

## Financial Details

The Department of Education continued its high standard of financial management and reporting during fiscal year 2006. In this part of the *Performance and Accountability Report*, I have the pleasure of presenting to the President and the American people the financial details on the Department's stewardship and management of the public funds to which we have been entrusted.

The Department's impressive record of excellence in financial management has been a joint effort of our managers, employees, and business partners who make it a priority to ensure that the highest quality financial data is reported. Highlights of these successful efforts over the last year are as follows:



- Received an unqualified opinion on the principal financial statements for the fifth consecutive year, demonstrating a clear pattern of financial accountability;
- Continued to have no material weaknesses identified as part of our Report on Internal Control for the fourth consecutive year;
- Received a “green” status in Financial Management on the *President's Management Scorecard* for the third consecutive year;
- Awarded the prestigious “Certificate of Excellence in Accountability Reporting” from the Association of Government Accountants for the third consecutive year;
- Continue to provide reasonable assurance of its internal controls over financial reporting.

In 2006, the Department furthered its efforts to correct the two reportable conditions identified by the auditors in the “Report on Internal Controls.” To address the reportable condition regarding the credit reform estimation the Credit Steering committee has worked diligently to continue to improve the process. The work group is comprised of managers from the Office of the Chief Financial Officer, Budget Service and Federal Student Aid. Throughout the fiscal year the committee has reviewed and documented the analytical tools used for the loan estimation process. Currently new analytical tools are also in development to enhance the monitoring of loans at the cohort level. The Department also continued to address the other reportable condition regarding controls surrounding information systems.

During FY 2006, the Department conducted an assessment of the effectiveness of its internal control over financial reporting. This review was based upon the expanded requirements of OMB Circular A-123 (Appendix A), *Management's Responsibility for Internal Control*. We are pleased to report that the Department can give an unqualified statement of assurance on its internal control over financial reporting. This examination has presented us the opportunity to further review and improve upon our internal controls and thereby will continue to ensure the greatest integrity in our financial management and reporting.

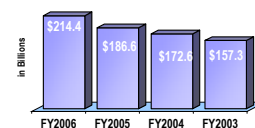
/s/

Lawrence Warder  
Chief Financial Officer  
November 15, 2006

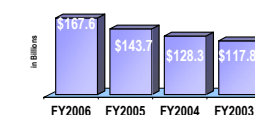
Financial Summary						
<i>(Dollars in Millions)</i>						
At End of Year	% Change 2006 / 2005	FY2006	FY2005	FY2004	FY2003	
<b>Condensed Balance Sheet Data</b>						
Fund Balance with Treasury	+ 38%	\$ 107,053	\$ 77,569	\$ 66,371	\$ 57,908	
Credit Program Receivables	- 1%	106,728	107,937	104,966	97,965	
Accounts Receivable	- 69%	44	141	155	183	
Other	- 35%	596	920	1,117	1,202	
<b>Total Assets</b>	<b>+ 15%</b>	<b>\$ 214,421</b>	<b>\$ 186,567</b>	<b>\$ 172,609</b>	<b>\$ 157,258</b>	
Debt	+ 1%	\$ 105,677	\$ 104,597	\$ 96,649	\$ 92,018	
Other Intragovernmental Liabilities	+ 1%	6,182	6,146	6,051	8,250	
Liabilities for Loan Guarantees	+ 71%	52,453	30,611	23,329	15,432	
Other Liabilities	+ 39%	3,299	2,371	2,246	2,124	
<b>Total Liabilities</b>	<b>+ 17%</b>	<b>167,611</b>	<b>143,725</b>	<b>128,275</b>	<b>117,824</b>	
Unexpended Appropriations	+ 10%	51,812	47,288	47,285	43,931	
Cumulative Results of Operations	+ 13%	(5,002)	(4,446)	(2,951)	(4,497)	
<b>Total Net Position</b>	<b>+ 9%</b>	<b>46,810</b>	<b>42,842</b>	<b>44,334</b>	<b>39,434</b>	
<b>Total Liabilities and Net Position</b>	<b>+ 15%</b>	<b>\$ 214,421</b>	<b>\$ 186,567</b>	<b>\$ 172,609</b>	<b>\$ 157,258</b>	
<b>For the Year</b>						
<b>Statement of Net Cost</b>						
Total Cost	+ 27%	\$ 104,699	\$ 82,204	\$ 70,187	\$ 65,327	
Earned Revenue	+ 13%	(7,870)	(6,965)	(6,564)	(6,523)	
<b>Total Net Cost of Operations</b>	<b>+ 29%</b>	<b>\$ 96,829</b>	<b>\$ 75,239</b>	<b>\$ 63,623</b>	<b>\$ 58,804</b>	
<b>Net Cost by Strategic Goal</b>						
Goal 2 Improve Student Achievement	+ 4%	\$ 37,700	\$ 36,415	\$ 32,687	\$ 29,679	
Goal 3 Develop Safe Schools and Strong Character	- 3%	849	877	756	776	
Goal 4 Transform Education into Evidenced-Based Field	- 5%	422	442	467	490	
Goal 5 Enhance Quality of and Access to Postsecondary and Adult Education	+ 55%	57,303	36,940	29,713	27,859	
Goal 6 Management Excellence <sup>1</sup>	- 2%	555	565	-	-	
	+ 29%	\$ 96,829	\$ 75,239	\$ 63,623	\$ 58,804	
<b>Net Cost Percentages by Strategic Goal</b>						
Goal 2 Improve Student Achievement	- 20%	38.90%	48.40%	51.38%	50.47%	
Goal 3 Develop Safe Schools and Strong Character	- 25%	0.88%	1.17%	1.19%	1.32%	
Goal 4 Transform Education into Evidenced-Based Field	- 25%	0.44%	0.59%	0.73%	0.83%	
Goal 5 Enhance Quality of and Access to Postsecondary and Adult Education	+ 21%	59.18%	49.09%	46.70%	47.38%	
Goal 6 Management Excellence <sup>1</sup>	- 20%	0.60%	0.75%	N/A	N/A	

<sup>1</sup> In FY03 and FY04 Goal 6 was not included in this summary

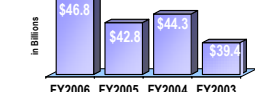
**Total Assets**



**Total Liabilities**

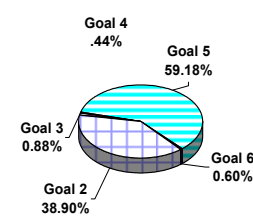


**Net Position**

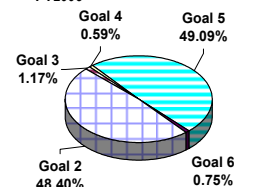


**Net Cost by Strategic Goal**

**FY 2006**



**FY2005**



### 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 fiscal years 2006 and 2005 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.



**United States Department of Education**  
**Consolidated Balance Sheet**  
**As of September 30, 2006 and 2005**

(Dollars in Millions)

	Fiscal Year 2006	Fiscal Year 2005
<b>Assets:</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 107,053	\$ 77,569
Accounts Receivable (Note 3)	1	
Other Intragovernmental Assets		12
<b>Total Intragovernmental</b>	<b>107,054</b>	<b>77,581</b>
Cash and Other Monetary Assets (Note 4)	566	888
Accounts Receivable, Net (Note 3)	43	141
Credit Program Receivables, Net (Note 5)	106,728	107,937
General Property, Plant and Equipment, Net (Note 6)	29	19
Other Assets	1	1
<b>Total Assets</b>	<b>\$ 214,421</b>	<b>\$ 186,567</b>
<b>Liabilities:</b>		
Intragovernmental:		
Accounts Payable		\$ 12
Debt (Note 7)	\$ 105,677	104,597
Guaranty Agency Federal and Restricted Funds Due to Treasury (Note 4)	566	888
Payable to Treasury (Note 5)	5,519	5,166
Other Intragovernmental Liabilities (Note 8)	97	80
<b>Total Intragovernmental</b>	<b>111,859</b>	<b>110,743</b>
Accounts Payable	859	684
Accrued Grant Liability (Note 9)	2,059	1,328
Liabilities for Loan Guarantees (Note 5)	52,453	30,611
Other Liabilities (Note 8)	381	359
<b>Total Liabilities</b>	<b>\$ 167,611</b>	<b>\$ 143,725</b>
Commitments and Contingencies (Note 16)		
<b>Net Position:</b>		
Unexpended Appropriations - Earmarked Funds		
Unexpended Appropriations - Other Funds	\$ 51,812	\$ 47,288
Cumulative Results of Operations - Earmarked Funds (Note 15)	61	
Cumulative Results of Operations - Other Funds	(5,063)	(4,446)
<b>Total Net Position (Note 10)</b>	<b>\$ 46,810</b>	<b>\$ 42,842</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 214,421</b>	<b>\$ 186,567</b>

*The accompanying notes are an integral part of these statements.*

**United States Department of Education**  
**Consolidated Statement of Net Cost**  
**For the Years Ended September 30, 2006 and 2005**

(Dollars in Millions)

	Fiscal Year 2006	Fiscal Year 2005
<b>Program Costs</b>		
<b>Enhancement of Postsecondary and Adult Education</b>		
Gross costs	\$ 63,356	\$ 42,351
Less: Earned Revenue	7,790	6,870
Net Program Costs	55,566	35,481
<b>Total Program Costs</b>	<b>\$ 55,566</b>	<b>\$ 35,481</b>
<b>Creation of Student Achievement, Culture of Achievement and Safe Schools</b>		
Gross costs	\$ 24,605	\$ 24,464
Less: Earned Revenue	60	76
Net Program Costs	24,545	24,388
<b>Total Program Costs</b>	<b>\$ 24,545</b>	<b>\$ 24,388</b>
<b>Transformation of Education</b>		
Gross costs	\$ 1,363	\$ 1,220
Less: Earned Revenue	18	17
Net Program Costs	1,345	1,203
<b>Total Program Costs</b>	<b>\$ 1,345</b>	<b>\$ 1,203</b>
<b>Special Education and Program Execution</b>		
Gross costs	\$ 15,375	\$ 14,169
Less: Earned Revenue	2	2
Net Program Costs	15,373	14,167
<b>Total Program Costs</b>	<b>\$ 15,373</b>	<b>\$ 14,167</b>
<b>Grand Total Program Costs</b>	<b>\$ 96,829</b>	<b>\$ 75,239</b>
<b>Net Cost of Operations (Note 11)</b>	<b>\$ 96,829</b>	<b>\$ 75,239</b>

*The accompanying notes are an integral part of these statements.*

## STATEMENT OF CHANGES IN NET POSITION

**United States Department of Education**  
**Consolidated Statement of Changes in Net Position**  
**For the Years Ended September 30, 2006 and 2005**

(Dollars in Millions)

	Fiscal Year 2006		Fiscal Year 2005	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
<b>Beginning Balances</b>				
Beginning Balances - Earmarked Funds				
Beginning Balances - All Other Funds	\$ (4,446)	\$ 47,288	\$ (2,951)	\$ 47,285
Beginning Balances, as adjusted - Earmarked Funds				
Beginning Balances, as adjusted - All Other Funds	\$ (4,446)	\$ 47,288	\$ (2,951)	\$ 47,285
<b>Budgetary Financing Sources:</b>				
Appropriations Received				
Appropriations Received - Earmarked Funds				
Appropriations Received - All Other Funds		\$ 102,139		\$ 77,033
Other Adjustments (rescissions, etc)				
Other Adjustments (rescissions, etc) - Earmarked Funds				
Other Adjustments (rescissions, etc) - All Other Funds		(1,509)	(3)	(1,312)
Appropriations Used				
Appropriations Used - Earmarked Funds				
Appropriations Used - All Other Funds	\$ 96,106	(96,106)	75,718	(75,718)
Donations and Forfeitures of Cash and Cash Equivalents				
Donations and Forfeitures of Cash and Cash Equivalents - Earmarked Funds	61			
Donations and Forfeitures of Cash and Cash Equivalents - All Other Funds				
Nonexpenditure Financing Sources - Transfers-Out				
Nonexpenditure Financing Sources - Transfers-Out - Earmarked Funds				
Nonexpenditure Financing Sources - Transfers-Out - All Other Funds	(36)		(33)	
<b>Other Financing Sources:</b>				
Imputed Financing from Costs Absorbed by Others				
Imputed Financing from Costs Absorbed by Others - Earmarked Funds				
Imputed Financing from Costs Absorbed by Others - All Other Funds	\$ 31		\$ 31	
Others				
Others - Earmarked Funds				
Others - All Other Funds	111		(1,969)	
Total Financing Sources	\$ 96,273	\$ 4,524	\$ 73,744	\$ 3
Total Financing Sources - Earmarked Funds	\$ 61			
Total Financing Sources - All Other Funds	\$ 96,212	\$ 4,524	\$ 73,744	\$ 3
<b>Net Cost of Operations</b>				
Net Cost of Operations - Earmarked Funds				
Net Cost of Operations - All Other Funds	\$ (96,829)		\$ (75,239)	
<b>Net Change</b>				
Net Change - Earmarked Funds	\$ 61			
Net Change - All Other Funds	\$ (617)	\$ 4,524	\$ (1,495)	\$ 3
<b>Ending Balances - Earmarked Funds (Note 10)</b>	<b>\$ 61</b>	<b>\$ (0)</b>	<b>\$ (0)</b>	<b>(0)</b>
<b>Ending Balances - All Other Funds (Note 10)</b>	<b>\$ (5,063)</b>	<b>\$ 51,812</b>	<b>\$ (4,446)</b>	<b>\$ 47,288</b>

*The accompanying notes are an integral part of these statements.*

## STATEMENT OF BUDGETARY RESOURCES

**United States Department of Education**  
**Combined Statement of Budgetary Resources**  
**For the Years Ended September 30, 2006 and 2005**

(Dollars in Millions)

	Fiscal Year 2006		Fiscal Year 2005	
	Budgetary Credit Reform Financing Accounts		Budgetary Credit Reform Financing Accounts	
	Budgetary	Accounts	Budgetary	Accounts
<b>Budgetary Resources:</b>				
Unobligated balance, brought forward, October 1:	\$ 2,137	\$ 22,817	\$ 2,245	\$ 15,128
Recoveries of prior year Unpaid Obligations	1,434	3,450	1,536	1,973
Budgetary Authority:				
Appropriations	102,197	108	76,981	3
Borrowing Authority		35,089		32,209
Spending authority from offsetting collections (gross):				
Earned				
Collected	2,074	77,399	3,198	49,536
Change in Receivables from Federal Sources	1		(3)	(2)
Change in unfilled customer orders				
Advance Received	9		64	
Without advance from Federal Sources	(1)	(4)	(68)	34
Subtotal	\$ 104,280	\$ 112,592	\$ 80,172	\$ 81,780
Permanently not available	(3,537)	(32,252)	(4,047)	(24,692)
<b>Total Budgetary Resources (Note 13)</b>	<b>\$ 104,314</b>	<b>\$ 106,607</b>	<b>\$ 79,906</b>	<b>\$ 74,189</b>
<b>Status of Budgetary Resources:</b>				
Obligations incurred: (Note 13)				
Direct	\$ 99,001	\$ 60,117	\$ 77,677	\$ 51,372
Reimbursable	92		92	
Subtotal	\$ 99,093	\$ 60,117	\$ 77,769	\$ 51,372
Unobligated Balances:				
Apportioned	4,081		526	
Subtotal	\$ 4,081		\$ 526	
Unobligated Balance not available	1,140	46,490	1,611	22,817
<b>Total Status of Budgetary Resources</b>	<b>\$ 104,314</b>	<b>\$ 106,607</b>	<b>\$ 79,906</b>	<b>\$ 74,189</b>
<b>Change in Obligated Balance:</b>				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	\$ 48,213	\$ 10,802	\$ 48,221	\$ 7,790
Less: Uncollected customer payments from Federal Sources, brought forward, October 1	3	34	74	2
Total, unpaid obligated balance, brought forward, net	\$ 48,210	\$ 10,768	\$ 48,147	\$ 7,788
Obligation Incurred net (+/-)	99,093	60,117	77,769	51,372
Less: Gross Outlays	95,662	54,516	76,251	46,389
Less Recoveries of prior year unpaid obligations, actual	1,434	3,450	1,536	1,973
Change in uncollected customer payments from Federal Sources (+/-)		4	72	(32)
Obligated Balance, net, end of period				
Unpaid Obligations	\$ 50,210	\$ 12,953	\$ 48,213	\$ 10,802
Less: Uncollected customer payments from Federal Sources	3	30	3	34
<b>Total, unpaid obligated balance, net, end of period</b>	<b>\$ 50,207</b>	<b>\$ 12,923</b>	<b>\$ 48,210</b>	<b>\$ 10,768</b>
<b>Net Outlays</b>				
Net Outlays:				
Gross Outlays	\$ 95,662	\$ 54,516	\$ 76,251	\$ 46,389
Less: Offsetting collections	2,083	77,399	3,264	49,536
Less: Distributed Offsetting receipts	51		32	
<b>Net Outlays (Note 13)</b>	<b>\$ 93,528</b>	<b>\$ (22,883)</b>	<b>\$ 72,955</b>	<b>\$ (3,147)</b>

*The accompanying notes are an integral part of these statements.*



**United States Department of Education  
Consolidated Statement of Financing  
For the Years Ended September 30, 2006 and 2005**

(Dollars in Millions)

	Fiscal Year 2006	Fiscal Year 2005
<b>Resources Used to Finance Activities</b>		
Budgetary Resources Obligated		
Obligations Incurred (Note 13)	\$ (159,210)	\$ (129,141)
Less: Spending Authority from Offsetting Collections & Recoveries	84,362	56,268
Obligations Net of Offsetting Collections and Recoveries	(74,848)	(72,873)
Less: Offsetting Receipts	(51)	(32)
Net Obligations	\$ (74,899)	\$ (72,905)
Other Resources		
Imputed Financing From Costs Absorbed by Others	(31)	(31)
Net Other Resources Used to Finance Activities	(31)	(31)
<b>Total Resources Used to Finance Activities</b>	<b>\$ (74,930)</b>	<b>\$ (72,936)</b>
<b>Resources Used to Finance Items Not Part of Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not Yet Provided (+/-)	\$ (2,946)	\$ (3,197)
Resources that Fund Expenses Recognized in Prior Period (Note 14)	(2,840)	(1,610)
Budgetary offsetting collections and receipts that do not affect net cost of operations		2
Credit Program Collections Which Increase/Decrease Liabilities for Loan Guarantees, or Credit Program Receivables, Net including Allowances for Subsidy	73,723	46,891
Resources Used to Finance the Acquisition of Fixed Assets, or Increase/Decrease Liabilities for Loan Guarantees or Credit Program Receivables, Net in the Current or Prior Period	(48,328)	(39,977)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>\$ 19,609</b>	<b>\$ 2,109</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>\$ (94,539)</b>	<b>\$ (75,045)</b>
<b>Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period</b>		
Components Requiring or Generating Resources in Future Periods (Note 14)		
Increase in Annual Leave Liability	\$ (31)	\$ (28)
Upward/Downward Reestimates of Credit Subsidy Expense	(4,200)	(2,789)
Increase in Exchange Revenue Receivable from the Public	1,603	1,163
Other (+/-)	32	15
Total Components of the Net Cost of Operations that Will Require or Generate Resources in Future Periods	\$ (2,596)	\$ (1,639)
Components Not Requiring or Generating Resources		
Depreciation and Amortization	\$ 400	\$ 1,442
Other (+/-) (Note 14)	(94)	3
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources	\$ 306	\$ 1,445
<b>Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period</b>	<b>\$ (2,290)</b>	<b>\$ (194)</b>
<b>Net Cost of Operations (Note 11)</b>	<b>\$ (96,829)</b>	<b>\$ (75,239)</b>

*The accompanying notes are an integral part of these statements.*

