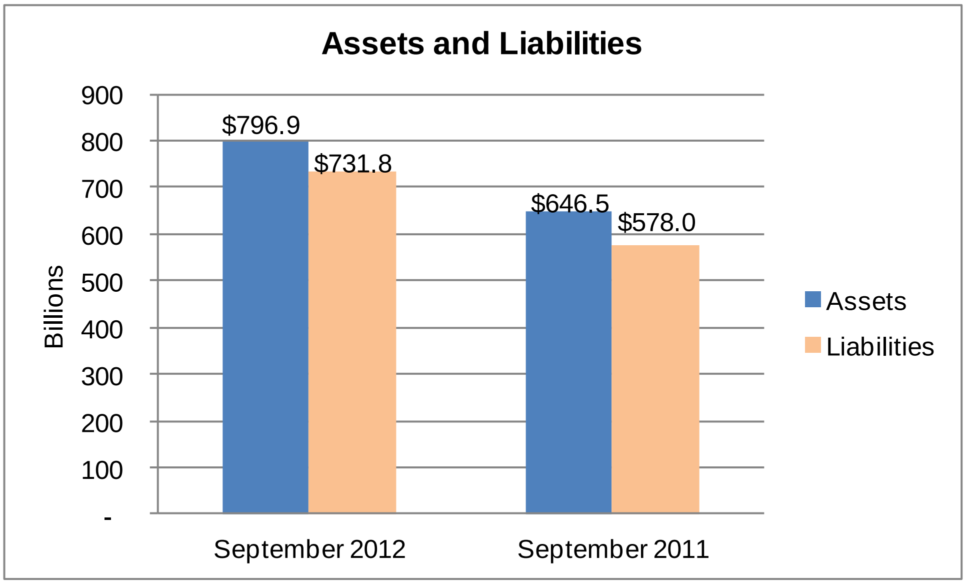
Financial Highlights

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 eleventh consecutive year, the Department achieved an unqualified (clean) opinion from independent auditors on the annual financial statements. 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.

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 Office of Inspector General (OIG) provides audit oversight. Financial statements and footnotes for FY 2012 appear on pages 41–87. An analysis of the principal financial statements follows.

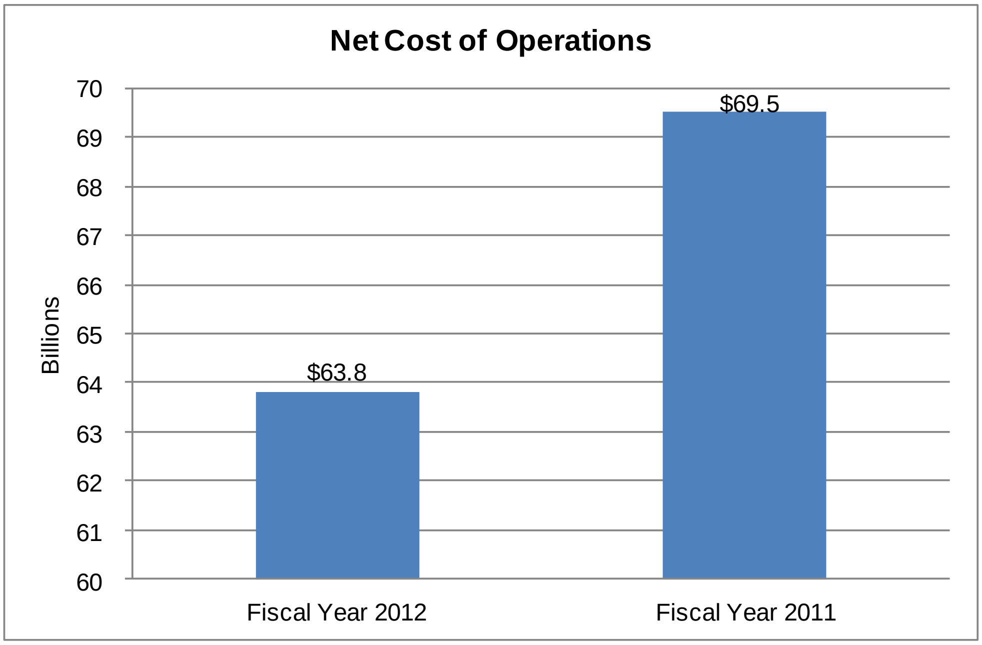


Balance Sheet. The Balance Sheet presents, as of a specific point in time, the recorded value of assets and liabilities retained or managed by the Department. The difference between assets and liabilities represents the net position of the Department.

The Balance Sheet displayed on page 41 reflects total assets of $796.9 billion, a 23 percent increase over FY 2011. The vast majority of this increase is due to Credit Program Receivables, which increased by $143.0 billion, a 27 percent increase over FY 2011. This increase is largely the result of Direct Loan disbursements for new loan originations and loan consolidations, net of borrower principal and interest collections, which increased the net portfolio for Direct Loans by $144.6 billion.

Total liabilities for the Department increased by $153.8 billion, a 27 percent increase over FY 2011. The increase is the result of current year borrowing for the Direct Loan and FFEL Programs that provided funding for Direct Loan disbursements and FFEL Program downward re-estimates. This current year borrowing, net of repayments, resulted in a $168.2 billion increase in Debt. Liabilities for Loan Guarantees for the FFEL Program decreased by $9.0 billion, a 90 percent decrease that is primarily due to FY 2012 subsidy re-estimates.

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 42, were $63.8 billion during FY 2012, an 8 percent decrease compared to total program net costs during the prior year. Significant components of this change include a $20.3 billion decrease in Recovery Act and Education Jobs Fund disbursements and a $17.9 billion increase in Direct Loan program subsidy related costs (negative subsidy transfers and re-estimated subsidy cost).



As required by the *GPRA Modernization Act of 2010*, each of the Department's reporting groups and major program offices have been aligned with the goals presented in the Department's *Strategic Plan 2011–2014*.

Net Cost Program	Reporting Group/ Program Office	Strategic Goal
Increase College Access, Quality, and Completion	Federal Student Aid Office of Postsecondary Education Office of Vocational and Adult Education	1. Increase college access, quality, and completion by improving higher education and lifelong learning opportunities for youth and adults.

Net Cost Program	Reporting Group/ Program Office	Strategic Goal
Improve Preparation for College and Career from Birth Through 12th Grade, Especially for Children with High Needs	Office of Elementary and Secondary Education Hurricane Education Recovery	2. Prepare all elementary and secondary students for college and career by improving the education system's ability to consistently deliver excellent classroom instruction with rigorous academic standards while providing effective supportive services. 3. Improve the health, social-emotional, and cognitive outcomes for all children from birth through 3rd grade, so that all children, particularly those with high needs, are on track for graduating from high school college- and career-ready.
Ensure Effective Educational Opportunities for All Students	Office of English Language Acquisition Office for Civil Rights Office of Special Education and Rehabilitative Services	4. Ensure and promote effective educational opportunities and safe and healthy learning environments for all students regardless of race, ethnicity, national origin, age, sex, sexual orientation, gender identity, disability, language, and socioeconomic status.
Enhance the Education System's Ability to Continuously Improve	Institute of Education Sciences Office of Innovation and Improvement	5. Enhance the education system's ability to continuously improve through better and more widespread use of data, research and evaluation, transparency, innovation and technology.
American Recovery and Reinvestment Act and Education Jobs Fund	American Recovery and Reinvestment Act Education Jobs Fund	Cuts across Strategic Goals 1–5

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

The goals of the Recovery Act and Education Jobs Fund are consistent with the Department's current *Strategic Plan* goals and programs.

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 44 shows that the Department had $375.0 billion in total budgetary resources for the year ended September 30, 2012. These budgetary resources were composed of $104.7 billion in appropriated budgetary resources and $270.3 billion in non-budgetary credit reform resources that primarily consist of borrowing authority for the loan programs. Of the $31.6 billion that remained unobligated for the year ended September 30, 2012, $20.5 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 2012 and FY 2011, pursuant to the requirements of Title 31 of the United States Code, section 3515(b).

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

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