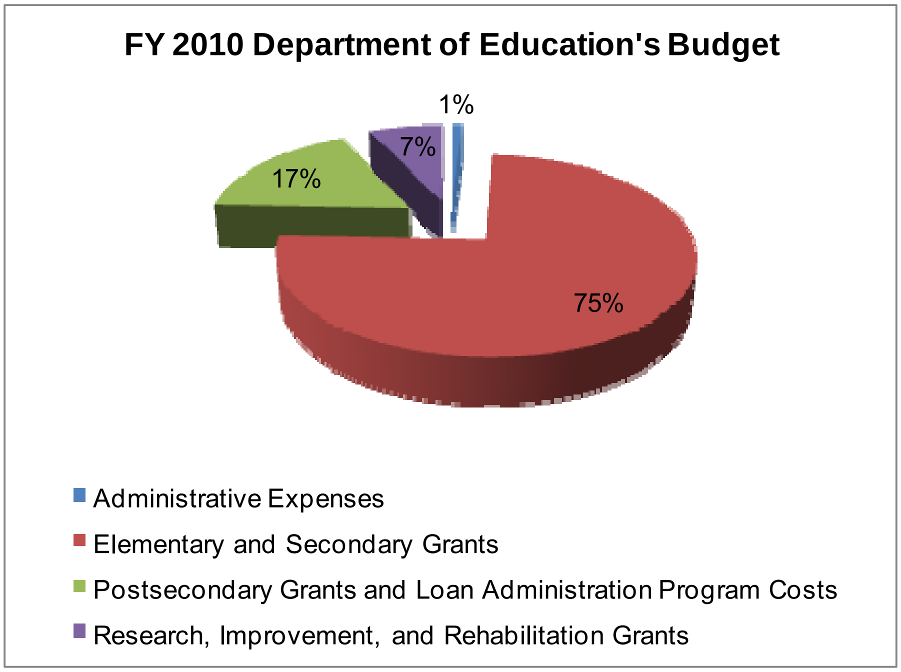
Financial Highlights

The Department consistently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operation. For the ninth consecutive year, the Department achieved an unqualified (clean) opinion from independent auditors on the annual financial statements. Since 2003, the auditors have found no material weaknesses in the Department's internal control over financial reporting. In accordance with OMB's Circular No. A-123, *Management's Responsibility for Internal Control,* the Department continues to test and evaluate findings and risk determinations uncovered in management's internal control assessment.

Sources of Funds



The Department managed a budget in excess of $63 billion during FY 2010, of which 75 percent supported elementary and secondary education grant programs. Postsecondary education grants and administration of student financial assistance accounted for 17 percent, including loan program costs that helped almost 14 million students and their parents to better afford higher education during FY 2010. An additional 7 percent went toward programs and grants encompassing research, development, and dissemination, as well as vocational rehabilitation services. Administrative expenditures were less than 1 percent of the Department's appropriations.

Nearly all of the Department's non-administrative appropriations support three primary lines of business: grants, guaranteed loans, and direct loans. The original principal balances of the Federal Family Education Loan (FFEL) Program guaranteed loans and William D. Ford Federal Direct Loan (Direct Loan) Program loans, which compose a large share of federal student financial assistance, are funded by commercial banks and borrowings from the Treasury, respectively. Effective July 1, 2010, no new student loans will be made under the FFEL Program. However, if the first disbursement of a FFEL loan was made by a FFEL lender on or before June 30, 2010, that lender is obligated to make subsequent disbursements after June 30, 2010. As of the end of September 2010, the total principal balance of outstanding guaranteed loans held by lenders was approximately $390 billion. The government's estimated maximum exposure for defaulted FFEL guaranteed loans was approximately $382 billion.

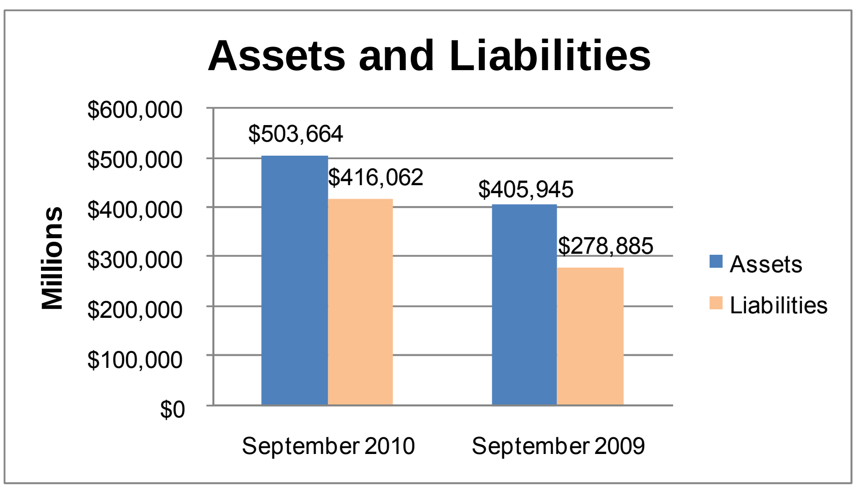
The Department's four largest grant programs are SFSF (a one-time appropriation under the *Recovery Act*), Title I grants for elementary and secondary education, Pell Grants for postsecondary financial aid, and Special Education Grants to States under the *Individuals with Disabilities Education Act*.

The *Ensuring Continued Access to Student Loans Act of 2008 (ECASLA)* authorized the Secretary to purchase or enter into forward commitments to purchase FFEL loans. The Department has implemented three activities under this temporary loan purchase authority. These activities are: (1) loan purchase commitments under which the Department agrees to purchase loans directly from FFEL lenders; (2) loan participation interest purchases in which the Department purchases participation interests in FFEL loans; and (3) an Asset-Backed Commercial Paper (ABCP) Conduit program in which the Department enters into a forward commitment to purchase FFEL loans from a student loan-backed conduit, as needed, to allow the conduit to repay short-term liquidity loans used to refinance maturing commercial paper.

The Direct Loan Program, created by the *Student Loan Reform Act of 1993*, provides Federal loans directly to students. This program uses Treasury funds to provide loan capital directly to eligible undergraduate and graduate students and their parents through participating schools. These schools then disburse loan funds to students. As of September 30, 2010, the value of the Department's Direct Loan portfolio was $228.2 billion.

Financial Position

The Department's financial statements are prepared in accordance with established federal accounting standards, as promulgated by the Federal Accounting Standards Advisory Board (FASAB), and are audited by the independent accounting firm of Ernst & Young, LLP. The audit is overseen by the OIG. Financial statements and footnotes for FY 2010 appear on pages 31–77. An analysis of the principal financial statements follows.

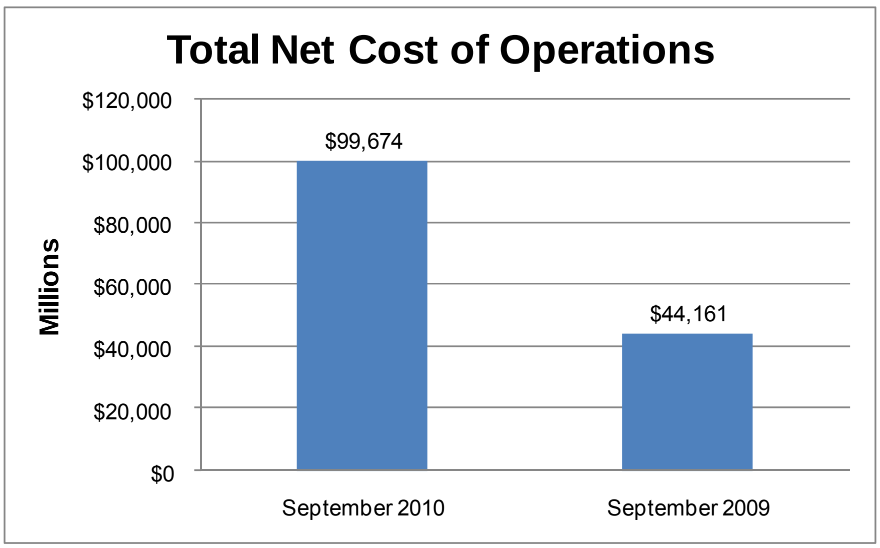


Balance Sheet. The Balance Sheet presents, as of a specific point in time, the recorded value of assets and liabilities retained or managed by the Department. The difference between assets and liabilities represents the net position of the Department. The Balance Sheet displayed on page 31 reflects total assets of $503.7 billion, a 24 percent increase over FY 2009. The vast majority of this increase is due to Credit Program Receivables. Credit Program Receivables increased by $133.7 billion, a 57 percent increase over FY 2009. This increase is largely due to Direct Loan disbursements, as well as activity related to loan purchase commitments and loan participation purchases under the FFEL program. Much of this loan portfolio is principal and interest owed by students on Direct Loans. The remaining balance is related to defaulted guaranteed loans on which the Department paid reinsurance and which are now held by the Department and to loan purchase commitments and loan participation purchases under the FFEL Program as authorized by *ECASLA*. The net portfolio for Direct Loans increased $75.4 billion due to Direct Loan disbursements net of borrower principal and interest collections. FFEL Program loans increased by $57.9 billion during FY 2010, due primarily to loan volume and activity related to loan purchase commitments and loan participation purchases. The Fund Balance with Treasury decreased by $35.8 billion, a 21 percent decrease from FY 2009. This decrease is largely due to *Recovery Act* disbursements during FY 2010.

Total Liabilities for the Department increased by $137.2 billion, a 49 percent increase over FY 2009. The increase is the result of increased borrowing for the Direct Loan Program and to provide funds for the loan purchase commitments and loan participation purchases activities under the FFEL Program. Liabilities for Loan Guarantees for the FFEL Program decreased by $6 billion, a 30 percent decrease that is primarily due to FFEL defaulted claims payments and the subsidy re-estimate. These liabilities present the estimated costs, on a present-value basis, of the net long-term cash outflows due to loan defaults net of offsetting fees.

The Department's Net Position as of September 30, 2010, was $87.6 billion, a $39.5 billion decrease from the $127.1 billion Net Position as of September 30, 2009. This decrease is largely due to *Recovery Act* disbursements during FY 2010.

Statement of Net Cost. The Statement of Net Cost presents the components of the Department's net cost, which is the gross cost incurred less any revenues earned from the Department's activities. The Department's total program net costs, as reflected on the Statement of Net Cost, page 32, were $99.7 billion, a 126 percent increase from September 30, 2009. This change largely reflects the $44 billion *Recovery Act* and Education Jobs Fund disbursements and the $23.6 billion reduction in negative subsidy related costs. These costs include downward modifications, downward re-estimates, and negative subsidy transfers. For FY 2010 re-estimated subsidy cost, Direct Loan subsidy cost was increased by $4.7 billion and FFEL Guaranteed subsidy cost was reduced by $12.7 billion. For 2009 re-estimated subsidy cost, Direct Loan subsidy cost was decreased by $5.2 billion and FFEL Guaranteed subsidy cost was reduced by $21.7 billion. The $6 billion increase in earned revenue is primarily the result of interest revenue associated with a loan portfolio that was larger than in FY 2009.



The Statement of Net Cost is presented to be consistent with the Department's strategic goals. As required by the *Government Performance and Results Act of 1993*, each of the Department's Reporting Organizations has been aligned with the major goals presented in the Department's Strategic Plan 2007–2012.

Net Cost Program	Reporting Organizations/Groups	Strategic Goal
Ensure Accessibility, Affordability, and Accountability of Higher Education and Career and Technical Advancement	Office of Federal Student Aid Office of Postsecondary Education Office of Vocational and Adult Education	3. Ensure the accessibility, affordability, and accountability of higher education, and better prepare students and adults for employment and future learning
Promote Academic Achievement in Elementary and Secondary Schools	Office of Elementary and Secondary Education Office of English Language Acquisition Office of Safe and Drug-Free Schools Hurricane Relief	1. Improve student achievement, with the focus on bringing all students to grade level in reading and mathematics by 2014 2. Increase the academic achievement of all high school students
Transformation of Education	Institute of Education Sciences Office of Innovation and Improvement	1. Improve student achievement, with the focus on bringing all students to grade level in reading and mathematics by 2014
Special Education	Office of Special Education and Rehabilitative Services	Cuts across Strategic Goals 1, 2, and 3
American Recovery and Reinvestment Act and Education Jobs Fund	*American Recovery and Reinvestment Act* Education Jobs Fund	Cuts across Strategic Goals 1, 2, and 3

Strategic Goals 1, 2, and 3 are sharply defined directives that guide the Department's reporting organizations to carry out the vision and programmatic mission, and the net cost programs can be specifically associated with these three strategic goals. The Department has a cross-goal strategy on management, which is considered a high-level premise on which the Department establishes its foundation for the three goals. As a result, we do not assign specific programs to the cross-goal strategy for presentation in the Statement of Net Cost.

Statement of Budgetary Resources. This statement provides information about the provision of budgetary resources and their status as of the end of the reporting period. The statement displayed on page 34 shows that the Department had $362.5 billion in total budgetary resources for the 12 months ended September 30, 2010. These budgetary resources were composed of $130.4 billion in appropriated budgetary resources and $232.1 billion in non-budgetary credit reform resources that primarily consist of borrowing authority for the loan programs. Of the $22.2 billion that remained unobligated for the period ended September 30, 2010, $17.7 billion represents funding provided in advance for activities in future periods that were not available at year end. These funds will become available during the next, or future, fiscal years.

Limitations of the Financial Statements

Management has prepared the accompanying financial statements to report the financial position and operational results for the U.S. Department of Education for FY 2010 and FY 2009, pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

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

The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. 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.