and the associated communications strategy to reverse the downward trend in the FY 2015 FOTW score.

Data Quality and Limitations:
The ACSI survey is conducted annually on FSA's major programs. The index provides a national, cross-industry, cross-sector economic indicator, using widely accepted methodologies to obtain standardized customer satisfaction information. Survey scores are indexed on a 100-point scale. The ACSI scores for application, in-school experience, and servicing are weighted by the utilization of each process/service and the intensity of the service provided.

Some changes to the survey will be made in FY 2016 in order to improve accuracy. These changes will be reflected in the targeting and calculation for FY 2016 and beyond.

Strategic Goal B: *Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery.*

Performance Metric B.1: Ease of doing business school survey (1-100 scale)

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Survey launched	74	74	77	75.9–77.9	75.8
Performance Result	Met	Met	Met	Met	Not met	

Target Context:
FSA works closely with postsecondary institutions to provide millions of students with federal student aid. Successfully delivering aid through a complex system depends on FSA's ability to work well with its institutional, financial, and state partners by supporting them with technical assistance that will help them improve their performance and by providing adequate oversight to ensure that participants are complying with program requirements. To ensure that all participants in the postsecondary education funding system can easily access the information they need to perform their important functions and serve the interests of students, FSA conducts a survey with postsecondary institutions every quarter to gauge the "ease of doing business with FSA." The first year for the survey was FY 2011.

Analysis of Progress:
FSA did not meet its target with a result of 75.8.

FSA's score on this metric reflects the impact of a number of major policy or process changes over the past year that directly affected school operations. These changes—which include the 150 percent limitation on Stafford Loan subsidy, new enrollment reporting requirements, and gainful employment and scorecard reporting—have imposed significant new burdens on school financial aid and business offices and their private software providers. FSA has taken a number of steps over the past year to help schools with these and other requirements, including extensive training and technical support, the implementation of system edits to simplify 150 percent processing, and streamlined PLUS loan processing. Given the volume of new requirements over the past year, the small reduction in the score on this metric—a statistically insignificant change from the previous year's score—is an indication of the success of FSA's outreach and support efforts.

Data Quality and Limitations:
A survey of 10-12 questions, regarding the ease of doing business with FSA, is sent to schools quarterly. The questions focus on the ease of use of FSA's major delivery and information systems.

Performance Metric B.2: Percent of Borrowers > 90 Days Delinquent

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Performance metric revised in FY 2015			9.9%	10.4%	9.8%
Performance Result	Prior-year data not available under revised method.			Revised metric	Met	

Target Context:
A focus on reducing the number of borrowers more than 90 days delinquent provides FSA with insight on how to communicate information about repayment options in a targeted and timely manner.

Analysis of Progress:
FSA met its target with a result of 9.8 percent.

Reducing the percent of borrowers with loans in a delinquent status has been a major goal of FSA, and success in this metric reflects FSA's accomplishments in this area. In particular, efforts to encourage borrowers to leverage income-based repayment programs, as well as engaging in targeted communications efforts designed to spread awareness of options to remain out of delinquency, greatly helped to reduce the delinquency rate since FY 2014.

Data Quality and Limitations:
Borrower-based data are collected from TIVAS and NFP invoices. FSA calculates the average number of borrowers serviced by TIVAS and NFPs who are between 91 and 270 days delinquent in the year ending June 30 each year and divides this number by the average number of borrowers in active repayment for the year.

This calculation was adjusted in FY 2015 to better measure all pre-default accounts over 90 days delinquent relative to all accounts where payments are anticipated. The previous FY 2014 target and result were both 8.1 percent.

FSA Fact

Borrowers who work full-time in a public service job and have a Direct Loan or a Direct Consolidation Loan may qualify for the Public Service Loan Forgiveness Program. To find more about the Public Service Loan Forgiveness Program, go to StudentAid.gov/repay-loans/forgiveness-cancellation/charts/public-service.

Strategic Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*

Performance Metric C.1: Aid delivery costs per application

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	$9.89	$10.85	$11.16	$11.43	$12.28	$10.73
Performance Result	Baseline	Met	Met	Met	Met	

Target Context:
FSA has developed two measures to gauge the efficiency of aid delivery. The first unit cost measure is the aid delivery cost per application. This unit cost tracks the direct cost to process FAFSAs and originate aid in the 12-month period, divided by the number of original FAFSAs processed in the period. The fiscal time period measured is July through June. The FY 2015 target was expected to be higher than previous years because a major cost component was forecasted to increase. Historically, the Base Fixed Cost portion of the originations contract comprised about half of the total contract cost and had increased 4-8 percent annually from FY 2012–14. Since this was built into the multi-year contract, it had driven up the measure's targeted result.

Analysis of Progress:
FSA met its target with a result of $10.73.

Actual costs were 12 percent lower than projected, as a result of favorable contract negotiations. In addition, the number of applications was 0.4 percent higher than forecast, which further decreased the unit cost.

Data Quality and Limitations:
The cost data for this metric are derived from general ledger data uploaded to FSA's Activity-Based Costing model, which is updated on a quarterly basis and reconciled to FSA's Statement of Net Cost, ensuring all costs assigned to FSA are included in the cost model. The FAFSA volumes are derived from the Central Processing System, FSA's system for processing student aid applications.

Performance Metric C.2: Loan servicing costs per borrower

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	$18.15	$18.94	$21.42	$21.59	$22.47	$22.36
Performance Result	Baseline	Met	Not met	Not met	Met	

Target Context:
The second measure developed to gauge the efficiency of aid delivery is the loan servicing-related cost per borrower. This unit cost tracks the overall costs of loan servicing operations and maintenance, including labor, non-labor, and contracts.

In general, borrower accounts in FSA's portfolio of federal student loans have matured, with a higher proportion of borrowers moving from the in-school/grace status into repayment. Because servicing costs for loans in repayment are higher, this change in the portfolio mix has driven the average loan servicing cost per borrower upwards. In addition, a new pricing schedule was recently implemented that further increased the servicing costs for loans in repayment while decreasing servicing costs for loans in other statuses. While incentivizing servicers to better manage borrowers toward repayment, this has also furthered the upward trend in loan servicing costs per borrower.

Analysis of Progress:
FSA met its target with a result of $22.36.

Actual costs were 2 percent lower than targeted costs because 2 percent fewer borrowers were in repayment status than had been projected. Because borrowers in the repayment loan status are the most costly to service, the lower than forecasted volumes led to the lower unit cost.

Data Quality and Limitations:
The measure is defined as the total direct costs for servicing in the year ending June 30, divided by the average number of borrowers in servicing for the year.

Data for this measure are derived from FSA's Activity-Based Costing model, which is updated on a quarterly basis and reconciled to FSA's Statement of Net Cost, ensuring all costs assigned to FSA are included in the cost model.

FSA Fact

FSA provides a fact sheet, entitled Repay Your Federal Student Loans. This fact sheet shares basic information on the repayment of subsidized loans and unsubsidized loans, as well as PLUS loans for graduate and professional students. It lists information such as, repayment plans loan types, monthly payment amounts, etc. To obtain a copy of this sheet, visit StudentAid.gov/repay-loans.

Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests.*

Performance Metric D.1: Improper Payment Rate

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	**Performance metric established in FY 2012**	Pell Grant 2.49% Direct Loan 0.58% FFEL 1.93%	Pell Grant 2.26% Direct Loan 1.03% FFEL <0.005%	1.54%	1.65%	1.44%
Performance Result	**Prior-year data not available**	**Met**	**Not met**	**Not met**	**Met**	

Target Context:
FSA develops and reports annually in the ***AFR*** improper payment estimates for programs determined to be susceptible to significant improper payments. In FY 2015, FSA identified the Pell Grant and Direct Loan programs as risk-susceptible. The FY 2015 target was set using the FY 2014 actuals for these two programs, with a confidence interval of plus or minus 1 percent to allow for minor fluctuations in responses. Prior to FY 2015, the FFEL program had also been identified as risk-susceptible. However, the improper payment rate calculation reported for FFEL for FY 2013 and FY 2014 was less than 0.005 percent and OMB approved in FY 2015 a change in designation to low risk. As a result, FFEL is not included in the blended improper payment rate or target for FY 2015.

For FY 2012 and FY 2013, the Improper Payment Rate metric was calculated separately for each risk-susceptible program. Starting with the FY 2014 metric, FSA began reporting a single 'blended' rate that divides aggregated estimated improper payments for all programs identified as risk-susceptible for that year by aggregated estimated program outlays. This new, more comprehensive measure has enabled FSA to view its progress in a more holistic manner.

Analysis of Progress:
FSA met its target with a result of 1.44 percent. As noted below, the underlying improper payment estimates were calculated using an alternative methodology and the decline in the FY2015 estimate may not be statistically significant. FSA continues to enhance its internal control framework to prevent and detect improper payments. For more information on FSA's improper payment program, including improper payment related internal controls for the Pell and Direct Loan programs please see the *Other Information* section of the Department's ***AFR***.

Data Quality and Limitations:
The OMB-approved FY 2015 improper payment estimation methodology is an alternative, as opposed to statistical methodology. Accordingly, these estimates may lack the precision of other estimates developed using random, statistical methodologies. The alternative methodology is based on an analysis of data obtained from program reviews conducted at schools identified through a risk-based (i.e., non-random) selection process.

Performance Metric D.2: Percentage of contract dollars competed by FSA

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Performance metric established in FY 2014			88.7%	87.7%–89.7%	90.3%
Performance Result	Prior-year data not available			Met	Met	

Target Context:
Federal acquisition regulations require agencies to compete contracts, unless otherwise justified and approved in accordance with regulation. Competition increases transparency, drives savings and quality, and helps maintain a supplier base for future acquisition needs. This metric tracks the percentage of contract dollars competed by FSA.

Analysis of Progress:
FSA exceeded this metric with a final score of 90.3 percent.

FSA has consistently improved the percent of contract dollars competed in each fiscal year and continues to develop and maintain the highest quality standards among enterprise contractors.

Data Quality and Limitations:
The metric is a five-year rolling average. The numerator is the total amount of dollars competed over a five-year period ending in the most recently completed fiscal year; the denominator is the total amount of dollars expended on contracts over the same period. The data are extracted from the Federal Procurement Data System-Next Generation using the standard "Competition Report" for contracting office "Federal Student Aid Procurement Activity".

FSA Fact

The Financial Awareness Counseling Tool (FACT) is available to assist student borrowers in managing their student loan debt. This interactive tool, launched by FSA provides students with tutorials that cover topics ranging from managing a budget to avoiding default. To get more information about FACT, go to StudentLoans.gov.

Performance Metric D.3: Collection Rate[10]

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Performance metric established in FY 2012	$31.90	$41.57	$35.90	$36.56	$51.58
Performance Result	Prior-year data not available	Met	Met	Not met	Met	

Target Context:
FSA's collection rate measures the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect. Measuring this rate helps FSA to gauge the efficiency of its back-end systems and processes.

Analysis of Progress:
FSA met its target with a result of $51.58.

Collection costs were significantly lower than anticipated due to stronger cost management of the Private Collection Agency contracts. Stricter documentation criteria was a primary factor in driving down costs despite lower than forecasted collections.

Data Quality and Limitations:
Collections are defined as the total amount of principal collected on both current and defaulted debt during the 12-month period ending June 30 of each year. Costs include the total direct costs calculated for loan servicing plus debt collections for the same period using FSA's Activity-Based Costing process.

The cost data are derived from FSA's Activity-Based Costing model (Default Collections and Loan Servicing) and Private Collection Agency spending. A program from the general ledger captured the amount of collections and repayment.

[10] Collection Rate for the purpose of this metric is defined as the amount of dollars collected from borrowers in the fiscal year per dollar spent to collect

Strategic Goal E: *Strengthen FSA's performance culture and become one of the best places to work in the federal government.*

Performance Metric E.1: Employee Engagement Index

Fiscal Year	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	
	Actual	Actual	Actual	Actual	Target	Actual
Performance	Performance metric established in FY 2014			67.7%	66.7%–68.7%	67.9%
Performance Result	Prior-year data not available			Met	Met	

Target Context:
Beginning in FY 2014, FSA has measured its progress on Strategic Goal E via the Employee Engagement Index, based on a subset of questions from the government-wide FEVS. The Employee Engagement Index is a government-wide standard subset of questions developed by the U.S. Office of Personnel Management and the Partnership for Public Service, which jointly administer and analyze the FEVS. Doing so aligns FSA with the Federal standard for FEVS analysis.

Analysis of Progress:
FSA met its target with a result of 67.9 percent.

With an FY 2015 result of 67.9 percent, FSA met its target range of 66.7–68.7 percent and exceeded its prior-year result of 67.7 percent. This is a testament to FSA's strong focus on improving the employee experience in FY 2015 through recognizing the achievement of employees and creating an environment in which personal growth is encouraged. Among the highlights of the FY 2015 FEVS survey, 90 percent of FSA employees believe that the work they do is important, more than 86 percent positively rate the quality of work of their work unit, and more than 80 percent like the kind of work that they do. FSA experienced year-over-year gains in nearly half of the FEVS survey questions, including improvements in the percentage of employees who believe that FSA is successful at accomplishing its mission, the percentage of employees who believe that they are given a real opportunity to improve their skills at FSA, and the percentage of employees who believe that their supervisors support employee development. More information about the FEVS and the questions included on the survey can be located **Fedview.opm.gov**.

Data Quality and Limitations:
The Employee Engagement Index is calculated as the average of positive response percentages to a predetermined set of questions in the annual FEVS: 3, 4, 6, 11, 12, 47, 48, 49, 51, 52, 53, 54, 56, 60, and 61. These questions can be found on the FY 2015 FEVS located at **Fedview.opm.gov**.

FY 2015 Accomplishments of Federal Student Aid

During FY 2015, FSA realized additional accomplishments that were not measured specifically by the performance metrics implemented to measure performance against FSA's *Strategic Plan*. Although not measured by FSA performance metrics, these additional accomplishments were the result of initiatives FSA undertook to support the implementation of this *Strategic Plan* or legislative changes. This section describes its additional accomplishments.

FSA realized the following additional accomplishments in support of Strategic Goal A: *Provide superior service and information to students and borrowers.*

- FSA promoted the FAFSA Completion Initiative, under which states may, at the discretion of the Department, disclose FAFSA filing status information to a school district, secondary school, or other entity as designated by the Secretary, allowing guidance and college access professionals to individually target students to encourage FAFSA completion.

- FSA continued to enhance its critically-acclaimed outreach initiatives, including an integrated repayment campaign to provide borrowers information about their repayment options, and new content and features on StudentAid.gov.

- FSA refined and expanded the scale and effectiveness of its email marketing campaigns to raise awareness of repayment options, particularly income-driven repayment (IDR) plans, including through a partnership with the White House Social and Behavioral Sciences Team.

FSA realized the following additional accomplishments in support of Strategic Goal B: *Work to ensure that all participants in the system of funding postsecondary education serve the interest of students, from policy to delivery.*

- FSA improved its compliance and oversight activities in critical areas, expanding the team responsible for ensuring compliance with the *Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act* (Clery Act), which governs campus security and crime reporting.

- FSA began implementation of the systems required to enforce Gainful Employment regulations, which help protect students from becoming burdened by student loan debt that they cannot repay and ensure that postsecondary education remains a driver for long-term success.

- FSA strengthened oversight by developing a multi-regional review team tasked with monitoring large and publicly-traded school groups.

FSA realized the following additional accomplishments in support of Strategic Goal C: *Develop efficient processes and effective capabilities that are among the best in the public and private sectors.*

- FSA improved its analytical and modeling capabilities to ensure proper portfolio management and risk mitigation, and streamlined staff through the creation of an Enterprise Data Office tasked with managing and developing data requests.

- FSA developed the technical foundation for the Enterprise Data Warehouse, which includes student aid lifecycle data, loan servicing history, and tools for business intelligence for reporting and analysis.

- FSA expanded the FSA Data Center and developed 'dashboards' to compile and share data among stakeholders and improve transparency.

- FSA realized approximately $141.3 million in cost savings and avoidances over a five-year period with the Title IV Financial Aid Origination and Disbursement contract. This value reflects reductions when compared solely with historical costs. It does not include the additional and significant cost avoidances, which may be due to increased operational volumes or risk mitigation.

FSA realized the following additional accomplishments in support of Strategic Goal D: *Ensure program integrity and safeguard taxpayers' interests.*

- FSA strengthened cyber security through various initiatives, including the initiation of a security review of guaranty agencies and the successful completion of a government-wide Cybersecurity Sprint. Efforts to improve the security of FSA's systems have been, and will continue to be, a significant focus for the organization in order to protect PII and ensure the integrity of customer data.

- FSA developed and implemented a new, more secure FSA ID to replace the old FSA Personal Identification Number for customers. This significantly strengthened the security of FSA's external authentication processes.

FSA realized the following additional accomplishments in support of Strategic Goal E: *Develop FSA's performance culture and become one of the best places to work in the federal government.*

- Redesigned and administered the training needs analysis process to ascertain organizational functional skills training and developmental needs. The Functional Skills Training Needs Analysis was conducted from January to August 2015. Various data collection methods were used throughout the process.

- FSA continued improvements to the Summer Pathways Intern Program. FSA had 10 Pathways interns in FY 2015 and was able to retain 100 percent into the current fiscal year through extension or conversion to full time employees. Also, feedback scores for satisfaction and experience were 100 percent across the board.

- FSA conducted Management Seminar Training from April through June 2015 in Washington, D.C., and in FSA's regional offices from June and July 2015. All attendees provided analysis and feedback based on organizational results, using group interactions and facilitated discussions. The seminar's format employed inquiry based learning methods, with some FSA related scenario based situations.

Legislative and Regulatory Recommendations

One of FSA's mission responsibilities under the law is to provide input on legislative proposals (both from the Congress and from the administration) and to support the Department's regulatory activity. FSA also may suggest legislative or regulatory changes for consideration by the Department's senior policy officials. These recommendations customarily center on improving and simplifying the Title IV programs, minimizing administrative costs, and improving program integrity. FSA's recommendations inform the Department's policymaking process, including its activities and decisions related to each year's budget process. FSA usually provides these recommendations by direct contact with colleagues in various offices within the Department, including the Office of Postsecondary Education and the Office of the Under Secretary, at both the senior policy level and at a staff level. While a portion of this policy advising is accomplished on an ongoing, informal basis, during the past year, FSA provided specific recommendations to policy officials on the following issues: simplification of the financial aid application (FAFSA) process, including implementing the statutorily permitted use of so-called "prior-prior" year income; developing the expansion of the Experimental Sites Initiative to address the Administration's higher education priorities; developing policies relating to the regulations for the eligibility of gainful employment programs at institutions of higher education; developing and implementing policies to address the expiration of the Federal Perkins Loan Program; and various budget and legislative initiatives. In addition, FSA's staff also contributed to the Department's other rulemaking processes, including rulemaking on cash management, borrower defenses, and Campus-Crime reporting.

FSA Fact

FSA, worked closely with the Department to implement the changes made to the Clery Act by the *Violence Against Women Reauthorization Act of 2013*. The Department published a final rule that included additional requirements to ensure that institutions provide the most complete information possible to their students, better inform and protect victims, and clarify the process for collecting crime statistics, among other changes. That act and the new rule strengthen the Clery Act to improve security and to address more effectively, and ultimately reduce, sexual violence on college campuses.

Annual Bonus Awards

FY 2015 performance ratings and related awards for FSA senior managers and Senior Executive Service staff were not finalized at the time this report was prepared.

At the end of FY 2015, there were 44 FSA senior managers. There were also nine Senior Executive Service members. Nine of the 44 senior managers and 3 of the 9 Senior Executive Service staff served on the FSA Operating Committee and reported directly to the COO. The remaining 35 senior managers and 6 Senior Executive Service staff served in a variety of senior positions and capacities within FSA.

For FY 2014, the composition of ratings for the 36 senior managers who did not serve on the Operating Committee last year were as follows: 14 achieved a performance rating of Exceptional Results, 12 achieved a performance rating of High Results and 8 achieved a performance rating of Results Achieved, and 2 were not eligible for a rating.

Award amounts for those senior managers achieving an Exceptional Results rating ranged from a low of $6,479 to a high of $20,400 with a median award of $7,830. Award amounts for those achieving a High Results rating ranged from a low of $4,312 to a high of $15,908 with a median award of $4,867.

There were also FY 2014 ratings and awards for seven senior manager members of the Operating Committee. The composition of those rated includes: four achieved a performance rating of Exceptional Results; two achieved a performance rating of High Results, one achieved a performance rating of Results Achieved. Three of the 10 Senior Executive Service members are on the Operating Committee and achieved a performance rating of Exceptional Results. The composition of ratings for the remaining seven Senior Executive Service members not on the Operating Committee were as follows: two achieved a performance rating of Exceptional, three achieved a performance rating of High Results, and two achieved a performance rating of Results Achieved.

Award amounts for the Operating Committee ranged from approximately $14,608 to $75,000, depending on the performance rating of each individual. Only individuals with performance ratings of High Results Achieved or Exceptional Results achieved were eligible for performance-based awards.

For additional information, please refer to: **Higher_Education_Amendments_1998/sec101D.html**

Report of the Federal Student Aid Ombudsman

The FSA Ombudsman entered its 16th year of service to federal student aid recipients in FY 2015. Established by the 1998 amendments to the HEA, the Ombudsman began operations on September 30, 1999.

Consistent with its statutory mission, the Ombudsman Group uses informal dispute resolution processes to address complaints about the Title IV financial aid programs. The Ombudsman employs a collaborative approach in working with institutions of higher education, lenders, guaranty agencies, loan servicers, and other participants in the student aid programs. Ombudsman Group staff conduct fact-finding, review student loan data and records, and facilitate contacts between borrowers and their loan servicers to promote mutually agreeable resolution of issues.

Information about customer inquiries is compiled into the Ombudsman Case Tracking System. The data are analyzed, and the findings are included in internal and external reports for FSA and the industry in general, to identify systemic issues affecting Title IV programs. Implementation of systemic solutions can at times prevent problems, an approach preferable to resolving individual complaints as received.

Since 1999, the Ombudsman has received 366,882 customer contacts, including 34,008 in FY 2015. In most of its years of operation the Ombudsman Group has received a greater number of customer contacts than in the previous year, attributable, in part, to growing awareness of the Ombudsman and the increase in the number of individuals receiving federal student aid. Contacts received in FY 2015 were lower than the peak of FY 2014 but consistent with recent levels.

Total Volume of Contacts

FY	New Customer Contacts	Percentage Change from Previous Fiscal Year
2012	34,909	+6.0%
2013	33,916	-2.8%
2014	38,665	+14.0%
2015	34,008	-12.0%

The Ombudsman Group classifies customer contacts as one of two types: General Assistance (GenAssist) cases, which typically are resolved almost immediately through the provision of information or referral to the appropriate entity within the student loan community; and Research cases, which present a more complex problem requiring the engagement of multiple parties and a series of contacts, are assigned to a research specialist to address, and may take several months to close. Historically, Research cases have represented an increasing percentage of total contacts to the Ombudsman, but, as the following table demonstrates, this trend reversed in FY 2013 and continues.

Research Contacts Received

FY	Research Cases	Percentage Change in Research Cases from Previous Fiscal Year	Research Cases as Percentage of Total Customer Contacts
2012	11,570	+ 41.0%	33.1%
2013	9,414	-18.6%	27.8%
2014	7,819	-16.9%	20.2%
2015	6,046	-22.7%	17.8%

Several initiatives undertaken by the Ombudsman, FSA business units, and student loan servicers contributed to the reduction in the number of Research cases. The mission of the FSA Ombudsman is to serve as a forum of last resort, to assist borrowers who have been unable to resolve their problem with their loan holder. Borrowers contacting the Ombudsman who have not exhausted the problem resolution options available through their loan holder are referred to the loan holder and counseled to re-contact the Ombudsman if those efforts are unsuccessful.

Borrower Issues

The Ombudsman Group uses issue categories and issue sub-categories to classify the nature of the question, issue, or observation brought to it by customers. The following table shows the total volume of customer contacts by each of the 16 major issues categories along with a brief description of the category.

FY 2015 Customer Contacts by Original Issue

Issue Category Name	Description	FY 2015 Volume	
		Research	General Assistance
Account Balance	Questions/disagreement about the balance being collected, balance dispute, school refund, disbursement	1,504	3,863
Bankruptcy	Bankruptcy related issues from a bankruptcy court filing	48	85
Closed School	Issues related to a postsecondary school's closure	86	549
Collection Practices	Actions taken by collectors deemed excessive, abusive, unreasonable, or illegal by borrower	81	431
Consolidation	Question/complaint about terms and processes for consolidating FFEL, Federal Direct Loan, Federal Perkins, or HEAL Loans	459	1,480
Credit Reporting	A report detailing all outstanding consumer-related debt, including bad student loan debt	363	1,380
Default	Assertion that the default status is wrong, or is asking for options for default removal	550	2,309
Deferment/Forbearance	Deferment, Deferment Rejected, Forbearance, Forbearance Granted	155	1,258
FSA Assistance	General Information Request, Pell Grant, Not a Loan Question, Other, Other Aid Issue	180	5,645
Loan Cancellation/Discharge	Loan Cancellation, Disability Discharge, Discharge—Death, Discharge Denied, Loan Discharge, False Certification, ID Theft	959	3,128

Issue Category Name	Description	FY 2015 Volume	
		Research	General Assistance
NSLDS	NSLDS is incorrect	100	183
Repayment Plans/Amounts	Customer wants to establish, revise, or comment on available repayment plans/amounts	744	2,780
Service Quality	Complaints about loan servicing, service quality, due diligence, quality of education	371	2,051
Student Eligibility	Borrower cannot receive Title IV funds because of regulatory or school imposed policy/procedures	120	1,366
Tax Refund/(Federal) Offset	Borrower wants to avoid tax or other Federal offset	164	808
Wage Garnishment	Borrower objects to administrative wage garnishment, wants to avoid it, reduce amount, or complain about how the agency implements it.	156	646
Issue Not Yet Classified		6	0

Case Volume – Research

As noted above, Research contacts—those requiring more intensive effort to resolve—are a subset of the total volume received. In keeping with its role as a neutral, the Ombudsman Group typically declines to characterize every contact it receives as a "complaint." However, it is fair to say that Research contacts most often result from a customer's dissatisfaction with previous efforts to resolve an issue. As such, this section presents more information about the cause and types of issues identified as Research contacts.

In FY 2015, the top five issues for Research cases were consistent with prior years with the exception that Consolidation returned to the top five supplanting Credit Reporting. In FY 2015, the top five issues for Research cases were:

Account Balance: Customer requests for assistance concern disagreement over account balances, interest accrual, or how payments are applied. The root causes of these contacts are nearly as varied as the individuals contacting the Ombudsman Group. Ombudsman Group customers can often find themselves in a difficult position after their account balance has grown over time because of capitalized interest and, possibly, late fees and collection costs due to loan default. The Ombudsman Group takes the time to review all payment history documentation provided by the loan servicer and the customer to validate whether an outstanding balance has been calculated correctly, from loan disbursement to the current date.

Loan Cancellation Discharge: Customers assert their loans should be cancelled or discharged because of existing conditions or services performed.

Historically, discharge for TPD has been the primary cause of contacts to the Ombudsman Group. However, changes to statute and regulations coupled with significant improvements in servicing have resulted in a noticeable reduction in TPD cases. Growth in the number of customer cases for Loan Cancellation/Discharge were driven by increases in issues related to closed schools and customers seeking discharge of their loans because the quality of the education received was deemed inferior. In the latter case, the quality of education received in not a basis for loan discharge under current statute and regulations.

Repayment Plans/Amounts: Customer requests for assistance concern the desire to establish, revise, or complain about their repayment plans. This category has been in the top five in the entire history of the Ombudsman Group. The array of repayment plan options has expanded significantly in recent years, in some ways taxing customer and servicer abilities to comprehend the perceived advantages and benefits of each. The 10-year standard repayment plan may no longer be the optimal plan for many borrowers as they enter repayment. Helping individual borrowers select the best alternative to the ten-year plan involves not only advising them on how to submit the appropriate application and documents, but also helping them determine whether the plan is best for them in the short or long term.

Default: Customers assert the default status of their loans is wrong, or customers are asking for options for removing the defaulted status of their loans. Most customers in this category have had some interaction with the entity performing collection activities on the debt, but have not been satisfied with the outcome of those interactions, or are seeking an alternative to the options offered.

The role of the Ombudsman Group is frequently one of facilitating the customer's interaction with the loan holder or collection agency. Depending on the customer's circumstances, the resolution may be assisting the customer with entering a mutually agreeable repayment plan for the purpose of loan rehabilitation.

Consolidation: After an absence of several years, Consolidation returned as a top five Research issue in FY 2015. Customers contact the Ombudsman seeking information about options for consolidation of their student loans or to seek assistance when they believe there are errors in their consolidation loan. The increase in consolidation cases is driven by the emergence of third-party firms that contact student loan borrowers with promises of debt relief. The firms typically charge an upfront fee and a monthly charge to consolidate the borrower's loans and enroll them in a loan forgiveness program, services available at no charge from loan servicers. The number of customer contacts relating to third-party firms promising debt relief to borrowers increased by over 300 percent between FY 2014 and FY 2015.

Analysis of Outcomes

Case closing categories and sub-categories in Ombudsman Case Tracking System allow the logging of the outcomes for customers who contact the Ombudsman Group for assistance. We believe improved analysis of these data will contribute to a better understanding of the nature of the issues customers present, point out areas where service quality can be improved, and identify possible systemic issues that lead to customer complaints.

Resolutions of the problems customers present are rarely binary—the customer receives or does not receive the outcome sought. Customers sometimes seek outcomes which statute and regulation do not authorize—*e.g.,* discharge of a loan because of economic hardship—or for which they are not eligible due to their circumstances. Customers are often unaware of the option or options that provide the best way to manage their student loan debt, and the best service that can be provided by the Ombudsman is to create awareness of those actions.

The Ombudsman Group identified five broad categories that capture the range of customer outcomes:

- **Action:** Ombudsman activity results in a change to the customer's account, *e.g.,* a change in loan status, payments reapplied, loan balance adjusted, loan cancellation/discharge granted, income-driven repayment granted, etc.

- **Confirmation:** No change occurred on the customer's account and research confirms the current status, *e.g.,* loan balance verified, interest rate found to be accurate, the desired benefit was properly denied, etc. In these situations, the Ombudsman staff will provide guidance for the borrower on the available options for managing their student loans and refer them to the proper entity for initiating the optimal option.

- **Information:** The customer was provided with information or guidance on the available options for managing their student loan account and empowered to take the next steps, *e.g.,* loan servicer identified, Public Service Loan Forgiveness or Income Based Repayment (IBR) explained, contact information provided, etc.

- **Referral:** Customer is provided guidance on available options and referred to appropriate party for resolution, *e.g.,* loan servicer, guaranty agency, or other FSA office.

- **Other:** Customer has to submit information or contact us again in order for further Ombudsman research to continue.

Outcomes Comparison of Research and General Assistance Cases
Outcomes vary significantly between Research and GenAssist cases. The former are assigned to a specialist for research and are more likely to result in an outcome of Action or Confirmation. Because the Ombudsman is the resource of last resort, customers who have not exhausted all of the available options to resolve their issue with their loan servicer are referred to an escalated issues team at the servicer to attempt resolution. If those efforts still do not result in resolution, the customer is advised to contact the Ombudsman again. Consequently, the most common outcome for GenAssist cases is referral.

Outcomes Comparison of Research and General Assistance Cases

Case Type	Action	Confirmation	Information	Referral	Other	Total Cases
Research	27.3%	35.2%	19.5%	10.2%	7.7%	5,997
General Assistance	0.5%	0.8%	5.1%	80.9%	12.7%	27,503

Outcomes for Research Cases Closed in FY 2015 by Original Issue Category
Since Research contacts are more complex and time consuming, there are many different paths to resolving the customer's issue. In FY 2015, for about 35.2 percent of Research contacts, confirmation was the result. Although the resolution may not be what the customer ultimately wanted, as an independent, neutral, third party, the Ombudsman has provided the customer with an unbiased review of the matter, and informed the customer of their specific options unique to their situation.

FY 2015 Research Case Outcome Category by Issue Category

Research – Original Issue Category	Action	Confirmation	Information	Referral	Other	Total Closed
Account Balance	19.3%	54.6%	10.1%	7.7%	8.2%	100.0%
Bankruptcy	20.5%	53.8%	10.3%	7.7%	7.7%	100.0%
Closed School	12.2%	52.2%	16.7%	15.6%	3.3%	100.0%
Collection Practices	17.1%	23.2%	28.0%	17.1%	14.6%	100.0%
Consolidation	51.2%	29.8%	10.5%	3.9%	4.6%	100.0%
Credit Reporting	18.7%	37.4%	29.5%	7.6%	6.8%	100.0%
Default	27.3%	27.7%	29.4%	8.8%	6.7%	100.0%
Deferment/Forbearance	36.7%	26.1%	17.0%	12.8%	7.4%	100.0%
FSA Assistance	22.0%	9.1%	17.7%	26.8%	24.4%	100.0%
Loan Cancellation/Discharge	26.4%	31.9%	26.6%	9.6%	5.6%	100.0%
NSLDS	68.3%	5.9%	6.9%	8.9%	9.9%	100.0%
Repayment Plans/Amounts	29.2%	26.4%	26.3%	11.5%	6.7%	100.0%
Service Quality	21.7%	39.3%	12.0%	17.3%	9.7%	100.0%
Student Eligibility	24.1%	16.1%	14.3%	33.9%	11.6%	100.0%
Tax Refund/Offset	31.8%	22.5%	31.2%	4.6%	9.8%	100.0%
Wage Garnishment	40.4%	24.6%	21.6%	8.2%	5.3%	100.0%

As the above table demonstrates, outcomes vary depending on the nature of the customer's issue. Account balance is the most frequent category of Research contact and could involve a customer who disputes the validity of their entire debt, or believes that their balance should be lower than the amount they are being asked to repay. Account balance also includes those customers who request a reapplication of payments or believe the interest is calculated or capitalized incorrectly. For every one customer whose account balance is adjusted favorably after intercession by the Ombudsman Group, *e.g.,* payments are applied correctly, account balance corrected, payment refunded, etc., there are two customers where we confirm their status, *e.g.,* verify the outstanding balance as correct, that payments were applied correctly, that the interest is established in law and cannot be changed, etc.

Customer contacts about Repayment Plans/Amounts are another frequent Research issue. For 29.2 percent of these contacts, an action, *e.g.,* IBR approved, reversal of a TEACH Grant conversion, IBR adjusted, etc., occurs after our research. For 26.4 percent of Repayment Plans/Amounts contacts, the Ombudsman provides a confirmation reflective of statutory and regulatory requirements, *e.g.,* not eligible for a new repayment option, TEACH Grant conversion to a loan correct, IBR not adjusted, etc. For 26.3 percent, the Ombudsman provides critical information, *e.g.,* IBR explained, repayment options explained, educate the customer on consolidation loans, etc.

For customers whose student loans are in default, 29.4 percent of the time the Ombudsman provides information, explaining the steps that can be taken to remove the loans from default status. For another 27.3 percent some action is taken, *e.g.,* the default is reversed or the customer establishes a rehabilitation plan or consolidates to eliminate the default. For 27.7 percent the Ombudsman confirms the validity of the default and explains that the current outstanding balance includes capitalized interest, collection costs, and fees.

Loan consolidation resurfaced as a top five issue for Research cases in FY 2015. For more than half of these customers, the Ombudsman Group was able to facilitate an action to assist, *e.g.,* missing loans were added to the consolidation, a new consolidation loan was approved, or the customer was able to reverse a consolidation loan. For 29.8 percent of customers, a confirmation occurred—reversal or modification of the consolidation loan was denied or the balance on the loan was confirmed as accurate.

The Ombudsman Group conducted some preliminary analyses comparing case outcome data with the type of loan servicer. Initial findings based on initial issue category did not reveal differences between types of loan servicers that rose to the level of statistical significance or the sample size was too small to provide meaningful results. The Ombudsman Group will continue to refine these analyses to see if they produce any useful insights about servicer performance.

Other FY 2015 Highlights

Customer Satisfaction Survey

In FY 2015, the Ombudsman Group inaugurated a new customer satisfaction survey with the goal of gathering better data with which to inform improvements in customer service. On a weekly basis, the contractor sends a survey by email to all customers whose cases were closed during the previous time period. Participation in the survey is voluntary, and respondents are ensured confidentiality, so that they can provide candid feedback without fear of consequences. Responses to a standardized questionnaire are converted to a score on a 0 to 100 scale, and reported using the metrics of the ACSI.

The overall ACSI score for the Ombudsman Group for FY 2015 is 41. While not as high as desired, analysis of the numbers reveals unusual aspects that may reflect the nature of the Ombudsman's work. Large data sets, when graphically displayed, typically present in the classic Bell Curve—lowest on the scale at the respective tails and highest in the middle. The Ombudsman Group's ACSI scores present as an inverted Bell Curve—highest at the tails and lowest in the middle. It is believed that the Ombudsman's inability to provide customers with outcomes that are outside of law and regulation contribute to the ACSI scores they assign to the Ombudsman Group's work. Customers generally contact the Ombudsman because of a

perceived problem with their student loan account and often have a desired outcome in mind. If there has been a problem in the administration of the customer's account, the Ombudsman can assist in having corrections made. If, however, the customer's account has been administered in a manner consistent with applicable procedures, the Ombudsman cannot provide an outcome that is inconsistent with current statutory and regulatory requirements. The data suggest that customers may, in effect, be rating the Ombudsman based not on the quality of the service provided but on the outcome of their case.

The ACSI score for survey respondents with a research request is 45 and 39 for general assistance in FY 2015. It is not surprising that research ACSI scores are higher than for general assistance as the Ombudsman staff work with the research customer more extensively and have frequent interaction, as their issues are more complex. With general assistance customers, most are referred to the appropriate external entity, as Ombudsman Group does not perform loan-servicing actions such as processing deferments, forbearances, repayment plans, granting student loan discharges, etc. Some survey respondents provide scores for the Ombudsman Group based on the customer service of the external, non-Ombudsman entity. Many general assistance survey respondents reported that they did not receive a response from the Ombudsman Group regarding their issues, and then in turn, provide very low scores for all survey questions. This may be caused by Ombudsman Group email replies that the customer does not receive because their computers inadvertently treat the customer specific replies as junk email/spam. The Ombudsman Group is in the process of proactively informing customers of this issue by changing website language and pop-ups and initiating telephonic follow-up.

As noted above, the Ombudsman is the service of last resort. If the customer has not exhausted all of the opportunities for resolution with their current loan holder, the Ombudsman treats their situation as a GenAssist case and refers the customer to an escalated level of assistance at the current loan holder. Analysis of the data shows that 73.2 percent of the customers who gave the Ombudsman an ACSI score of zero had GenAssist cases. When the scores of zero are removed from the total, the Ombudsman Group receives an average ACSI score of 63.

Nonetheless, the Ombudsman Group is unsatisfied with its current ACSI scores and is committed to improving them. Due to the newness of the survey, there is a limited amount of data to review for trends. We continue to dissect and review the survey data with the goal of identifying improvements to processes that could enhance customer satisfaction. Changes were made to the process for referring customers to their loan holder. The Ombudsman Group communicates the customers' issues and information directly to an escalated issues team at the loan holder, and contacts the customer again to inform them of the steps taken and to advise them to contact the Ombudsman again if unable to resolve the matter with the loan holder.

"I love great customer service. I wish there were more people who knew how to handle discouraged customers who feel like there is no hope…keep up the good work."

"It is a relief to know that our fine public employees in fact care and do what is in their power to assist."

"Thank you for your courteous help! I felt 'listened to'."

"You folks rock…Thx"

Consumer Financial Protection Bureau
In FY 2015, the Ombudsman continued its collaboration with the Consumer Financial Protection Bureau (CFPB) Private Student Loan Ombudsman. The FSA Ombudsman's statutory authority limits its jurisdiction to the federal student loan program, so a major part of this collaboration is a mutual referral process that ensures that borrowers with private loan issues receive assistance from the CFPB. Borrowers who contact the Ombudsman Group with private student loan problems are provided with contact information and referred to CFPB. Conversely, borrowers with federal student loans who contact CFPB are referred to the FSA Ombudsman. In FY 2015, 1,700 of our new customers reported they were referred by CFPB. During FY 2015, the Ombudsman Group referred 994 customers to CFPB.

As in prior years, CFPB Private Student Loan Ombudsman staff participated in the annual Student Loan Ombudsman Caucus Meeting to share information and engage in discussion with colleagues throughout the student loan community.

Student Loan Borrower Interest Groups Roundtable
Beginning in FY 2013, the Ombudsman Group initiated a program of outreach to organizations that have an interest in issues relating to student loans. Through periodic conference calls, the Ombudsman provides a forum for these organizations to share concerns regarding the servicing of federal student loans and to engage in dialogue with Ombudsman Group staff and representatives of other business units within FSA. The goal is to enhance communication with the advocacy groups and allow discussion of observed servicing issues and changes in servicing operations. The Ombudsman Group facilitates this discussion and expands FSA's ability to anticipate the customer experience and communicate with stakeholders.

The Ombudsman Group held three of these calls in FY 2015. Participants included legal aid societies, consumer protection groups, and organizations focused on the operational impacts of federal student loan policy. Many of the participants work with individual borrowers and often refer those individuals to the Ombudsman Group. The topics of conversation this year included the updates on FSA's Spring 2015 Repayment campaign, the wind-down of ED-Aspire as a federal direct loan servicer, new Frequently Asked Questions for Consumer Advocates, collaborative ombudsman efforts with the CFPB, and the development of FSA's Enterprise Data Warehouse and Enterprise Complaint System. These conversations are a part of several activities aimed at continuously improving customer service for borrowers of federal student loans.

New Contract, New Data System
FY 2015 was a year of significant change for the Ombudsman Group. The contract to provide call intake and casework support to the FSA Ombudsman was re-competed, and for the first time since operations began in 1999, there is a new vendor providing support services. During transition, the Ombudsman Group staff was actively engaged in planning, development and delivery of training, and integrating the new contractor into the workflow.

Additionally, the Ombudsman Group transitioned to a new software system for recording and tracking cases. The goal of the change was to enhance efficiency of operations and the ability to extract and analyze data to both improve customer service and better identify systemic problems. Development and training concluded in late summer and the system went live at the end of July.

Financial Section

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

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Message From the Chief Financial Officer

Federal Student Aid
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John W. Hurt, III
Chief Financial Officer

Federal Student Aid's (FSA's) mission statement is *Funding America's Future, One Student at a Time*. This mission supports the Federal government's goal of increasing access to postsecondary education, ultimately leading to a better-educated citizenry and a higher standard of living for all Americans. My colleagues and I at FSA are driven to achieve this mission while protecting taxpayers' interests and minimizing costs.

In fiscal year (FY) 2015, FSA spent $1.4 billion to deliver $128.7 billion of federal aid to nearly 11.9 million postsecondary students and their families as well as to oversee a loan portfolio of 42 million borrowers with $1.2 trillion in Federal student loan debt. This is an enormous financial responsibility to students seeking financial assistance, borrowers who are paying off their student loans, and taxpayers who expect fiscal prudence and stewardship. Thanks to the dedicated and talented staff at the United States Department of Education (the Department) and FSA, we met the unprecedented challenges presented by this financial responsibility and continued to maintain our high standards of financial management and fiscal reporting. To manage the largest student aid operation in the world, FSA utilizes an effective investment management process and an internal control framework.

The $1.4 billion administrative budget is managed largely through FSA's investment management process. FSA uses this process to manage all major aspects (i.e., scope, schedule, and cost) of the investments in order to deliver our promised performance levels. This past year, we successfully re-competed the Title IV origination and disbursement contract, re-competed the National Student Loan Database system contract, implemented the Enterprise Data Warehouse, and implemented a new Person Authentication Service. As an example, one of the successful outcomes of the re-competition of the Title IV origination and disbursement contract was the $141.3 million savings in anticipated operations costs over the first five years of the contract. To achieve this success, program staff thoroughly documented requirements, allowing acquisition staff to negotiate among competing vendors from a position of strength. While we continue to make improvements to our investment management process, it has been effective in ensuring that we consistently achieve significant benefits, even under the challenging timeframes often imposed upon us.

As part of the internal control framework, FSA documented and tested 1,292 business process and entity-level controls and 1,584 Information Technology (IT) system internal controls across 36 business processes (and sub-processes) and 18 integrated IT systems, respectively. In 2015, we assessed that 96 percent of the controls tested are designed and operating effectively. The other 4 percent are immaterial deficiencies for which we have established or are establishing corrective actions. We will continue to repeat this assessment process on a regular basis, constantly looking for opportunities to improve our operations. This strong

underlying internal control framework helps FSA leverage its small number of staff to manage loan and grant operations that impact a relatively large percentage of the U.S. population.

I am honored to be working with a group of professionals throughout the Department who so enthusiastically meet our financial management challenges and achieve such distinguished results.

Sincerely,

John W. Hurt, III
Chief Financial Officer
November 13, 2015

Financial Statements

United States Department of Education
Federal Student Aid
Consolidated Balance Sheet
As of September 30, 2015 and 2014
(Dollars in Millions)

	Fiscal Year 2015	Fiscal Year 2014
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 67,985	$ 61,506
Total Intragovernmental	67,985	61,506
Cash and Other Monetary Assets (Note 5)	1,561	1,471
Accounts Receivable, Net (Note 4)	65	105
Credit Program Receivables, Net (Note 6)	1,016,425	922,418
Property and Equipment, Net (Note 7)	16	7
Other Assets (Note 8)	6	13
Total Assets (Note 2)	**$ 1,086,058**	**$ 985,520**
Liabilities:		
Intragovernmental:		
Accounts Payable (Note 9)	$ 1	$ 1
Debt (Note 10)	1,050,344	965,362
Guaranty Agency Funds Due to Treasury (Note 5)	1,561	1,471
Other Intragovernmental Liabilities (Note 11)	8,684	6,382
Total Intragovernmental	1,060,590	973,216
Accounts Payable (Note 9)	3,552	3,848
Accrued Grant Liability (Note 12)	1,571	1,719
Other Liabilities (Note 11)	37	67
Total Liabilities (Note 11)	**$ 1,065,750**	**$ 978,850**
Commitments and Contingencies (Note 19)		
Net Position:		
Unexpended Appropriations (Note 13)	$ 28,325	$ 30,485
Cumulative Results of Operations (Note 13)	(8,017)	(23,815)
Total Net Position (Note 13)	**$ 20,308**	**$ 6,670**
Total Liabilities and Net Position	**$ 1,086,058**	**$ 985,520**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Consolidated Statement of Net Cost
For the Years Ended September 30, 2015 and 2014
(Dollars in Millions)

	Fiscal Year 2015	Fiscal Year 2014
Program Costs:		
Increase College Access, Quality, and Completion		
Gross Costs	$ 59,500	$ 65,470
Earned Revenue	(31,547)	(28,979)
Net Program Costs	27,953	36,491
Total Program Costs	**$ 27,953**	**$ 36,491**
Net Cost of Operations (Notes 14 + 17)	**$ 27,953**	**$ 36,491**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2015 and 2014
(Dollars in Millions)

	Fiscal Year 2015		Fiscal Year 2014	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances:				
Beginning Balances	**$ (23,815)**	**$ 30,485**	**$ (3,601)**	**$ 33,595**
Beginning Balances, as adjusted	**$ (23,815)**	**$ 30,485**	**$ (3,601)**	**$ 33,595**
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 55,792	$ -	$ 49,876
Appropriations Transferred - In/Out	-	(13)	-	74
Other Adjustments (Rescissions, etc.)	-	(47)	-	(125)
Appropriations Used	57,892	(57,892)	52,935	(52,935)
Nonexchange Revenue	8	-	12	-
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	$ 10	$ -	$ 12	$ -
Negative Subsidy Transfers, Downward Subsidy Re-estimates, and Other	(14,159)	-	(36,682)	-
Total Financing Sources	**$ 43,751**	**$ (2,160)**	**$ 16,277**	**$ (3,110)**
Net Cost of Operations:	**$ (27,953)**	**$ -**	**$ (36,491)**	**$ -**
Net Change:	**$ 15,798**	**$ (2,160)**	**$ (20,214)**	**$ (3,110)**
Ending Balances (Note 13)	**$ (8,017)**	**$ 28,325**	**$ (23,815)**	**$ 30,485**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2015 and 2014
(Dollars in Millions)

	Fiscal Year 2015		Fiscal Year 2014	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 12,642	$ 9,857	$ 13,950	$ 11,072
Recoveries of Prior Year Unpaid Obligations	921	20,727	464	97,274
Other Changes in Unobligated Balance (+ or -)	(196)	(24,520)	(148)	(99,806)
Unobligated Balance from Prior Year Budget Authority, Net	$ 13,367	$ 6,064	$ 14,266	$ 8,540
Appropriations (Discretionary and Mandatory)	55,798	904	49,854	581
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	171,624	-	182,749
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	504	53,365	411	51,281
Total Budgetary Resources (Note 16)	**$ 69,669**	**$ 231,957**	**$ 64,531**	**$ 243,151**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 56,950	$ 217,721	$ 51,889	$ 233,294
Unobligated Balance, End of Year:				
Apportioned	10,473	550	10,617	69
Unapportion	2,246	13,686	2,025	9,788
Total Unobligated Balance, End of Year	$ 12,719	$ 14,236	$ 12,642	$ 9,857
Total Status of Budgetary Resources (Note 16)	**$ 69,669**	**$ 231,957**	**$ 64,531**	**$ 243,151**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 21,466	$ 80,104	$ 23,380	$ 161,488
Obligations Incurred	56,950	217,721	51,889	233,294
Outlays (Gross) (-)	(58,209)	(199,218)	(53,339)	(217,404)
Recoveries of Prior Year Unpaid Obligations (-)	(921)	(20,727)	(464)	(97,274)
Unpaid Obligations, End of Year	$ 19,286	$ 77,880	$ 21,466	$ 80,104
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ (4)	$ -	$ (3)
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	(1)
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ (4)	$ -	$ (4)
Memorandum (non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 21,466**	**$ 80,100**	**$ 23,380**	**$ 161,485**
Obligated Balance, End of Year (+ or -)	**$ 19,286**	**$ 77,876**	**$ 21,466**	**$ 80,100**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 56,302	$ 225,893	$ 50,265	$ 234,611
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(647)	(122,283)	(542)	(97,375)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	(1)
Budget Authority, Net (Discretionary and Mandatory)	**$ 55,655**	**$ 103,610**	**$ 49,723**	**$ 137,235**
Outlays, Gross (Discretionary and Mandatory)	$ 58,209	$ 119,218	$ 53,339	$ 217,404
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(647)	(122,283)	(542)	(97,375)
Outlays, Net (Discretionary and Mandatory)	57,562	76,935	52,797	120,029
Distributed Offsetting Receipts (-) (Note 16)	(12,957)	-	(39,559)	-
Agency Outlays, net (discretionary and mandatory) (Note 16)	**$ 44,605**	**$ 76,935**	**$ 13,238**	**$ 120,029**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements for the Periods Ended September 30, 2015 and 2014

Note 1. Summary of Significant Accounting Policies

Reporting Entity and Programs

Federal Student Aid (FSA) was created as a Performance Based Organization (PBO) within the U.S. Department of Education (the Department) under the *Higher Education Act of 1965* (HEA) from previously existing Department student financial assistance program offices. FSA operates under the PBO mandate to develop a management structure driven by strong incentives to manage for results. FSA's primary goal is to assist lower-income and middle-income students in overcoming the financial barriers that make it difficult to attend and complete postsecondary education.

Federal Student Loan Programs. FSA and the Department administer the William D. Ford Federal Direct Loan (Direct Loan) program, the Federal Family Education Loan (FFEL) program, the Health Education Assistance Loan program (HEAL), and the Federal Perkins Loan program to help students and their families finance the costs of postsecondary education. A direct loan is any debt instrument issued to the public by the federal government. A FFEL loan guarantee is a guarantee, insurance, or other pledge with respect to the payment of all or part of the principal or interest on any debt obligation of a non-federal borrower to a non-federal lender.

The Direct Loan program, added to the 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 *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.

Grant Programs. FSA and the Department manage numerous grant programs, which provide financial aid, that in most cases does not need to be repaid, to students with financial need. The largest of these programs is the Federal Pell Grant (Pell Grant) program, which provides need-based grants to low-income undergraduate and certain post baccalaureate students that promotes access to postsecondary education. Other grant programs include Federal Supplemental Educational Opportunity Grants (FSEOG), Teacher Education Assistance for College and Higher Education (TEACH) Grants, and Iraq and Afghanistan Service Grants.

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 FSA reporting group, 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 and FSA, 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 FSA's use of budgetary resources.

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

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

Transactions and balances among FSA funds have been eliminated from the consolidated financial statements.

The Department and FSA'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 FSA 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 cost of direct loan and loan guarantee programs are budgeted and tracked by the fiscal year in which the loan award is made or the funds committed. Such a grouping of loans or guarantees 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. FSA'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. FSA 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 FSA 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. 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 FSA programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the *General Education Provisions Act*. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current *Budget of the United States Government* presumes all programs continue per congressional budgeting rules. (See Note 16)

Use of Estimates

FSA and Department management are 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 FSA has authority to use for its operations. Non-entity assets are those held by FSA but not available for use in its operations. FSA non-entity assets are offset by liabilities to third parties and have no impact on net position. FSA 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

The Fund Balance with Treasury includes four types of funds in the FSA and 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; and (4) other funds include deposit funds, receipt funds, and clearing accounts. Treasury processes cash receipts and cash disbursements for the Department and FSA. The Department's and FSA's records are reconciled with Treasury's. (See Note 3)

Accounts Receivable

Accounts receivable are amounts due to FSA from the public and other federal agencies. Receivables from the public result from overpayments to recipients of grants and other financial assistance programs, and disputed costs resulting from audits of educational assistance

programs. Amounts due from federal agencies result from reimbursable agreements entered into by FSA 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 and FSA'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 FSA, accounts receivable originate through legal provisions or program requirements to return funds due to noncompliant program administration, regulatory requirements, or individual service obligations. Further, FSA utilizes the opportunity to reduce the accounts receivable balances through the Treasury Offset Program.

The Department and FSA calculate 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 specified 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 FSA 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 and FSA'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, FSA 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 FSA less the present value of related inflows. The estimated present value of net long-term cash outflows of FSA for subsidized costs is net of recoveries, interest supplements, and offsetting fees. FSA 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 FSA and held by FSA or guaranty agencies. In most cases, after approximately four years, defaulted guaranteed loans not in repayment are turned over to FSA 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

In accordance with the Department's policy, FSA 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, FSA 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 agency'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 and FSA lease 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 FSA or 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 FSA for goods and services received from other entities and scheduled payments transmitted but not yet processed. (See Note 9)

Debt

FSA 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. FSA repays the principal based on available fund balances. Interest on the debt is calculated at fiscal year-end using rates set by Treasury. These are rates generally fixed based on the rate for 10-year Treasury securities. (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 agency. The Department and FSA 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 includes liabilities in miscellaneous receipt accounts and capital transfers. Liabilities in miscellaneous receipt accounts are recorded for downward subsidy re-estimates that are accrued at year end and for amounts of future capital transfers from Liquidating Accounts. Miscellaneous receipt accounts are a mechanism used by Treasury to facilitate the elimination of receivables and payables within the government, and the Department and FSA follow the guidance for using miscellaneous receipt accounts in recording specific events. Upon execution of a downward re-estimate or an actual capital transfer, the liabilities in the miscellaneous receipt accounts are satisfied and removed from the general ledger. Liabilities in miscellaneous receipt accounts are unfunded liabilities. (See Note 11)

Net Cost

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

Net program costs are gross costs less any revenue earned from activities. FSA 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

FSA accrues interest receivable and records interest revenue on performing Direct Loans and FFEL loans purchased by FSA. FSA recognizes interest income when interest is accrued on loans to the public for the Direct Loan, FFEL, and TEACH Programs. Interest accrual under the FFEL Financing and Liquidating Accounts is recognized in allowance for subsidy. Interest receivables are established upon accrual and satisfied upon the collection or capitalization of interest. Interest accruals are calculated by the loan servicers and the debt collection management system at least monthly.

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 federal credit financing and liquidating funds and trust funds. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources. (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		
With the Public:		
Cash and Other Monetary Assets	$ 1,561	$ 1,471
Credit Program Receivables, Net	410	387
Accounts Receivable, Net	31	33
Total With the Public	**2,002**	**1,891**
Total Non-Entity Assets	**2,002**	**1,891**
Entity Assets	1,084,056	983,629
Total Assets	$ 1,086,058	$ 985,520

FSA's FY 2015 assets are predominantly entity assets (99.8 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity assets with the public primarily consist of guaranty agency reserves (78.0 percent), reported as Cash and Other Monetary Assets, and related Federal Perkins Loan Program loan receivables (20.5 percent), reported as credit program receivables, net. 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	Other Funds	Total
Status of Funds					
Unobligated Balance:					
Available	$ 10,473	$ 550	$ -	$ -	$ 11,023
Unavailable	671	13,686	14	-	14,371
Obligated Balance, Not Yet Disbursed	19,283	23,307	1	-	42,591
Fund Balance with Treasury	**$ 30,427**	**$ 37,543**	**$ 15**	**$ -**	**$ 67,985**

*Other primarily consists of non-entity deposit and receipt funds and clearing accounts.

	2014				
	General Funds	Revolving Funds	Special Funds	Other Funds	Total
Status of Funds					
Unobligated Balance:					
Available	$ 10,617	$ 69	$ -	$ -	$ 10,686
Unavailable	543	9,788	11	-	10,342
Obligated Balance, Not Yet Disbursed	21,462	19,012	4	-	40,478
Fund Balance with Treasury	**$ 32,622**	**$ 28,869**	**$ 15**	**$ -**	**$ 61,506**

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 to FSA and the Department from the initial lenders.

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 ($14,371 million) differs from unapportioned amounts on the SBR ($15,932 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	$ -	$ -	$ -
With the Public	85	(20)	65
Total	**$ 85**	**$ (20)**	**$ 65**

	2014		
	Gross Receivables	Allowance	Net Receivables
Intragovernmental	$ -	$ -	$ -
With the Public	115	(10)	105
Total	**$ 115**	**$ (10)**	**$ 105**

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 FSA's Balance Sheet increases or decreases FSA'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 FSA. Although FSA 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 FSA'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 FSA's procedures. During FY 2015, $2 million was remitted to the Department by a guaranty agency, and these remitted funds were returned to Treasury.

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

FSA and the Department currently operate 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.

FSA holds $1,016.4 billion in outstanding credit program net receivables. This outstanding balance is comprised primarily of Direct Loans, FFEL, and loans purchased using authority provided in the *Ensuring Continued Access to Student Loans Act of 2008* (ECASLA), but there are several other loan programs that the Department and FSA administer – including the Federal Perkins Loan Program, the TEACH Grant Program, and the HEAL Program.

Credit Program Receivables, as of September 30, 2015 and 2014, consisted of the following:

Credit Program Loan 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
Total	**$ 1,016,425**	**$ 922,418**

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 FSA 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 consecutive 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.

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	$ 422	$ 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	$ 140	$ (124)	$ 16
Furniture and Fixtures	2	(2)	-
Property and Equipment, Net	**$ 142**	**$ (126)**	**$ 16**

	2014		
	Asset Cost	**Accumulated Depreciation**	**Net Asset Value**
Information Technology, Internal Use Software, and Telecommunications Equipment	$ 130	$ (123)	$ 7
Furniture and Fixtures	2	(2)	-
Property and Equipment, Net	**$ 132**	**$ (125)**	**$ 7**

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

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

Leases

FSA staff and contractors are housed in leased buildings. FSA does not own real property. The leased contracts with GSA are operating leases and are expensed as incurred.

Note 8. Other Assets

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
Direct Loan Booking Accrual	$ 2,938	$ 3,027
In Process Disbursements:		
Direct Loans	298	312
Grants	164	161
FFEL Claim Payments	118	311
Contractual Services	98	163
Other	(64)	(126)
Accounts Payable to the public	**3,552**	**3,848**
Intragovernmental Accounts Payable	1	1
Total Accounts Payable	**$ 3,553**	**$ 3,849**

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 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.
The FY 2015 accounts payable other abnormal balance of $(64) million is primarily due to FFEL Guaranteed Loan program collections of fees, principal, and interest on defaulted loans.

Note 10. Debt

Debt, as of September 30, 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
Total	**$ 965,362**	**$ 162,332**	**$ (77,350)**	**$1,050,344**

	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
Total	**$ 851,258**	**$ 173,295**	**$ (59,191)**	**$ 965,362**

FSA 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 $965 billion in the prior year to $1,050 billion. The Department makes periodic principal payments, after evaluating the cash position and liability for future outflows in each program and pays interest, as mandated by the FCRA.

Over 86 percent of FSA'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. FSA 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. The FFEL program is no longer offering new financing to public borrowers or entering into guaranty agreements with lending authorities.

FSA also borrows from Treasury for activity in the TEACH program. During FY 2015, TEACH net borrowing of $91 million was used for the advance of new grants and repayments of principal made to Treasury.

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				
Employer Contributions and Payroll Taxes	$ 1	$ -	$ 1	$ -
Liability for Deposit Funds and Clearing Accounts	-	-	-	-
Accrued Payroll and Benefits	-	5	-	5
Deferred Revenue	-	18	-	50
Liabilities in Miscellaneous Receipt Accounts	5,497	-	3,762	-
Total Other Liabilities Covered by Budgetary Resources	**5,498**	**23**	**3,763**	**55**
Liabilities Not Covered by Budgetary Resources				
Current				
Accrued Unfunded Annual Leave	-	12	-	12
Noncurrent				
Accrued Unfunded FECA Liability	1	-	1	-
Liabilities in Miscellaneous Receipt Accounts	395	-	376	-
Capital Transfers	2,790	-	2,242	-
Accrued FECA Actuarial Liability	-	2	-	-
Total Other Liabilities Not Covered by Budgetary Resources	**3,186**	**14**	**2,619**	**12**
Other Liabilities	**$ 8,684**	**$ 37**	**$ 6,382**	**$ 67**

Other liabilities include current and noncurrent liabilities. The current liabilities covered by budgetary resources primarily consist of downward subsidy re-estimates ($5.5 billion), which when executed will be paid to the General Fund of the Treasury.

The noncurrent liabilities not covered by budgetary resources primarily relate to capital transfers ($2.8 billion) and the student loan receivables of the Federal Perkins Loan program ($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 $2.7 billion as of September 30, 2015 and 2014, respectively.

As of September 30, 2015 and 2014, liabilities totaled $1,065.8 billion and $978.9 billion, respectively. Of this amount, liabilities covered by budgetary resources totaled $1,062.6 billion and $976.2 billion as of September 30, 2015 and 2014, respectively.

Note 12. Accrued Grant Liability

FSA's accrued grant liability was $1,571 million and $1,719 million as of September 30, 2015 and 2014, respectively. The majority is comprised of Pell Grants. The remaining accrued grant liability also includes discretionary, formula, and campus-based 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	$ 10,436	$ 10,571
Not Available	489	482
Undelivered Orders	17,400	19,432
Unexpended Appropriations	**$ 28,325**	**$ 30,485**

Cumulative Results of Operations:

The cumulative results of operations of $(8,017) million and $(23,815) million as of September 30, 2015 and 2014, respectively, consists mostly of unfunded upward subsidy re-estimates for Direct Loan and FFEL Loan programs, other unfunded expenses, and net investments of capitalized assets.

Other Financing Resources:

Negative subsidy transfers, downward subsidy re-estimates, and other in the other financing sources section of the statement of changes in net position was $(14,159) million and $(36,682) 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 were $55,792 million and $49,876 million as of September 30, 2015 and 2014, respectively, and comprised primarily of Pell Grant and Direct Loan programs.

Note 14. Intragovernmental Cost and Exchange Revenue by Program

As required by the *GPRA Modernization Act of 2010*, FSA's reporting groups and major program offices have been aligned with the goals presented in the Department's *Strategic Plan 2014–2018*. *Strategic* Goal 1, increase college access, affordability, quality, and completion by improving higher education and lifelong learning opportunities for youth and adults, is a sharply defined directive that guides divisions to carry out the vision and programmatic mission of FSA.

Gross costs and earned revenue are classified as intragovernmental (exchange transactions between FSA and other entities within the federal government) or with the public (exchange transactions between FSA and non-federal entities). \The following table presents FSA's gross cost and exchange revenue by program for FY 2015 and FY 2014.

Gross Cost and Exchange Revenue by Program

(Dollars in Millions)

	2015	2014
Increase College Access, Quality, and Completion		
Intragovernmental Gross Cost	$ 33,873	$ 31,267
Public Gross Cost	25,627	34,203
Total Gross Program Costs	59,500	65,470
Intragovernmental Earned Revenue	(5,134)	(4,293)
Public Earned Revenue	(26,413)	(24,686)
Total Program Earned Revenue	(31,547)	(28,979)
Total Program Cost	**27,953**	**36,491**
Net Cost of Operations	**$ 27,953**	**$ 36,491**

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	$27,593
FFEL Program :						
Guaranteed Loan Program	2,083	(1,826)	257	257	-	257
Loan Purchase Commitment	1,091	-	1,091	63	1,028	1,091
Loan Participation Purchase	2,018	-	2,018	130	1,888	2,018
ABCP Conduit	60	-	60	4	56	60
TEACH Program	20	-	20	2	18	20
Other Programs	-	-	-	2	-	2
Total	**$ 32,865**	**$(1,826)**	**$31,039**	**$ 4,664**	**$ 26,377**	**$31,041**

	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	-	-	-	-	13	13
Total	**$30,593**	**$ (1,843)**	**$28,750**	**$ 4,109**	**$ 24,654**	**$28,763**

Federal interest expense is recognized on FSA'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 FSA. The credit program receivable net balances for the Direct Loan and FFEL programs are $880.6 billion and $134.7 billion, respectively, as of September 30, 2015. FSA holds $1,016.4 billion in outstanding credit program net receivables.

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 $302 billion and net agency outlays were $122 billion. As of September 30, 2014, budgetary resources were $308 billion and net agency outlays were $133 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	$ 1,467	$ 1,175
Category B	273,102	283,814
Exempt from Apportionment	102	194
Obligations Incurred	**$ 274,671**	**$ 285,183**

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	**$ 61,089**	**$ 138,411**
Current Year Borrowing Authority	171,624	182,749
Funds Drawn From Treasury	(162,332)	(173,295)
Borrowing Authority Withdrawn	(15,814)	(86,776)
Ending Balance, Unused Borrowing Authority	**$ 54,567**	**$ 61,089**

FSA 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. FSA 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	$ 17,443	$ 19,506
Nonbudgetary	74,828	76,676
Undelivered Orders (Unpaid)	**$ 92,271**	**$ 96,182**

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 credit 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. The collections are recorded as offsetting receipts and they offset the agency's budget authority and outlays. 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
TEACH Program	31	13
HEAL Program	19	-
Total Negative Subsidies and Downward Re-estimates	12,919	39,509
Other	38	50
Distributed Offsetting Receipts	**$ 12,957**	**$ 39,559**

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

Budgetary accounting as shown in 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 are estimated and disclosed in the President's Budget to approximate the gross activities of the combined Federal Funds. Amounts reported on the FY 2014 SBR for the Federal Fund are compiled through combining all guaranty agencies' annual reports to determine a net valuation amount for the Federal Fund.

Note 17. Reconciliation of Net Cost of Operations to Budget

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

Resources used to finance activities (section one) are reconciled with the net cost of operations by: (a) excluding resources used or generated for items not part of the net cost of operations (section two), and (b) including components of the net cost of operations that will not require or generate resources in the current period (section three). The primary resources used to finance activities that do not fund the net cost of operations include the acquisition of net credit program assets, the liquidation of liabilities for loan guarantees, and subsidy re-estimates accrued in the prior period. Significant components of the net cost of operations that will not generate or use resources in the current period include subsidy amortization, interest on the liability for loan guarantees, and increases in exchange revenue receivable from the public.

The reconciliation of net cost of operations to budget, as of September 30, 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	$ 274,671	$ 285,183
Spending Authority from Offsetting Collections and Recoveries	(144,579)	(195,653)
Offsetting Receipts	(12,957)	(39,559)
Net Budgetary Resources Obligated	**117,135**	**49,971**
Imputed Financing from Costs Absorbed by Others	10	12
Other Financing Sources	(14,159)	(36,682)
Net Other Resources	**(14,149)**	**(36,670)**
Net Resources Used to Finance Activities	**102,986**	**13,301**
Resources Used or Generated for Items Not Part of the Net Cost of Operations:		
(Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided	3,998	83,563
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(20,131)	2,383
Credit Program Collections	102,102	80,293
Acquisition of Fixed Assets	(10)	(3)
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(165,607)	(186,818)
Resources from Non-Entity Activity	14,788	36,682
Net Resources That Do Not Finance the Net Cost of Operations	**(64,860)**	**16,100**
Net Resources Used to Finance the Net Cost of Operations	**38,126**	**29,401**
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Change in Depreciation	1	(2)
Subsidy Amortization and Interest on the Liability for Loan Guarantees	16,709	11,609
Other	(1)	581
Total Components Not Requiring or Generating Resources	**16,709**	**12,188**
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	(29,484)	(25,227)
Other	4	(3)
Total Components Requiring or Generating Resources in Future Periods	**(26,882)**	**(5,098)**
Total Components That Will Not Require or Generate Resources in the Current Period	**(10,173)**	**7,090**
Net Cost of Operations	**$ 27,953**	**$ 36,491**

Note 18. Contingencies

FSA 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

FSA may assist guaranty agencies experiencing financial difficulties. No provision has been made in the financial statements for potential liabilities. FSA 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 2015–2016 award year prior to October 1, 2015, the school may make any remaining disbursements of that 2015–2016 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 FSA'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 FSA's financial position.

Required Supplementary Stewardship Information

Human Capital investments are those expenses included in net cost for general public education and training programs that are intended to increase or maintain national economic productive capacity.

Year to date expenses incurred for human capital investments consisted of the following as of September 30, 2015 and the preceding four fiscal year ends:

Summary of Human Capital Expenses
(Dollars in Millions)

	2015	2014	2013	2012	2011
Federal Student Aid Expense					
Direct Loan Subsidy	$(892)	$8,126	($39,557)	($10,720)	($28,630)
FFEL Program Subsidy	(3,856)	(6,585)	(8,753)	(14,381)	(16,126)
Perkins Loans, Pell and Other Grant	31,400	33,098	33,542	34,310	39,008
Recovery Act	0	0	0	23	18
Salaries and Administrative	242	206	222	192	193
Total	**$26,894**	**$34,845**	**($14,546)**	**$9,424**	**($5,537)**

The William D. Ford Federal Direct Loan (Direct Loan) Program is a direct-lending program in which loan capital is provided to students by the federal government through borrowings from the United States (U.S.) Department of Treasury. This program has expanded dramatically since the passage of the *SAFRA Act*, which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA), under which no new loan originations were permitted to be made from the Federal Family Education Loan (FFEL) program after June 30, 2010, so that loans that may have previously been made through the FFEL program are now made through the Direct Loan Program.

The FFEL Loan Program has originated no new loans since June 30, 2010, but its permanent budget authority allows it to continue to operate with state and private nonprofit guaranty agencies to honor loan guarantees and for the Department to pay interest supplements on outstanding loans by private lenders to eligible students. The FFEL Loan Program expenses include the Loan Participation Purchase, Loan Purchase Commitment, and ABCP Conduit expenses.

Perkins Loan and Grant programs include the Federal Pell Grant Program that awards direct grants through participating institutions to undergraduate students with financial need. Participating institutions either credit the appropriated funds to the student's school account or pay the student directly once per term.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant program awards annual grants to students who agree to teach in a high-need subject area in a public or private elementary or secondary school that serves low-income students. If the students do not satisfy their agreement to serve, the grants are converted to Direct Unsubsidized Loans. The President's Budget proposes to overhaul the TEACH Grant program, and replacing it with a new, targeted teacher recruitment and retention program called the Presidential Teaching Fellows. This new program would provide grants to states that meet certain conditions to

supply scholarships of up to $10,000 to talented individuals attending the most effective programs in the state. These individuals would commit to teaching for at least three years in a high need school and subject. To be eligible for funds, states would measure the effectiveness of their teacher preparation programs based on the student achievement data of their graduates among other measures; hold teacher preparation programs accountable for results; and upgrade licensure and certification standards.

Federal Student Aid's programs link with the overall initiatives of the Department in enhancing education—a fundamental stepping-stone to higher living standards for American citizens. While education is vital to national economic growth, education's contribution is more than increased productivity and incomes. Education improves health, promotes social change, and opens doors to a better future for children and adults.

In the past, economic outcomes, such as wage and salary levels, have been determined by the educational attainment of individuals and the skills employers expect of those entering the labor force. Both individuals and society as a whole continue to place increased emphasis on educational attainment as the workplace has become increasingly technological, and employers now seek employees with the highest level of skills. For prospective employees, the focus on higher-level skills means investing in learning or developing skills through education. Like all investments, developing higher-level skills involves costs and benefits.

Returns, or benefits, of investing in education come in many forms. While some returns accrue for the individual, others benefit society and the nation in general. Returns related to the individual include higher earnings, better job opportunities, and jobs that are less sensitive to general economic conditions. Returns related to the economy and society include reduced reliance on welfare subsidies, increased participation in civic activities and greater productivity.

Over time, the returns of developing skills through education have become evident. Statistics illustrate the rewards of investing in postsecondary education.

Required Supplementary Information

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2015
(Dollars in Millions)

	Combined		Health Education Assistance Loans	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 12,642	$ 9,857	$ 9	$ 68
Recoveries of Prior Year Unpaid Obligations	921	20,727	-	-
Other Changes in Unobligated Balance (+ or -)	(196)	(24,520)	(8)	-
Unobligated Balance from Prior Year Budget Authority, Net	$ 13,367	$ 6,064	$ 1	$ 68
Appropriations (Discretionary and Mandatory)	55,798	904	-	-
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	171,624	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	504	53,365	9	10
Total Budgetary Resources (Note 16)	**$ 69,669**	**$ 231,957**	**$ 10**	**$ 78**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 56,950	$ 217,721	$ 2	$ 25
Unobligated Balance, End of Year:				
Apportioned	10,473	550	1	-
Unapportion	2,246	13,686	7	53
Total Unobligated Balance, End of Year	$ 12,719	$ 14,236	$ 8	$ 53
Total Status of Budgetary Resources (Note 16)	**$ 69,669**	**$ 231,957**	**$ 10**	**$ 78**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 21,466	$ 80,104	$ -	$ -
Obligations Incurred	56,950	217,721	2	25
Outlays (Gross) (-)	(58,209)	(199,218)	(2)	(25)
Recoveries of Prior Year Unpaid Obligations (-)	(921)	(20,727)	-	-
Unpaid Obligations, End of Year	$ 19,286	$ 77,880	$ -	$ -
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ (4)	$ -	$ -
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ (4)	$ -	$ -
Memorandum (non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 21,466**	**$ 80,100**	**$ -**	**$ -**
Obligated Balance, End of Year (+ or -)	**$ 19,286**	**$ 77,876**	**$ -**	**$ -**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 56,302	$ 225,893	$ 9	$ 10
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(647)	(122,283)	(9)	(10)
Budget Authority, Net (Discretionary and Mandatory)	**$ 55,655**	**$ 103,610**	**$ -**	**$ -**
Outlays, Gross (Discretionary and Mandatory)	$ 58,209	$ 119,218	$ 2	$ 25
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(647)	(122,283)	(9)	(10)
Outlays, Net (Discretionary and Mandatory)	57,562	76,935	(7)	15
Distributed Offsetting Receipts (-) (Note 16)	(12,957)	-	(19)	-
Agency Outlays, net (discretionary and mandatory) (Note 16)	**$ 44,605**	**$ 76,935**	**$ (26)**	**$ 15**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2015
(Dollars in Millions)

	Direct Student Loan Program		Teach Program	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ -	$ 4,622	$ 5	$ 1
Recoveries of Prior Year Unpaid Obligations	-	20,079	1	10
Other Changes in Unobligated Balance (+ or -)	-	(23,704)	-	(11)
Unobligated Balance from Prior Year Budget Authority, Net	$ -	$ 997	$ 6	$ -
Appropriations (Discretionary and Mandatory)	23,661	904	16	-
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	168,953	-	115
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	31,810	-	35
Total Budgetary Resources (Note 16)	**$ 23,661**	**$ 202,664**	**$ 22**	**$ 150**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 23,661	$ 197,183	$ 16	$ 148
Unobligated Balance, End of Year:				
Apportioned	-	-	-	-
Unapportioned	-	5,481	6	2
Total Unobligated Balance, End of Year	$ -	$ 5,481	$ 6	$ 2
Total Status of Budgetary Resources (Note 16)	**$ 23,661**	**$ 202,664**	**$ 22**	**$ 150**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ -	$ 77,328	$ 5	$ 64
Obligations Incurred	23,661	197,183	16	148
Outlays (Gross) (-)	(23,661)	(178,804)	(14)	(142)
Recoveries of Prior Year Unpaid Obligations (-)	-	(20,079)	(1)	(10)
Unpaid Obligations, End of Year	$ -	$ 75,628	$ 6	$ 60
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ (4)
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ -	$ -	$ (4)
Memorandum (non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ -**	**$ 77,328**	**$ 5**	**$ 60**
Obligated Balance, End of Year (+ or -)	**$ -**	**$ 75,628**	**$ 6**	**$ 56**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 23,661	$ 201,667	$ 16	$ 150
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(92,936)	-	(47)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	-
Anticipated Offsetting Collections (Discretionary and Mandatory) (+ or -)	-	-	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 23,661**	**$ 108,731**	**$ 16**	**$ 103**
Outlays, Gross (Discretionary and Mandatory)	$ 23,661	$ 178,804	$ 14	$ 142
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(92,936)	-	(47)
Outlays, Net (Discretionary and Mandatory)	23,661	85,868	14	95
Distributed Offsetting Receipts (-) (Note 16)	(8,211)	-	(31)	-
Agency Outlays, net (discretionary and mandatory) (Note 16)	**$ 15,450**	**$ 85,868**	**$ (17)**	**$ 95**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2015
(Dollars in Millions)

	Federal Family Education Loan Program		Perkins Loans and Grants	Administrative Funds
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Budgetary
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 1,581	$ 5,166	$ 10,921	$ 126
Recoveries of Prior Year Unpaid Obligations	28	638	865	27
Other Changes in Unobligated Balance (+ or -)	(138)	(805)	(42)	(8)
Unobligated Balance from Prior Year Budget Authority, Net	$ 1,471	$ 4,999	$ 11,744	$ 145
Appropriations (Discretionary and Mandatory)	1,363	-	29,361	1,397
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	2,556	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	507	21,510	(9)	(3)
Total Budgetary Resources (Note 16)	**$ 3,341**	**$ 29,065**	**$ 41,096**	**$ 1,539**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 1,555	$ 20,365	$ 30,249	$ 1,467
Unobligated Balance, End of Year:				
Apportioned	37	550	10,432	3
Unapportioned	1,749	8,150	415	69
Total Unobligated Balance, End of Year	$ 1,786	$ 8,700	$ 10,847	$ 72
Total Status of Budgetary Resources (Note 16)	**$ 3,341**	**$ 29,065**	**$ 41,096**	**$ 1,539**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 39	$ 2,712	$ 20,777	$ 645
Obligations Incurred	1,555	20,365	30,249	1,467
Outlays (Gross) (-)	(1,553)	(20,247)	(31,592)	(1,387)
Recoveries of Prior Year Unpaid Obligations (-)	(28)	(638)	(865)	(27)
Unpaid Obligations, End of Year	$ 13	$ 2,192	$ 18,569	$ 698
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ -
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ -	$ -	$ -
Memorandum (non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 39**	**$ 2,712**	**$ 20,777**	**$ 645**
Obligated Balance, End of Year (+ or -)	**$ 13**	**$ 2,192**	**$ 18,569**	**$ 698**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 1,870	$ 24,066	$ 29,352	$ 1,394
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(638)	(29,290)	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 1,232**	**$ (5,224)**	**$ 29,352**	**$ 1,394**
Outlays, Gross (Discretionary and Mandatory)	$ 1,553	$ 20,247	$ 31,592	$ 1,387
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(638)	(29,290)	-	-
Outlays, Net (Discretionary and Mandatory)	915	(9,043)	31,592	1,387
Distributed Offsetting Receipts (-) (Note 16)	(4,658)	-	(38)	-
Agency Outlays, net (discretionary and mandatory) (Note 16)	**$ (3,743)**	**$ (9,043)**	**$ 31,554**	**1,387**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2014

(Dollars in Millions)

	Combined		Health Education Assistance Loans	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 13,950	$ 11,072	$ -	$ -
Recoveries of Prior Year Unpaid Obligations	464	97,274	-	-
Other Changes in Unobligated Balance (+ or -)	(148)	(99,806)	-	62
Unobligated Balance from Prior Year Budget Authority (Net)	$ 14,266	$ 8,540	$ -	$ 62
Appropriations (Discretionary and Mandatory)	49,854	581	-	-
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	182,749	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	411	51,281	9	7
Total Budgetary Resources (Note 16)	**$ 64,531**	**$ 243,151**	**$ 9**	**$ 69**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 51,889	$ 233,294	$ -	$ 1
Unobligated Balance, End of Year:				
Apportioned	10,617	69	-	-
Unapportioned	2,025	9,788	9	68
Total Unobligated Balance, End of Year	$ 12,642	$ 9,857	$ 9	$ 68
Total Status of Budgetary Resources (Note 16)	**$ 64,531**	**$ 243,151**	**$ 9**	**$ 69**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 23,380	$ 161,488	$ -	$ -
Obligations Incurred	51,889	233,294	-	1
Outlays (Gross) (-)	(53,339)	(217,404)	-	(1)
Recoveries of Prior Year Unpaid Obligations (-)	(464)	(97,274)	-	-
Unpaid Obligations, End of Year	$ 21,466	$ 80,104	$ -	$ -
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ (3)	$ -	$ -
Change in Uncollected Payments, Federal Sources (+ or -)	-	(1)	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ (4)	$ -	$ -
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 23,380**	**$ 161,485**	**$ -**	**$ -**
Obligated Balance, End of Year (+ or -)	**$ 21,466**	**$ 80,100**	**$ -**	**$ -**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 50,265	$ 234,611	$ 9	$ 7
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(542)	(97,375)	(2)	(3)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	(1)	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 49,723**	**$ 137,235**	**$ 7**	**$ 4**
Outlays, Gross (Discretionary and Mandatory)	$ 53,339	$ 217,404	$ -	$ 1
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(542)	(97,375)	(2)	(3)
Outlays, Net (Discretionary and Mandatory)	52,797	120,029	(2)	(2)
Distributed Offsetting Receipts (-) (Note 16)	(39,559)	-	-	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 16)	**$ 13,238**	**$ 120,029**	**$ (2)**	**$ (2)**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2014

(Dollars in Millions)

	Direct Student Loan Program		Teach Program	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ -	$ 3,351	$ 4	$ 1
Recoveries of Prior Year Unpaid Obligations	-	25,397	1	20
Other Changes in Unobligated Balance (+ or -)	-	(28,047)	-	(22)
Unobligated Balance from Prior Year Budget Authority (Net)	$ -	$ 701	$ 5	$ (1)
Appropriations (Discretionary and Mandatory)	16,254	-	18	-
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	180,673	-	108
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	30,029	-	31
Total Budgetary Resources (Note 16)	**$ 16,254**	**$ 211,403**	**$ 23**	**$ 138**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 16,254	$ 206,781	$ 18	$ 137
Unobligated Balance, End of Year:				
Apportioned	-	-	-	-
Unapportioned	-	4,622	5	1
Total Unobligated Balance, End of Year	$ -	$ 4,622	$ 5	$ 1
Total Status of Budgetary Resources (Note 16)	**$ 16,254**	**$ 211,403**	**$ 23**	**$ 138**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ -	$ 87,616	$ 4	$ 75
Obligations Incurred	16,254	206,781	18	137
Outlays (Gross) (-)	(16,254)	(191,672)	(16)	(128)
Recoveries of Prior Year Unpaid Obligations (-)	-	(25,397)	(1)	(20)
Unpaid Obligations, End of Year	$ -	$ 77,328	$ 5	$ 64
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ (3)
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	(1)
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ -	$ -	$ (4)
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ -**	**$ 87,616**	**$ 4**	**$ 72**
Obligated Balance, End of Year (+ or -)	**$ -**	**$ 77,328**	**$ 5**	**$ 60**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 16,254	$ 210,702	$ 18	$ 139
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(68,701)	-	(46)
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	(1)
Anticipated Offsetting Collections (Discretionary and Mandatory) (+ or -)	-	-	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 16,254**	**$ 142,001**	**$ 18**	**$ 92**
Outlays, Gross (Discretionary and Mandatory)	$ 16,254	$ 191,672	$ 16	$ 128
Actual Offsetting Collections (Discretionary and Mandatory) (-)	-	(68,701)	-	(46)
Outlays, Net (Discretionary and Mandatory)	16,254	122,971	16	82
Distributed Offsetting Receipts (-) (Note 16)	(31,551)	-	(13)	-
Agency Outlays, net (discretionary and mandatory) (Note 16)	**$ (15,297)**	**$ 122,971**	**$ 3**	**$ 82**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2014
(Dollars in Millions)

	Federal Family Education Loan Program		Perkins Loans and Grants	Administrative Funds
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Budgetary
Budgetary Resources:				
Unobligated Balance, Brought Forward, October 1	$ 1,596	$ 7,720	$ 12,255	$ 95
Recoveries of Prior Year Unpaid Obligations	6	71,857	418	39
Other Changes in Unobligated Balance (+ or -)	(120)	(71,799)	(28)	-
Unobligated Balance from Prior Year Budget Authority (Net)	$ 1,482	$ 7,778	$ 12,645	$ 134
Appropriations (Discretionary and Mandatory)	2,269	581	29,920	1,393
Borrowing Authority (Discretionary and Mandatory) (Note 16)	-	1,968	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	402	21,214	(1)	1
Total Budgetary Resources (Note 16)	**$ 4,153**	**$ 31,541**	**$ 42,564**	**$ 1,528**
Status of Budgetary Resources:				
Obligations Incurred (Note 16)	$ 2,572	$ 26,375	$ 31,643	$ 1,402
Unobligated Balance, End of Year:				
Apportioned	45	69	10,514	58
Unapportioned	1,536	5,097	407	68
Total Unobligated Balance, End of Year	$ 1,581	$ 5,166	$ 10,921	$ 126
Total Status of Budgetary Resources (Note 16)	**$ 4,153**	**$ 31,541**	**$ 42,564**	**$ 1,528**
Change in Obligated Balance:				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	$ 35	$ 73,797	$ 22,731	$ 610
Obligations Incurred	2,572	26,375	31,643	1,402
Outlays (Gross) (-)	(2,562)	(25,603)	(33,179)	(1,328)
Recoveries of Prior Year Unpaid Obligations (-)	(6)	(71,857)	(418)	(39)
Unpaid Obligations, End of Year	$ 39	$ 2,712	$ 20,777	$ 645
Uncollected Payments:				
Uncollected Payments, Federal Sources, Brought Forward, October 1 (-)	$ -	$ -	$ -	$ -
Change in Uncollected Payments, Federal Sources (+ or -)	-	-	-	-
Uncollected Payments, Federal Sources, End of Year (-)	$ -	$ -	$ -	$ -
Memorandum (Non-add) Entries:				
Obligated Balance, Start of Year (+ or -)	**$ 35**	**$ 73,797**	**$ 22,731**	**$ 610**
Obligated Balance, End of Year (+ or -)	**$ 39**	**$ 2,712**	**$ 20,777**	**$ 645**
Budget Authority and Outlays, Net:				
Budget Authority, Gross (Discretionary and Mandatory)	$ 2,671	$ 23,763	$ 29,919	$ 1,394
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(540)	(28,625)	-	-
Change in Uncollected Customer Payments from Federal Sources (Discretionary and Mandatory) (+ or -)	-	-	-	-
Anticipated Offsetting Collections (Discretionary and Mandatory) (+ or -)	-	-	-	-
Budget Authority, Net (Discretionary and Mandatory)	**$ 2,131**	**$ (4,862)**	**$ 29,919**	**$ 1,394**
Outlays, Gross (Discretionary and Mandatory)	$ 2,562	$ 25,603	$ 33,179	$ 1,328
Actual Offsetting Collections (Discretionary and Mandatory) (-)	(540)	(28,625)	-	-
Outlays, Net (Discretionary and Mandatory)	2,022	(3,022)	33,179	1,328
Distributed Offsetting Receipts (-) (Note 16)	(7,945)	-	(50)	-
Agency Outlays, net (discretionary and mandatory) (Note 16)	**$ (5,923)**	**$ (3,022)**	**$ 33,129**	**$ 1,328**

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Independent Auditors' Report

Federal Student Aid
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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 13, 2015

James W. Runcie
Chief Operating Officer
Federal Student Aid
Washington, D.C. 20202

Dear Mr. Runcie:

The enclosed reports present the results of the audit of Federal Student Aid's (FSA) financial statements for fiscal years 2015 and 2014 to comply with the Higher Education Amendments of 1998. The reports should be read in conjunction with FSA's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm of CliftonLarsonAllen, LLP (CliftonLarsonAllen) to audit the financial statements of FSA as of September 30, 2015 and 2014, and for the years then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements.*

Results of the Independent Audit

CliftonLarsonAllen found:

- The fiscal years 2015 and 2014 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- One significant deficiency in internal control over financial reporting; and
- One instance of reportable noncompliance with certain provisions of the Debt Collection Improvement Act of 1996, as amended.

Evaluation and Monitoring of Audit Performance

The Inspector General Act of 1978 requires that the Inspector General take appropriate steps to assure that any work performed by non-Federal auditors complies with the audit standards established by the Comptroller General. In that regard, we evaluated the independence, objectivity, and qualifications of the auditors and specialists; reviewed the plan and approach of the audit; monitored the performance of the audit; reviewed CliftonLarsonAllen's reports and related audit documentation; and inquired of its representatives.

400 MARYLAND AVENUE, S.W., WASHINGTON, DC 20202-1510

Promoting the efficiency, effectiveness, and integrity of the Department's programs and operations.

Page 2 – James W. Runcie

Our review was not intended to enable us to express, and we do not express, an opinion on FSA's financial statements, or conclusions about the effectiveness of internal control or on compliance with certain provisions of laws, regulations, contracts, and grant agreements.

CliftonLarsonAllen is responsible for the enclosed auditors' report and the conclusions expressed in the related reports on internal control and compliance. Our review disclosed no instances where CliftonLarsonAllen did not comply, in all material respects, with U.S. generally accepted government auditing standards.

We appreciate the cooperation given CliftonLarsonAllen and my office during the audit. If you have any questions or would like to discuss the reports, please contact me at (202) 245-6900, or your staff may contact Patrick J. Howard, Assistant Inspector General for Audit, at (202) 245-6949 or through e-mail at Pat.Howard@ed.gov.

Sincerely,

Kathleen S. Tighe
Inspector General

Enclosure

CliftonLarsonAllen LLP

www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Inspector General
United States Department of Education

Chief Operating Officer
Federal Student Aid

Report on the Financial Statements

We have audited the accompanying financial statements of Federal Student Aid (FSA), a component of the United States Department of Education (Department), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements (financial statements).

Management's Responsibility for the Financial Statements

The FSA's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 15-02). Those standards and OMB Bulletin 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

INDEPENDENT AUDITORS' REPORT (Continued)

significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Student Aid as of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that the Management Discussion and Analysis (MD&A), other Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) included in the Federal Student Aid Annual Report FY 2015, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by FASAB, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A, other RSI, and RSSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Letter from the Chief Operating Officer of FSA and introduction, the Annual Performance Report section, the Message from the Chief Financial Officer, and Other Information in the Federal Student Aid Annual Report FY 2015, are presented for purposes of additional analysis and are not a required part of the financial statements or RSI. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

INDEPENDENT AUDITORS' REPORT (Continued)

Report on Internal Control over Financial Reporting and Report on Compliance Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered FSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FSA's internal control or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of FSA's internal control or on management's assertion on internal control included in the MD&A. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the FSA's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below and in more detail in Exhibit A, which we consider to be a significant deficiency.

Federal Student Aid Management Needs to Mitigate Persistent Information Technology Control Deficiencies

Due to the unique requirements of FSA's grant and loan business activities, FSA oversees a large portfolio of FSA or contractor owned information systems. FSA relies on the Department's primary financial management system for financial reporting. The third party servicers who manage FSA's general support systems and contractor owned and contractor operated financial systems are monitored by FSA management through the use of Service Level Agreements and third party independent reviews. We continued to identify control deficiencies in the areas of security management, personnel security, access controls, and configuration management across these systems. These deficiencies can increase the risk of unauthorized access to FSA's systems used to capture, process, and report financial transactions and balances, affecting the reliability and security of the data and information.

INDEPENDENT AUDITORS' REPORT (Continued)

Report on Compliance

As part of obtaining reasonable assurance about whether FSA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements consistent with our professional responsibilities discussed below.

The results of our tests disclosed one instance of noncompliance, with respect to a certain aspect of FSA's debt collection activities, described in Exhibit B, that is required to be reported in accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02.

Management's Responsibility for Internal Control and Compliance

Management is responsible for evaluating the effectiveness of internal control over financial reporting based on criteria established under the Federal Managers' Financial Integrity Act (FMFIA), providing a statement of assurance on the overall effectiveness on internal control over financial reporting, and complying with other applicable laws, regulations, contracts, and grant agreements.

Auditors' Responsibilities

We are responsible for obtaining a sufficient understanding of internal control over financial reporting to plan the audit and testing compliance with certain provisions of laws, regulations, contracts and grant agreements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws, regulations, contracts and grant agreements applicable to FSA. We limited our tests of compliance to certain provisions of laws, regulations, contracts and grant agreements that could have a direct effect on the determination of material financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

INDEPENDENT AUDITORS' REPORT (Continued)

Management's Response to Findings

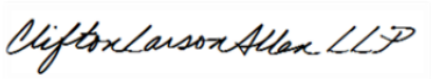
Management's response to the findings identified in our report is presented in Exhibit C. We did not audit FSA's response and, accordingly, we express no opinion on it.

Status of Prior Year's Control Deficiencies and Noncompliance Issues

We have reviewed the status of FSA's corrective actions with respect to the findings included in the prior year's Independent Auditors' Report, dated November 14, 2014. The status of prior year findings is presented in Exhibit D.

Purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance

The purpose of the Report on Internal Control over Financial Reporting and the Report on Compliance sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FSA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FSA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.



CliftonLarsonAllen LLP

Arlington, Virginia
November 13, 2015

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

Federal Student Aid Management Needs to Mitigate Persistent Information Technology Control Deficiencies

Due to the unique requirements of the Federal Student Aid's (FSA) grant and loan business activities, FSA oversees a large portfolio of government owned and operated, government owned and contractor operated, and contractor owned and operated information systems. Four FSA systems and one United States Department of Education (Department) system comprise the key financial systems supporting FSA's financial activities. The third party servicers who manage FSA's general support systems and contractor owned contractor operated financial systems are monitored by FSA management through the use of Service Level Agreements and independent reviews. Managing the information and system security across FSA is the responsibility of FSA's Chief Information Security Officer (CISO), with support from the Department's CISO. For several years, financial and other audits have identified numerous system deficiencies that affect the security and reliability of the information within these systems. Last year, we noted information technology (IT) control deficiencies in the areas of security management, personnel security, access controls, and configuration management in one or more systems. During fiscal year (FY) 2014, FSA implemented an oversight function involving FSA's Business Operations and Finance offices to closely monitor completion of corrective action plans for the noted control deficiencies. This year, none of the independent reviews identified significant system control deficiencies. Despite these improvements, our audit continued to identify control deficiencies in the following areas:

Security management

- The Department's IT policies and procedures continue to be outdated or did not fully address specific controls required by the National Institute of Standards and Technology (NIST)
- System security plan was incomplete
- Annual security control assessments were not performed according to NIST standards
- System risk assessments were not kept current
- Plan of Action and Milestones (POA&Ms) were not always updated and some were closed without adequate documentation to support closure.
- Security awareness training for new system users was not always completed
- Role based security awareness training for users with significant system security responsibilities was not always completed
- Interconnection agreements were not in place or current

Personnel security

- Background investigations were not current and at the correct investigation type based on the appropriate level of risk and sensitivity associated with the employee or contractor position
- Department clearance processes were not always followed for separated employees

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

Access controls

- User access was not always approved for all roles granted
- Termination of system access for separated employees and contractors was not always completed timely
- Inactive accounts were not always disabled
- Certain users had access to application development and production environments
- User access was not always recertified and some user accounts that were recertified had either never used the system or had not logged in for an extended period of time

Configuration management

- System configuration settings were not always in compliance with Department policy
- System security impact assessment was not always conducted

These deficiencies can increase the risk of unauthorized access to FSA's systems used to capture, process, and report financial transactions and balances, affecting the reliability and security of the data and information. These findings are discussed in further detail below and in a Limited Distribution Report provided to FSA and Department management.

Security management

An effective information security management program should have a framework and process for assessing risk, effective security procedures, and processes for monitoring and reporting the effectiveness of these procedures. We noted the Department's information security policies that cover FSA owned systems were outdated or did not fully address specific controls required by NIST Special Publication (SP) 800-53, Revision 4, *Recommended Security and Privacy Controls for Federal Information Systems and Organizations*.[1] NIST SP 800-53, Revision 4 was published in 2013 with an April 1, 2014 implementation deadline for executive agencies.

Additionally, the security control assessment for one system was not performed in accordance with NIST requirements, one system security plan did not address all NIST requirements and the risk assessment for another system was not current. This increases the risk that the Authorizing Official, Information System Security Officers (ISSOs), and system owners were not informed of the ongoing security issues and risks to these systems.

With regard to corrective action of system control weaknesses, we noted that the Plans of Action and Milestones (POA&Ms) for one system had passed their scheduled dates of completion without updated milestone information and a POA&M was closed without adequate

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[1] NIST SP 800-53 revision 4 was issued in April 2013. According to the Office of Management and Budget (OMB) memorandum M-10-15, *FY 2010 Reporting Instructions for the Federal Information Security Management Act and Agency Privacy Management* requires that for non-national security programs and information systems, agencies must follow NIST standards and guidelines. For legacy information systems, agencies are expected to be in compliance with NIST standards and guidelines within one year of the publication date unless otherwise directed by OMB. The one year compliance date for revisions to NIST publications applies only to the new and/or updated material in the publications.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

documentation to support remediation of the weakness. Additionally, we noted POA&Ms for another system were not updated on a quarterly basis as required by Department policy.

Finally, for three of the four systems tested, we noted system users did not always complete the required security awareness training. Also, individuals with significant system security responsibilities had not always completed role based training for these systems.

Personnel Security
Personnel security involves screening individuals before granting them access to computer resources commensurate with the risk and magnitude of the harm the individual could cause and ensuring all security and information system-related property is retrieved for terminated and transferred personnel. Last year, we found background reinvestigations were not being tracked effectively and position sensitivity levels were not always commensurate with the users' current job duties.

While management had a policy guiding background investigations, there was not a formalized and consistent process for establishing position designations, and tracking and initiating background reinvestigations. Although progress has been made in improving the process for tracking and initiating investigations of employees and contractors, management needs to complete the following:

- Finalize position designations using OPMs Position Designation Automated Tool (PDT) for FSA and Department employees and contractors.
- Implement SLAs for contractor employee clearance monitoring
- Implement a project plan for ensuring employee and contractor background investigations are current and at the correct investigation type based on the appropriate level of risk and sensitivity associated with the employee or contractor position

In addition, this year we noted three from a sample of twenty terminated employee clearance forms were missing signatures to validate confirmation that Department assets were retrieved.

Access Controls
Access controls limit or detect inappropriate access to systems, protecting the data within them from unauthorized modification, loss or disclosure. Agencies should have formal policies and procedures for controlling access to information systems, and related control activities should be properly implemented and monitored. One key element of access control is *boundary protection*. Properly managed interfaces between FSA systems and external parties help reduce the risk of unauthorized access. NIST SP 800-47, *Security Guide for Interconnecting Information Technology Systems,* specifies that an agreement should be documented for the interconnection between organizations. A Memorandum of Understanding (MOU) documents the terms and conditions for sharing data and information resources in a secure method. An Interconnection Security Agreement (ISA) identifies the technical and security requirements for establishing, operating, and maintaining the interconnection and supports the MOU. We identified expired MOUs and instances in which interconnections were not detailed in the System Security Plan for one system.

User authorization refers to the documentation of the granting of user access to only the elements of a system the user needs to perform his or her duties. To be an effective control, user access should be documented, approved and periodically reviewed. Accounts for users

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

should be terminated when the user no longer needs access to the system. Based on our work, we noted:

- Accounts for terminated employees and contractors were not disabled for three of the four systems tested
- Inactive accounts were not disabled for two systems
- For one system, an individual was granted a role that was not approved
- User access was not always recertified and some user accounts that were recertified had either never used the system or had not logged in for an extended period of time
- One user had inappropriate access to one system's development and production environments

Configuration Management
Configuration management ensures changes to systems are tested and approved, and systems are configured securely in accordance with policy. In our audit, we found three systems with configuration settings that were not in compliance with Department policy. Additionally, we found security impact assessments were not conducted for one system.

Summary
Both the Department's Chief Information Officer FY2015 Federal Managers' Financial Integrity Act of 1982 (FMFIA) Assurance Letter and FSA's FY2015 FMFIA Assurance Letter reported control deficiencies related to access controls and configuration management. Also, the Department's FY2014 Federal Information Security Modernization Act (FISMA) review identified control deficiencies in six of eleven reporting metrics related to the following areas: configuration management, identity and access management, incident response and reporting, risk management, remote access management, and contingency planning. In addition, five of the eleven reporting metrics contained repeat or modified repeat findings from reports issued from 2011 through 2013.

These deficiencies can increase the risk of unauthorized access to FSA's (or the Department's) systems used to capture, process, and report financial transactions and balances.

NIST Special Publication 800-39, *Managing Information Security Risk - Organization, Mission, and Information System View*, states:

> "The complex relationships among missions, mission/business processes, and the information systems supporting those missions/processes require an integrated, organization-wide view for managing risk. Unless otherwise stated, references to risk in this publication refer to information security risk from the operation and use of organizational information systems including the processes, procedures, and structures within organizations that influence or affect the design, development, implementation, and ongoing operation of those systems. The role of information security in managing risk from the operation and use of information systems is also critical to the success of organizations in achieving their strategic goals and objectives. Historically, senior leaders/executives have had a very narrow view of information security either as a technical matter or in a stovepipe that was independent of organizational risk and the traditional management and life cycle processes. This extremely limited perspective often resulted in inadequate consideration of how information security risk, like other

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

organizational risks, affects the likelihood of organizations successfully carrying out their missions and business functions. This publication places information security into the broader organizational context of achieving mission/business success. The objective is to:

- Ensure that senior leaders/executives recognize the importance of managing information security risk and establish appropriate governance structures for managing such risk;
- Ensure that the organization's risk management process is being effectively conducted across the three tiers of organization, mission/business processes, and information systems;
- Foster an organizational climate where information security risk is considered within the context of the design of mission/business processes, the definition of an overarching enterprise architecture, and system development life cycle processes; and
- Help individuals with responsibilities for information system implementation or operation better understand how information security risk associated with their systems translates into organization-wide risk that may ultimately affect the mission/business success.

To successfully execute organizational missions and business functions with information system-dependent processes, senior leaders/executives must be committed to making risk management a fundamental mission/business requirement. This top-level, executive commitment ensures that sufficient resources are available to develop and implement effective, organization-wide risk management programs. Understanding and addressing risk is a strategic capability and an enabler of missions and business functions across organizations. Effectively managing information security risk organization-wide requires the following key elements:

- Assignment of risk management responsibilities to senior leaders/executives;
- Ongoing recognition and understanding by senior leaders/executives of the information security risks to organizational operations and assets, individuals, other organizations, and the Nation arising from the operation and use of information systems;
- Establishing the organizational tolerance for risk and communicating the risk tolerance throughout the organization including guidance on how risk tolerance impacts ongoing decision-making activities; and
- Accountability by senior leaders/executives for their risk management decisions and for the implementation of effective, organization-wide risk management programs."

The ineffective and untimely remediation of application control weaknesses and repeat deficiencies identified across multiple applications indicates the need for improved strategic IT management.

Although the FSA and Department CISOs continue to work together to improve the framework for more effectively managing system security risk, similar information system control weaknesses remain.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT A
Significant Deficiency

In order to fully implement an agency-level program for monitoring compliance with the information security program, the procedures and guidance supporting the Information Assurance/Cybersecurity Policy need to be completed, approved and disseminated in order to define the agency-wide information security program and practices. Without comprehensive current information security policies and procedures, there is an increased likelihood that information security may not be addressed throughout the lifecycle of the FSA and Department's information systems. Moreover, employees and contractors may be performing tasks without clear direction or training. Due to the continuance of persistent IT control deficiencies across multiple systems, the CISOs need to continue to refine the process for ensuring accountability of FSA system owners, ISSOs, contractors, and FSA's Technology Office, and Business Operations responsible for the security, operation and maintenance of FSA systems to remediate control deficiencies.

Recommendations:

We recommend the FSA CISO work with the Department CISO to:

1a. Refine and fully implement FSA's system security program to monitor compliance with NIST requirements, in coordination with the Department's organization-wide information security program, at both the agency and system level.

1b. Strengthen and refine the process to ensure accountability for individuals responsible for remediating the identified control deficiencies in FSA's systems, including cooperation between the Technology Office and Business Operations.

1c. Strengthen and refine the process for holding contractors accountable for remediation of control deficiencies in FSA's systems and those Department systems that support FSA financial reporting.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT B
Instance of Noncompliance

Noncompliance with Title 31 United States Code (U.S.C.) Section 3716(c)(6)

Title 31 U.S.C. Section 3716(c)(6) states that any Federal agency that is owed by a person a past due, legally enforceable nontax debt that is over 180 days delinquent, including nontax debt administered by a third party acting as an agent for the Federal Government, shall notify the Secretary of the Treasury of all such nontax debts for purposes of administrative offset.

The Digital Accountability and Transparency Act (DATA Act), Public Law 113-101, was signed into law on May 9, 2014. Section 5 of the DATA Act amends Title 31 U.S.C. Section 3716(c)(6) and now requires agencies to notify the Secretary of the Treasury of valid, delinquent nontax debts that are over 120 days delinquent – 60 days earlier than the previous 180 days requirement – for the purpose of administrative offset. Section 5 of the DATA Act also added a new requirement, according to which "the Secretary of the Treasury shall notify Congress of any instance in which an agency fails to notify the Secretary [of the Treasury] as required" by 31 U.S.C. Section 3716(c)(6)(A).[2]

In response to these changes in debt collection required by the DATA Act, the Department requested clarification of the requirement from the Department of the Treasury (Treasury). The Treasury's Bureau of Fiscal Service (Fiscal Service) Office of General Counsel concluded the Department and FSA will be considered compliant with the revised law if they refer direct student loans to Fiscal Service for administrative offset 271 days after the date of delinquency, calculated from the date of the first missed payment under the promissory note or under any subsequently approved repayment agreement. Similarly, the Department and FSA will be considered compliant if they refer defaulted guaranteed student loans for administrative offset 120 days after a reinsurance claim is paid to a guarantee agency holding loans guaranteed under the Federal Family Education Loan Program.

As of September 30, 2015, the Department and FSA are not in compliance with the new timing requirement of 31 U.S.C. Section 3716(c)(6) because FSA has not yet revised their loan servicing systems, procedures and internal processes in response to this ruling.

Recommendation:

We recommend that the FSA Chief Operating Officer Work with the Secretary of Education to:

2. Modify their loan servicing systems, procedures and internal processes to comply with the timing requirement of Title 31 U.S.C. Section 3716(c)(6), as amended by the DATA Act as clarified by the Department of the Treasury.

[2] The U.S.C has not yet been amended to reflect the statutory change due to the passage of the DATA Act.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT C
Management's Response

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

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November 10, 2015

MEMORANDUM

TO: Kathleen Tighe
Inspector General

FROM: John W. Hurt, III
Chief Financial Officer
Federal Student Aid

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2015 and 2014 Financial Statements
Federal Student Aid
ED-OIG/A17P0002

Please express our earnest appreciation to everyone on your staff and the CliftonLarsonAllen, LLP team who supported the efficacious completion of the Fiscal Year 2015 Financial Statement Audit. Federal Student Aid (FSA) reviewed the draft audit reports provided on November 2, 2015. We concur with the findings and recommendations as identified in the Report on Internal Control over Financial Reporting and in the Report on Compliance.

FSA will continue to work with the Department of Education (Department) to address the significant control deficiency related to Information Technology. In addition, FSA and the Department are continuing to work with Treasury regarding the Debt Collection Improvement Act (DCIA), and the amendments to DCIA from the Digital Accountability and Transparency Act.

We are committed to sustaining an unmodified opinion with no material weaknesses and will develop as well as implement suitable corrective action plans to address 1) the significant control deficiency, and 2) the noncompliance cited in these reports.

Once again, we thank the Office of Inspector General and CliftonLarsonAllen for their efforts to complete a successful audit of Federal Student Aid's financial statements.

INDEPENDENT AUDITORS' REPORT (Continued)
EXHIBIT D
Status of Prior Year Recommendations

Our assessment of the current status of the recommendations related to findings identified in the prior year audit is presented below:

Fiscal Year 2014 Recommendation	Fiscal Year 2015 Status
CLA recommended the Department CISO work with the FSA CISO to:	
1a. Refine and fully implement FSA's system security program to monitor compliance with NIST requirements, in coordination with the Department's organization wide information security program, at both the agency and system level.	Repeat finding; see Significant Deficiency
1b. Implement a process to ensure accountability for individuals responsible for remediating the identified control deficiencies in the Department and FSA's systems, including cooperation between the Technology Office and Business Operations.	Repeat finding; see Significant Deficiency
1c. Implement a process for holding contractors accountable for remediation of control deficiencies in FSA's systems.	Repeat finding; see Significant Deficiency
Noncompliance with Laws and Regulations	
CLA recommended that the FSA Chief Operating Officer work with the Secretary of Education to:	
2. Revise their loan servicing procedures and internal processes to comply with the timing requirement of Title 31 U.S.C. Section 3716(c)(6), as amended by the DATA Act.	Repeat finding; see Instance of Noncompliance

Other Information

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Other Information

Department of Education
Federal Student Aid
Combined Schedule of Spending
For the Years Ended September 30, 2015 and 2014
(Dollars in Millions)

	FY 2015		FY 2014	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Section I: What Money is Available to Spend?				
Total Resources	$ 69,669	231,957	$ 64,531	243,151
Amount Available but Not Agreed to be Spent	(10,473)	(550)	(10,617)	(69)
Amount Not Available to be Spent	(2,246)	(13,686)	(2,025)	(9,788)
Total Amounts Agreed to be Spent	**$ 56,950**	**217,721**	**$ 51,889**	**233,294**
Section II: How was the Money Spent?				
Increase College Access, Quality, and Completion				
Credit Programs	$ 25,210	198,154	$ 18,801	216,297
Grants	31,588	-	33,174	-
Personnel Compensation and Benefits	193	-	187	-
Contractual Services	1,196	1,064	1,155	1,107
Other [1/]	22	-	22	-
Total Program Spending	**$ 58,209**	**199,218**	**$ 53,339**	**217,404**
Total Spending	**$ 58,209**	**199,218**	**$ 53,339**	**217,404**
Amounts Remaining to be Spent [2/]	(1,259)	18,503	(1,450)	15,890
Total Amounts Agreed to be Spent	**$ 56,950**	**217,721**	**$ 51,889**	**233,294**
Section III: Who did the money go to?				
Non-Federal Obligations	$ 56,850	217,721	$ 51,802	233,294
Federal Obligations	100	-	87	-
Total Amounts Agreed to be Spent - Section III	**$ 56,950**	**217,721**	**$ 51,889**	**233,294**

[1/] Other primarily consists of payments for rent, utilities, communication, equipment, travel, and transportation.

[2/] The "Amounts Remaining to be Spent" line is the difference between Total Spending and Amounts Total Amounts Agreed to be Spent. Actual spending in the current FY may include spending associated with amounts agreed to be spent during previous FY, which may result in negative amounts shown for the "Amounts Remaining to be Spent" line.

Improper Payment Information Act Reporting Details

For improper payments information, FSA's activities are part of an overall Departmental integrated reporting effort. Please refer to the *Improper Payments Reporting Details* narrative found in the Other Information section located within the Department's ***AFR***.

Summary of Financial Statement Audit and Management Assurances

For details on FSA programs, please refer to the ***Analysis of Systems, Controls and Legal Compliance*** discussion found in the Management's Discussion and Analysis section of this document as well as the *Summary of Financial Statement Audit and Management Assurances* narrative located in the Other Information section of the Department's ***AFR***.

Management Challenges

For details on FSA Management Challenges, please refer to relevant items included in the *Office of Inspector General's Management Challenges for FY 2016 Executive Summary* found in the Other Information section located within the Department's ***AFR***.

Appendices

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Appendix A: Glossary of Acronyms and Terms

Acronym	Description
A	
ABCP Conduit	Asset-Backed Commercial Paper Conduit
ACSI	American Customer Satisfaction Index
AFR	*U.S. Department of Education FY 2015 Agency Financial Report*
Annual Report	*Federal Student Aid Annual Report FY 2015*
C	
CFPB	Consumer Financial Protection Bureau
Clery Act	*Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act*
Conduit	Asset-Backed Commercial Paper Conduit
COO	Chief Operating Officer
CSRS	Civil Service Retirement System
D	
the Department	U.S. Department of Education
Direct Loan	William D. Ford Federal Direct Loan
DOL	U.S. Department of Labor
DRT	Data Retrieval Tool
E	
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
ED	U.S. Department of Education
F	
FACT	Financial Awareness Counseling Tool
FAFSA	Free Application for Federal Student Aid
FASAB	Financial Accounting Standards Advisory Board
FCRA	*Federal Credit Reform Act of 1990*
FECA	*Federal Employees' Compensation Act*

Acronym	Description
Federal Fund	Federal Student Loan Reserve Fund
FERS	Federal Employees Retirement System
FEVS	Federal Employee Viewpoint Survey
FFEL	Federal Family Education Loan
FFELP	Federal Family Education Loan Program
FISCAM	Federal Information Systems Control Audit Manual
FOTW	FAFSA on the Web
FSA	Federal Student Aid
FSA Strategic Plan, FY 2012–16	*Federal Student Aid: Strategic Plan, FY 2012–16*
FSEOG	Federal Supplemental Educational Opportunity Grant
FWS	Federal Work-Study
FY	Fiscal Year
G	
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GenAssist	General Assistance
H	
HCERA	*Health Care and Education Reconciliation Act of 2010*
HEA	*Higher Education Act of 1965,* as amended
HEAL	Health Education Assistance Loan
I	
IBR	Income Based Repayment
IDR	Income Driven Repayment
IRS	Internal Revenue Service
IT	Information Technology
M	
Met	Performance result met or exceeded target

Acronym	Description
N	
N/A	Performance result is not applicable because the performance metric was not developed, the performance metric was not implemented, or the required data were not available in time for inclusion.
NFP	Not-For-Profit
Not met	Performance result did not meet target
NSLDS	National Student Loan Data System
O	
OIG	Office of Inspector General
OMB	U.S. Office of Management and Budget
OMB Circular A-123	OMB Circular A-123, *Management's Responsibility for Internal Control*
OPM	U.S. Office of Personnel Management
OPR	Organizational Performance Review
P	
PAYE	Pay As You Earn
PBO	Performance-Based Organization
Pell Grant	Federal Pell Grant Program
Pub.L	Public Law
S	
SBR	Statement of Budgetary Resources
Secretary	Secretary of Education
SSAE	Statement on Standards for Attestation Engagements
SOC1	Service Organization Control 1
T	
TEACH	Teacher Education Assistance for College and Higher Education Grant
Title IV	Title IV of *the Higher Education Act of 1965*, as amended
TIVAS	Title IV Additional Servicers
TPD	Total and Permanent Disability
Treasury	U. S. Department of the Treasury

Acronym	Description
U	
U.S.	United States

Appendix B: Availability of the *Federal Student Aid Annual Report*

FSA's publicly available *Annual Report FY 2015* and previous years' *Annual Reports are* accessible on FSA's and the Department's websites at:

StudentAid.gov/strategic-planning-reporting

http://www.ed.gov/about/reports/annual/index.html

The *Federal Student Aid: Strategic Plan, Fiscal Years 2012–16* and previous years' *Strategic Plans are also* available at **StudentAid.gov/strategic-planning-reporting**

To become connected to Federal Student Aid through social media, visit the Federal Student Aid website at **StudentAid.gov**.

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