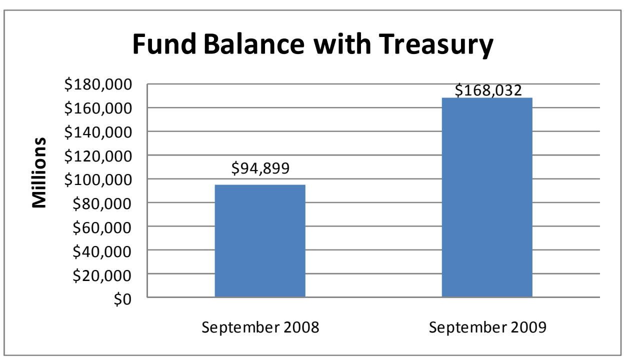
FINANCIAL HIGHLIGHTS

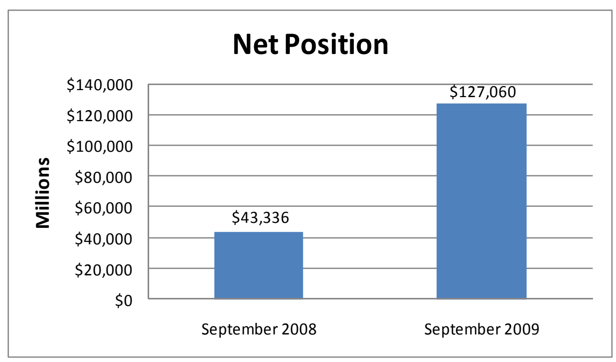
The Department consistently produces accurate and timely financial information that is used by management to inform decision-making and drive results in key areas of operation. For the eighth consecutive year, we achieved an unqualified (clean) opinion from independent auditors on the annual financial 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 (OMB) 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.

American Recovery and Reinvestment Act of 2009

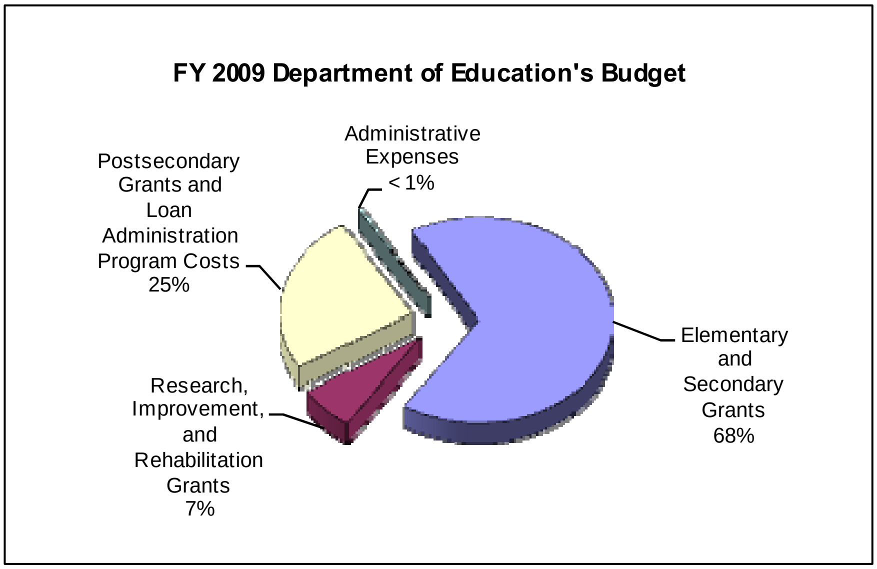
The *Recovery Act* provides $98.2 billion in additional funding to the Department. A significant portion of *Recovery Act* funding, $53.6 billion, is for the State Fiscal Stabilization Fund whose purpose is to minimize and avoid reductions in education and other essential services and to promote reform. The remaining funds will be used for currently authorized federal education activities. These activities include Impact Aid, Higher Education, Institute of Education Sciences, Student Aid Administration, Student Financial Assistance, Innovation and Improvement, Special Education, Rehabilitative Services and Disability Research, Education for the Disadvantaged, Office of Inspector General and School Improvement Programs.

This significant increase in funding is evident from a comparison of the Department's financial statements as of September 30, 2009, and September 30, 2008. The increases in Fund Balance with Treasury and Net Position were 77 percent and 193 percent, respectively, which are due to effects of the *Recovery Act* funding.





Sources of Funds



The Department managed a budget in excess of $140.5 billion during FY 2009, of which 68 percent supported elementary and secondary education grant programs.

Postsecondary education grants and administration of student financial assistance accounted for 25 percent, including loan programs costs that helped almost 13 million students and their parents to better afford higher education during FY 2009. 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 and Federal Direct Student Loan Program loans, which compose a large share of federal student financial assistance, are funded by commercial banks and borrowings from the Treasury, respectively.

The Department's four largest grant programs are SFSF, 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.* In addition, this was the first full year of the Teacher Education Assistance for College and Higher Education (TEACH) Grant Program. This 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.

The FFEL Program ensures that the loan capital for approximately 2,900 private lenders is available to students and their families. Through loan guarantees issued by 35 active state and private nonprofit Guaranty Agencies, backed by federal reinsurance provided by the Department, the FFEL Program protects lenders against losses from borrower default. As of the end of September 2009, the total principal balance of outstanding guaranteed loans held by lenders was approximately $457 billion. The government's estimated maximum exposure for defaulted loans was approximately $445 billion.

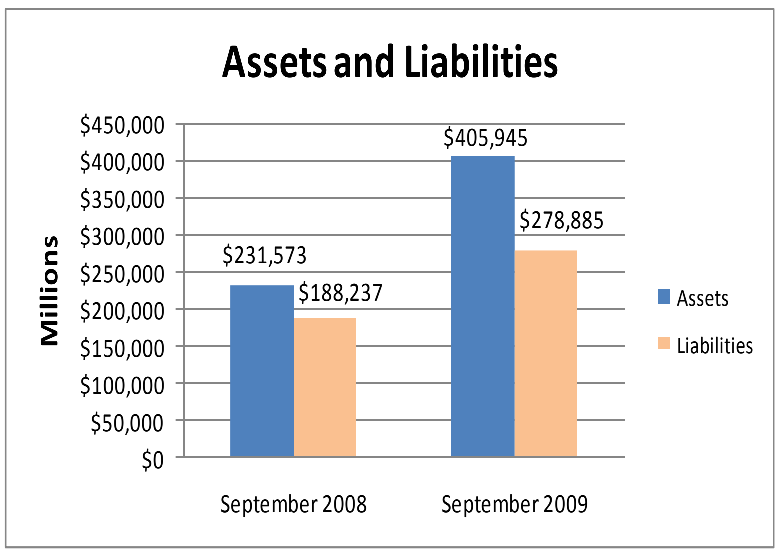
The *Ensuring Continued Access to Student Loans Act of 2008* (*ECASLA*) amended the FFEL Program to authorize the secretary to purchase or enter into forward commitments to purchase FFEL loans. The Department has implemented three activities under this temporary loan purchase authority. These activities 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 re-finance maturing commercial paper.

The William D. Ford Federal 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 eligible undergraduate and graduate students and their parents through participating schools. These schools then disburse loan funds to students. As of September 30, 2009, the value of the Department's direct loan portfolio was $152.8 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 2009 appear on pages 48-96. 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 48 reflects total assets of $406 billion, a 75 percent increase over FY 2008. The majority of this increase is due to both the American *Recovery and Reinvestment Act* and to *ECASLA*. Credit Program Receivables increased by $99.5 billion, a 74 percent increase over FY 2008. This increase is largely due to an increase in direct loan disbursements, and activity related to loan purchase commitments and loan participation purchases under the Federal Family Education Loan (FFEL) program. 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 and to loan purchase commitments and loan participation purchases under the FFEL Program. The net portfolio for direct loans increased by over $42.9 billion due to increased direct loan disbursements. FFEL Program loans increased by $56.4 billion during FY 2009, due primarily to loan

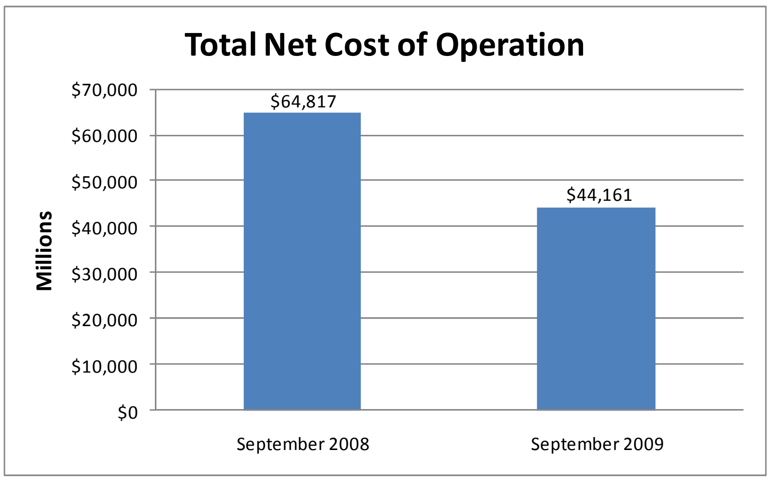


volume and activity related to loan purchase commitments and loan participation purchases. The Fund Balance with Treasury increased by $73.1 billion, a 77 percent increase from FY 2008. The vast majority of this increase is due to the *Recovery Act*.

Total Liabilities for the Department increased by $90.6 billion, a 48 percent increase over FY 2008. The increase is primarily due to the fact that borrowing increased 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 $22.8 billion, a 53 percent decrease due primarily to subsidy transfers, re-estimates and modifications. These liabilities present the estimated costs, on a present-value basis, of the net long-term cash outflows due to loan defaults and interest subsidies net of offsetting fees.

The Department's Net Position as of September 30, 2009 was $127.1 billion, an $83.8 billion increase over the $43.3 billion Net Position as of September 30, 2008. This 193 percent increase was largely due to the *Recovery Act.*

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 49, were $44.2 billion, a 32 percent decrease from September 30, 2008. This change largely reflects the effects of both the $2.6 billion downward modification and the $21.7 billion downward re-estimate in the guarantee loan portion of the FFEL Program, and the $5.2 billion downward re-estimate for Direct Loans.



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	• 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 Education Recovery	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	• *Recovery Act*	Cuts across Strategic Goals 1, 2 and 3

Strategic Goals 1, 2 and 3 are sharply defined directives that guide reporting organizations to carry out the Department's 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 51 shows that the Department had $437.8 billion in total budgetary resources for the 12 months ended September 30, 2009. These budgetary resources were composed of $170.1 billion in appropriated budgetary resources and $267.7 billion in non-budgetary credit reform resources, which primarily consist of borrowing authority for the loan programs. Of the $46.6 billion that remained unobligated at year end, $12.1 billion represents funding provided in advance for activities in future periods that were not available at year end. These funds will become available in following fiscal years.

Limitations of 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 2009 and FY 2008 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.