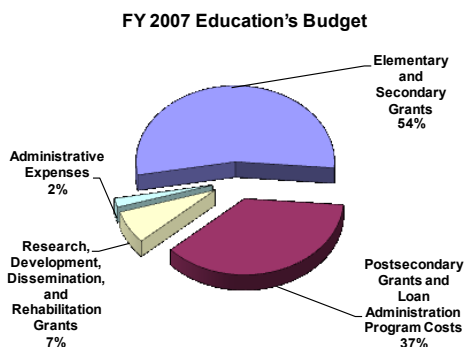


Financial Highlights

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 sixth consecutive year, we 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 the Office of Management and Budget'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 \$67 billion during FY 2007, of which 54 percent supported elementary and secondary education grant programs.



Postsecondary education grants and administration of student financial assistance accounted for 37 percent, including loan programs costs that helped more than 10 million students and their parents to better afford higher education during FY 2007. An additional 7 percent went toward programs and grants encompassing research, development, and dissemination, as well as vocational rehabilitation services. Administrative expenditures were 2 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 and Federal Direct Student Loan Program loans, which compose a large share of federal student financial assistance, are funded by commercial bank guarantees and borrowings from the Treasury, respectively.

The Department's three largest grant programs are 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*. Each of these programs' FY 2007 appropriations exceeded \$10 billion.

The FFEL Program ensures that the loan capital for approximately 3,200 private lenders is available to students and their families. Through 35 active state and private nonprofit Guaranty Agencies, the Department administers the federal loan guarantee program to protect lenders against losses related to borrower default. As of the end of September 2007, the total principal balance of outstanding guaranteed loans held by lenders was approximately \$363 billion. The government's estimated maximum exposure for defaulted loans was approximately \$359 billion.

The William D. Ford Direct Student Loan Program, created by the *Student Loan Reform Act of 1993*, provides an alternative method for delivering assistance to students. This program uses Treasury funds to provide loan capital directly to postsecondary schools. These schools then disburse loan funds to students. As of September 30, 2007, the value of the Department's direct loan portfolio was \$99 billion.

Financial Position

The Department's financial statements are prepared in accordance with established federal accounting standards and are audited by the independent accounting firm of Ernst & Young, LLP. Financial statements and footnotes for FY 2007 appear on pages 104–138. Beginning in FY 2007, the Statement of Financing is no longer required as a separate financial statement under the Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, revised as of

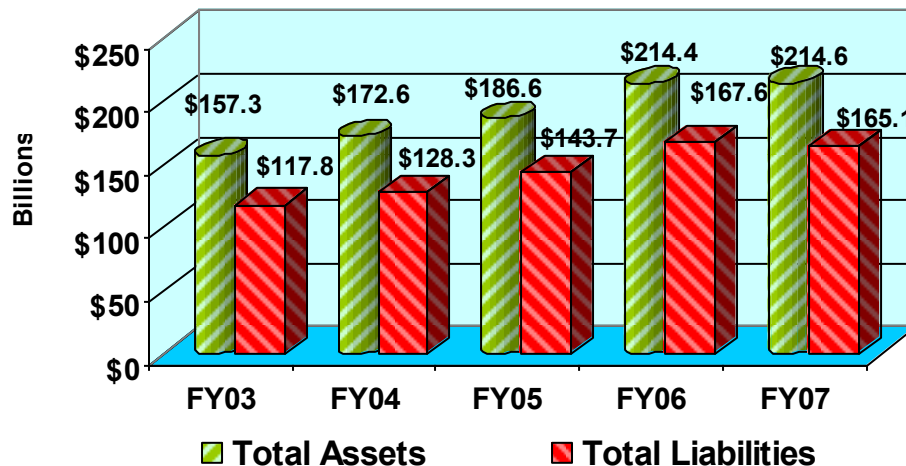
June 29, 2007. An analysis of the principal financial statements follows.

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 104 reflects total assets of \$214.6 billion, a less than 1 percent increase over FY 2006. Fund Balance with the Treasury decreased by 9 percent from FY 2006. This decrease is attributable to a reduction of Direct Loan originations and borrowings from the Treasury due to reduced loan consolidation volumes. Credit Program Receivables increased by \$9.2 billion, a 9 percent increase over FY 2006. The majority of this loan portfolio is principal and interest owed by students on direct loans. The remaining balance is related to defaulted guaranteed loans purchased from lenders

under terms of the FFEL Program. The net portfolio for direct loans increased by over \$6 billion while FFEL Program loans increased by \$3 billion during FY 2007. Total Liabilities for the Department decreased by 2 percent primarily due to a decrease in direct loan borrowings during FY 2007. Debt for the Department decreased \$1.4 billion during FY 2007 primarily due to the decrease in direct loan disbursement volume. Liabilities for Loan Guarantees for the FFEL Program decreased \$1.6 billion due primarily to a decrease in loan consolidation volume during the year. 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. Loan guarantees encourage private lenders to provide student education loans.

The Department's Net Position as of September 30, 2007 was \$49.6 billion, a \$2.8 billion increase over the \$46.8 billion Net Position as of September 30, 2006.

Total Assets vs. Total Liabilities



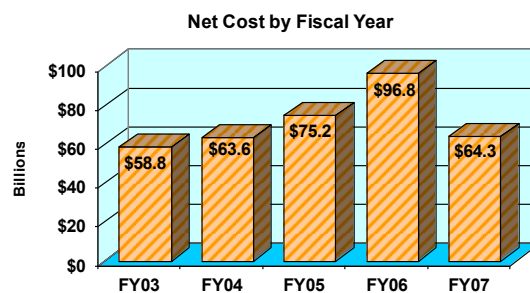
Statement of Net Cost. The Statement of Net Cost presents the components of the Department's net cost, which is the gross cost incurred less any revenues earned from the Department's activities. The Department's total program net costs, as reflected on the Statement of Net Cost, page 105, were \$64.3 billion, a 34 percent decrease from FY 2006. The decrease largely occurred for programs in support of the Enhancement of Postsecondary and Adult Education goal, which experienced a 57 percent decrease in costs from FY 2006. This decrease is largely attributed to a decrease in upward re-estimates and subsidy transfers due to decreased loan consolidation activity during the year.

The Statement of Net Cost is presented to be consistent with the Department's strategic goals

Net Cost Program	Goal No.	Strategic Goal
Enhancement of Postsecondary and Adult Education	5	Enhance the Quality of and Access to Postsecondary and Adult Education
Creation of Student Achievement, Culture of Achievement and Safe Schools	2	Improve Student Achievement
	3	Develop Safe and Drug-Free Schools
Transformation of Education	4	Transform Education into an Evidence-Based Field
Special Education and Program Execution		Cuts across Strategic Goals 2, 3, 4 and 5

and the *President's Management Agenda*. The preceding chart provides a detailed crosswalk of the Department's Net Cost programs linking them to *Strategic Plan* Goals 2 through 5. In FY 2008, the Department will realign the Statement of Net Cost Statement based on an updated strategic plan and this realignment will be reported in the Department's FY 2008 *Performance and Accountability Report*.

The Department considers Strategic Goal 1, Create a Culture of Achievement, a synopsis of the four pillars on which educational excellence is established. Strategic Goal 6, Establishing Management Excellence, emphasizes administrative and oversight responsibilities. These two strategic goals support the Department's programmatic mission, and as a result specific program costs are not assigned to either of them 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 107 shows that the Department had \$168.3 billion in total budgetary resources for the year ended September 30, 2007. These budgetary resources were composed of \$80.8 billion in

appropriated budgetary resources and \$87.5 billion in non-budgetary credit reform resources, which primarily consist of borrowing authority for the loan programs. Of the \$42.4 billion that remained unobligated at year end, \$39 billion represents funding provided in advance for activities in future periods that was not available at year end. These funds will become available during the next, or future, fiscal years.