

# **ANNUAL FINANCIAL STATEMENTS**

**Department of Education of The City of New York**

**52 Chambers Street  
New York, New York 10007**

**For the Fiscal Year Ended June 30, 2007**



**Michael R. Bloomberg, Mayor  
Joel I. Klein, Chancellor**

# ANNUAL FINANCIAL STATEMENTS

**Department of Education of The City of New York  
52 Chambers Street, New York, New York 10007**

**For the Fiscal Year Ended June 30, 2007**



**Prepared by the Division of Financial Operations**

**Vincent A. Giordano**, *Executive Director*  
Division of Financial Operations

**John Wall**, *Chief Administrator*  
Division of Financial Operations

**Department of Education of The City of New York**  
**Annual Financial Statements**  
**For the Fiscal Years Ended June 30, 2007 and 2006**

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# **ANNUAL FINANCIAL STATEMENTS**

**Department of Education of The City of New York**

**For the Fiscal Year Ended June 30, 2007**

## **I Introductory Section**

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**DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK**  
**JOEL I. KLEIN, *Chancellor***  
**OFFICE OF THE CHANCELLOR**  
52 Chambers Street, New York, New York 10007

October 31, 2007

**TO:** The Citizens, taxpayers, customers, investors and creditors of The City of New York  
**SUBJECT:** **ANNUAL FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The Annual Financial Statements for the Department of Education of the City of New York (DOE) for the fiscal year ended June 30, 2007 are submitted herewith and include a Management's Discussion and Analysis, financial statements, Notes to the Financial Statements and supplemental schedules. We believe it is complete and accurate in all material aspects; that it is presented in accordance with accounting standards designed to set forth fairly the financial position and results of operations of the DOE as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the appropriate understanding of the DOE's financial affairs have been included. Responsibility for completeness and clarity of the report, including disclosures, rests with the Chancellor, the Deputy Chancellor for Finance and Administration, and the Executive Director of the Division of Financial Operations. The Administrator of the Office of Accounting of the Division of Financial Operations, who is responsible for the data presented herein, prepares the Annual Financial Statements.

The firm of Deloitte & Touche LLP has audited the 2007 financial statements included in this report; their opinion is expressed on page 1. The auditors' report on the basic financial statements is unqualified and states that the financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, known as Generally Accepted Accounting Principles (GAAP). The auditors' report on internal controls over financial reporting and on compliance and other matters, based on an audit of the financial statements in accordance with *Government Auditing Standards*, is also included. This report indicates that the auditors' tests disclosed no reportable instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements, and no material weaknesses related to internal controls over financial reporting. In addition, the Management's Discussion and Analysis is included as supplementary information required by GAAP. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, no opinion is expressed on it. The Supplemental Financial Schedules of the General Fund are presented for purposes of additional analysis and are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

On June 12, 2002 Governor George Pataki signed school governance legislation that removed accountability for the oversight of the City's public schools from an appointed seven member Board of Education to the Mayor. As a result of this governance change, the Board of Education is now known as the Department of Education of the City of New York, with a Chancellor who is appointed by the Mayor and who is accountable to him. Although there has been a change in the title of our public school system and its reporting relationship, the legal entity remains as the Board of Education of the City of New York.

The DOE is organized and administered in accordance with the provisions of the State of New York Education Law and consists of ten Regions across the City – each of which includes approximately one hundred forty schools. Each Region contains up to four community school districts, as well as, the high schools located within its geographic boundaries. Each Region has a Learning Support Center which houses the instructional leadership team for the Region, as well as, a full service Parent Support Office. Six of the Learning Support Centers also house Regional Operational Centers which provide operational support to schools. The Regions are led by ten Regional Superintendents, and within each Region, the Regional Superintendent supervises approximately ten to twelve Local Instructional Superintendents (LIS). Thirty-two LIS are designated as Community School District Superintendents who oversee a community school district office and the parent-focused Community District Education Councils.

DOE is dependent upon The City of New York (The City) for appropriations (spending authority) and does not have the authority to levy taxes or issue debt. As part of the DOE's dependent relationship with The City, The City incurs certain costs on behalf of DOE that are not allocated to DOE. Accordingly, these costs are not reflected in the accompanying financial statements. These costs are included in The City's fiscal year budget appropriations and include debt service costs and pension costs (allocated for the Teachers Retirement System and the Board of Education Retirement System) for tax levy funded employee services.

DOE has two basic sources of funding:

- *Tax Levy and unrestricted Federal and State aid:* This includes revenue from City taxes (real estate, income, sales, etc.), New York State formula aid, and certain Federal and State Aid resources (e.g., impact aid and school lunch subsidies, etc.).
- *Federal and State categorical funds:* This category includes revenues received from the Federal and New York State governments under programs that are categorical in nature and whose expenditures are restricted by terms and conditions designated by the funding agency. Reimbursement claims for such revenues are made by DOE to the funding sources based on actual expenditures and on compliance with funding source guidelines.

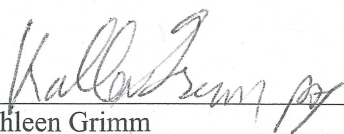
DOE maintains, for its reporting purposes, a computerized accounting system to interface with FMS, called the Financial Accounting Management Information System (FAMIS), providing DOE with a relational database technology. This accounting system allows DOE to take advantage of current technology to conduct business in the most cost-effective manner. DOE's FAMIS interfaces with The City's accounting system, the Financial Management System (FMS). All of DOE's financial transactions are processed through FMS. FMS maintains the official accounting records for The City.


Management of DOE is responsible for establishing and maintaining an internal control structure. In developing and evaluating DOE's accounting system, consideration is given to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of controls should not exceed the benefits expected to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

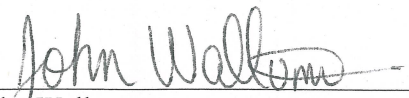
In accordance with DOE's status as a dependent school district, revenues received for school purposes are required to be deposited into The City's Treasury, which is maintained for the General Fund. As revenues are collected, they are recorded to a series of designated revenue codes established for DOE. At the beginning of each fiscal year the estimated value of the revenue expected to be recognized during the fiscal year is used to establish the authorized spending level of DOE. Budget requests and budget modifications for the use of these revenues are submitted by DOE to The City's Office of Management and Budget (OMB) for review and approval. Approved budgets and budget modifications are entered by OMB into FMS; DOE enters budgets and budget modifications into its accounting system (FAMIS).

DOE is responsible for pre-auditing its own expenditures, which are then transmitted electronically to FMS. Based on the electronic transmission of expenditure data, the New York City Comptroller on behalf of DOE makes disbursements for these expenditures. The actual vouchers and supporting documentation are maintained and reviewed at the schools, the Regional Operations Centers and central processing bureaus of DOE. On an ongoing basis, and at the closing of the fiscal year, the two accounting systems (FAMIS and FMS) are reconciled.

Respectfully submitted by,

  
Kathleen Grimm  
Deputy Chancellor  
Finance & Administration

  
Vincent A. Giordano  
Executive Director  
Division of Financial Operations

  
John Wall  
Chief Administrator  
Office of Fiscal Affairs  
Division of Financial Operations



# **ANNUAL FINANCIAL STATEMENTS**

**Department of Education of The City of New York**

**For the Fiscal Year Ended June 30, 2007**

## **II Financial Section**

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## INDEPENDENT AUDITORS' REPORT

The Department of Education  
of The City of New York

We have audited the accompanying financial statements of the governmental activities of the Department of Education of The City of New York (the "DOE") as of and for the years ended June 30, 2007 and 2006. These financial statements are the responsibility of the DOE management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DOE's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in the Note 1A to the financial statements, the financial statements of the DOE are intended to present the financial position, and the changes in financial position, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of The City of New York (The City) that is attributable to the transactions of the DOE. They do not purport to, and do not present fairly, the financial position of The City as of June 30, 2007 and 2006, and the changes in its financial position, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the DOE, as of June 30, 2007 and 2006, and the respective changes in financial position, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary funds of the DOE, as of June 30, 2007 and 2006, and the respective changes in financial position, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 4 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the DOE's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the DOE's respective financial statements that collectively comprise the DOE's basic financial statements. The accompanying financial information listed as Supplemental Financial Schedules of the General Fund, in the foregoing table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the DOE's management. Such financial information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2007, on our consideration of the DOE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information contained in Section I (Introductory Section) of the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

*Deloitte + Touche LLP*

October 26, 2007

## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Department of Education  
of The City of New York

We have audited the accompanying financial statements of the Department of Education of The City of New York (the "DOE") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As described in the notes to the financial statements, the financial statements of the DOE are intended to present the financial position and changes in financial position, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of The City of New York (The City) that is attributable to the transactions of the DOE. They do not purport to, and do not present fairly, the financial position of The City as of June 30, 2007, and the changes in its financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered the DOE's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DOE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DOE's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the DOE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the DOE in a separate letter dated October 26, 2007.

This report is intended solely for the information and use of The New York City Audit Committee, management of the DOE and The City of New York, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by any one other than these specified parties.

*Deloitte + Touche LLP*

October 26, 2007

## **Department of Education of The City of New York Management's Discussion and Analysis**

This section of the DOE's Annual Financial Statements discusses and analyzes DOE's financial performance during the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the transmittal letter at the front of these financial statements and the DOE's financial statements, which immediately follow this section.

### **Financial Highlights**

- Net deficit at year-end was \$6.58 billion, a decrease in net assets of \$71 million over that of the previous year.
- Total assets and liabilities reported in the governmental funds at year-end were \$2.7 billion, an increase of about \$67 million from that of the previous fiscal year.
- General Fund total revenues available and spent during the fiscal year were \$15.9 billion, an increase of 6.2 percent over that of the previous fiscal year.
- A net surplus of \$127.6 million was returned to The City, as part of DOE's dependent relationship, to supplement revenues received from federal, state and private sources.

### **Overview of Financial Statements**

The financial statements consist of three parts: Management's Discussion and Analysis (this part), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of DOE.

- The first four statements are "Department-wide Financial Statements" that provide both short-term and long-term information about DOE's overall financial status.
- The remaining statements are "Fund Financial Statements" that focus on individual parts of DOE, reporting its operations in more detail than the Department-wide financial statements.

The fund financial statements report the results of operations of two funds:

- The governmental funds statements explain how basic services such as regular and special education were financed in the short term.
- The fiduciary funds statement provides information about the financial relationships in which DOE acts solely as agent for the benefit of others.

The financial statements also include notes that explain data in the statements and provide more detailed information. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of DOE's budget for the year.

The following summarizes the major features of DOE's financial statements, including the portion of DOE's activities they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

## Department of Education of The City of New York Management's Discussion and Analysis

	Department-wide Statements	Fund Financial Statements Governmental Funds	Fiduciary Funds
Scope	Entire DOE (except fiduciary funds)	The activities of DOE that are not fiduciary, such as special education and building maintenance	Instances in which the DOE administers resources on behalf of someone else, such as student activities monies
Required financial information	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, asset usage and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

### Department-wide Financial Statements

The Department-wide Financial Statements report information about DOE as a whole using accounting methods similar to those used by private-sector companies.

The Statement of Net Assets includes all DOE's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when the cash is received or paid.

The Department-wide Financial Statements include all activities of DOE in one category: Governmental Activities. These activities include School Leadership, Instruction & Special Education Support; School Support Services; Regional Administration & Instructional Support; Central Administration & Instructional Support; and Non-public Schools.

### Fund Financial Statements

The Fund Financial Statements provide more detailed information about DOE's funds, focusing on its most significant or "major" funds—not DOE as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs.

DOE has two kinds of funds:

- **Governmental funds:** are those by which most functions of DOE are financed. The acquisition, use and balance of the expendable available financial resources and the related liabilities are accounted for through governmental funds. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance DOE's programs. Because this information does not encompass the additional long-term focus of the Department-wide statements, additional information behind the governmental funds statements explains the relationship (or differences) between them.

## Department of Education of The City of New York Management's Discussion and Analysis

Since the DOE maintains a dependent relationship with The City, funding provided by The City and transfers from The City are used to supplement revenues received from federal, state and private sources to finance expenditures incurred through the end of the fiscal year. A final modified budget at year-end utilized The City funding to close most of the gap between the revenue and expenditures.

- **Fiduciary funds:** DOE is the fiduciary for assets that belong to others, such as the student activities fund. DOE is responsible for ensuring that the assets are used only for their intended purposes. DOE excludes these activities from the Department-wide financial statements.

### Financial Analysis of the Department-wide Financial Statements

At the close of Fiscal Year 2007, total liabilities of DOE exceeded total assets by \$6.6 billion, a reduction in net assets of \$71 million from that at the close of Fiscal Year 2006. Net deficits, as of June 30, 2007 and June 30, 2006, are summarized below for all governmental activities.

**Figure 1**

	<b>Governmental Activities (000's Omitted)</b>	
	<b><u>FY2007</u></b>	<b><u>FY2006</u></b>
Current and Other Assets . . . . .	\$ 2,667,072	\$ 2,602,069
Capital Assets . . . . .	14,090,340	12,588,684
<b>Total Assets . . . . .</b>	<b><u>\$ 16,757,412</u></b>	<b><u>\$ 15,190,753</u></b>
Long-Term Liabilities . . . . .	\$ 20,560,922	\$ 18,653,819
Other Liabilities . . . . .	2,773,536	3,042,917
<b>Total Liabilities . . . . .</b>	<b><u>23,334,458</u></b>	<b><u>21,696,736</u></b>
<b>Net Assets:</b>		
Investment in Capital Assets, net of Related Debt . . . . .	14,090,340	12,588,684
Unrestricted Deficit . . . . .	(20,667,386)	(19,094,667)
<b>Total Net Assets (Deficit)</b>	<b><u>\$ (6,577,046)</u></b>	<b><u>\$ (6,505,983)</u></b>

Assets increased almost \$1.6 billion from \$15.2 billion as of June 30, 2006 to \$16.8 billion as of June 30, 2007 primarily due to the increase of the net value of capital assets (\$1.5 billion). Capital assets were increased due to buildings transferred from the School Construction Authority (SCA) for DOE use (\$1.3 billion) and net increases in Construction in Progress (\$810 million), offset by increases in depreciation expense (\$619 million). Although amounts Due from the City of New York increased \$284 million, accounts receivable decreased about \$202 million for federal (\$164 million), state (\$28 million) and non-governmental (\$10 million) receivables. There were also decreases in Cash (\$14 million) and Inventories (\$2 million). The Due from the City of New York account is mostly affected by increases in accounts payable and decreases in accounts receivables because of DOE's dependent fiscal relationship with The City.

Liabilities increased about \$1.6 billion from \$21.7 billion as of June 30, 2006 to \$23.3 billion as of June 30, 2007, primarily due to increases in the estimate of Other Postemployment Benefits (OPEB) liabilities of \$1.4 billion. Additionally, there were increases in the accounts payable and accrued expenditures (\$61 million), Deferred Revenue (\$7 million), and the liabilities for Accrued Vacation and Sick Leave (\$137 million), Capital Lease Obligations (\$23 million), and Accrued Judgments and Claims (\$15 million).

The unrestricted deficit results primarily from long-term liabilities for which there are no corresponding capital assets, such as, accrued vacation and sick leave, accrued judgments and claims and the unfunded retirement health and related benefits.



# Department of Education of The City of New York

## Management's Discussion and Analysis

DOE's net deficit increased by \$71 million from July 1, 2006 to June 30, 2007. The key elements of this change are as follows:

**Figure 2**

	Governmental Activities (000's Omitted)	
	<u>FY 2007</u>	<u>FY 2006</u>
<b><u>Revenues</u></b>		
<b><u>Program Revenues:</u></b>		
Charges for Services. . . . .	\$ 66,078	\$ 69,775
Operating Grants and Contributions. . . . .	9,064,689	8,621,206
<b><u>General Revenues:</u></b>		
City Funded. . . . .	6,748,380	6,258,966
Other . . . . .	12,578	13,631
Total Revenues . . . . .	<u>15,891,725</u>	<u>14,963,578</u>
<b><u>Expenses</u></b>		
School Leadership, Instruction and Special Education Support. . . . .	13,380,006	27,743,730
School Support Services . . . . .	2,725,189	2,205,578
Regional Administration and Instructional Support. . . . .	373,613	959,543
Central Administration and Instructional Support. . . . .	472,541	1,099,918
Non-Public Schools. . . . .	1,122,085	989,750
Total Expenses. . . . .	<u>18,073,434</u>	<u>32,998,519</u>
Net Revenue (Expenses) . . . . .	(2,181,709)	(18,034,941)
Change in Capital Assets and Inventory. . . . .	2,110,646	1,788,568
Change in Net Assets. . . . .	(71,063)	(16,246,373)
Net Assets (Deficit)—Beginning . . . . .	(6,505,983)	9,740,390
Net Assets (Deficit)—Ending. . . . .	<u>\$ (6,577,046)</u>	<u>\$ (6,505,983)</u>

Federal program revenues decreased 1.3 percent from \$1.85 billion in Fiscal Year 2006 to \$1.83 billion in Fiscal Year 2007. However, State program revenues increased 6.9 percent from \$6.72 billion to \$7.18 billion.

Expenditures include liabilities incurred by The City on behalf of DOE which are not recorded on the modified accrual basis, but are included in full accrual accounting. Figure 2 expenses include changes in amounts due for: (1) vacation and sick leave; (2) capital leases; (3) judgments and claims; (4) depreciation expense; and (5) the liability associated with Other Postemployment Benefits.

In Fiscal Year 2006, the full accrual expenses include \$14.9 billion of modified accrual expenses and over \$18 billion of additional expenses incurred by The City, to report a full accrual expense of \$33 billion. In Fiscal Year 2007, the full accrual expenses include \$15.9 billion of modified accrual expenses and over \$2.2 billion of additional expenses incurred by The City to report a full accrual expense of \$18.1 billion, a decrease of 45 percent, or \$15 billion from Fiscal Year 2006. If the first time implementation effect of GASB 45 (over \$17 billion) was not considered in the Fiscal Year 2006 calculation, the amount added to the modified accrual

## Department of Education of The City of New York Management's Discussion and Analysis

expenses would have been \$744 million of additional expenses to report a full accrual expense of \$15.7 billion, and the increase of expenses to Fiscal Year 2007 would have been about 15 percent or \$2.4 billion.

In Fiscal Year 2007, the category of School Leadership, Instruction and Special Education Support decreased about 52 percent from \$27.7 billion in Fiscal Year 2006 to \$13.4 billion in Fiscal Year 2007; this decrease resulted primarily from the effects of the implementation of GASB 45 which allocated over \$16 billion to this category in Fiscal Year 2006. If the effects of the Fiscal Year 2006 GASB 45 implementation were removed from the comparison, then this category would have shown an increase of expenses of approximately \$1.7 billion, mostly from the effects of the annual cost of including GASB 45 expenses, but also from payments to employees for newly negotiated union contracts. In addition, Empowerment School principals received new discretionary resources to provide professional development and other support services formerly offered by the Regional Administrative and Instructional Support and the Central Administration and Instructional Support areas. School Support Services increased 24 percent or \$520 million due to costs of the allocation of OPEB expenses and because of energy and consumer price index increases to the school bus contracts. Central Administration & Instructional Support decreased 57 percent, or \$627 million, primarily due to the effects the implementation of GASB 45 which allocated over \$638 million to this category in Fiscal Year 2006. If the effects of the Fiscal Year 2006 GASB 45 implementation were removed from the comparison, then this category would have shown an increase of expenses of approximately \$11 million, about 2 percent. Non-Public Schools had increases of \$132 million resulting from increases in charter school expenditures, in tuition for pre-K and school age special education, and in Pre-K transportation.

The increase in net assets in each fiscal year was primarily the result of the transfer of completed capital assets from SCA to DOE of \$958 million in Fiscal Year 2006 and almost \$1.3 billion in Fiscal Year 2007.

### Financial Analysis of the Governmental Funds

Total assets and liabilities increased \$67 million (2.6 percent) for the year ended June 30, 2007 compared to the prior year, as follows:

**Figure 3**

#### Condensed Balance Sheet (in millions of dollars)

	Governmental Activities		Amount	Percentage
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Change</u>	<u>Change</u>
				<u>2006-2007</u>
<b>Assets</b>				
General Fund. . . . .	\$ 2,649	\$ 2,585	\$ 64	2.5%
Capital Projects Fund . . . . .	<u>7</u>	<u>4</u>	<u>3</u>	75.0%
<b>Total Assets</b>	<u><u>\$ 2,656</u></u>	<u><u>\$ 2,589</u></u>	<u><u>\$ 67</u></u>	2.6%
<b>Liabilities</b>				
General Fund. . . . .	\$ 2,649	\$ 2,585	\$ 64	2.5 %
Capital Projects Fund . . . . .	<u>7</u>	<u>4</u>	<u>3</u>	75.0%
<b>Total Liabilities</b>	<u><u>\$ 2,656</u></u>	<u><u>\$ 2,589</u></u>	<u><u>\$ 67</u></u>	2.6%

## Department of Education of The City of New York Management's Discussion and Analysis

Changes in Total Assets: Increase in total governmental fund assets resulted mainly from two offsetting factors:

First, there was a net increase of \$284 million of amounts due from The City of New York to pay for outstanding liabilities in the General Fund (\$281 million) and in the Capital Projects Fund (\$3 million). However, there were decreases in the balance of Cash (\$14 million) and Inventory (\$2 million) at year end, and decreases in the accounts receivable from federal (\$164 million), state (\$28 million), and non-governmental (\$10 million) sources.

Changes in Total Liabilities: Governmental fund liabilities increased \$67 million because of increases of almost \$61 million in accounts payable in the General Fund (\$58 million) and the Capital Projects Fund (\$3 million). Also, there was an increase of \$6 million in the balance of the deferred revenue in the General Fund.

Total revenues and expenditures increased \$925 million (6.2 percent) for the year ended June 30, 2007 compared to the prior year, as follows:

**Figure 4**

### Changes in Revenues and Expenditures (in millions of dollars)

	<b><u>General Funds</u></b>		<b>Percentage Change</b>
	<b><u>FY2007</u></b>	<b><u>FY2006</u></b>	<b><u>2006-2007</u></b>
<b><u>Revenues</u></b>			
Federal Aid. ....	\$ 1,828.5	\$ 1,852.1	(1.3%)
State Aid. ....	7,181.0	6,717.5	6.9%
Funding by The City .....	6,753.6	6,268.3	7.7%
Other. ....	<u>121.3</u>	<u>121.4</u>	0.0%
<b>Total Revenues</b>	<b>\$ <u>15,884.4</u></b>	<b>\$ <u>14,959.3</u></b>	<b>6.2%</b>
<b><u>Expenditures</u></b>			
School Leadership, Instruction & Special Education Support .....	\$ 11,500.0	\$ 10,951.0	5.0%
School Support Services. ....	2,516.6	2,205.6	14.1%
Regional Administration & Instructional Supp.	319.8	378.8	(15.6%)
Central Administration & Instructional Supp. .	425.9	434.2	(1.9%)
Non-Public Schools .....	<u>1,122.1</u>	<u>989.7</u>	13.4%
<b>Total Expenditures</b>	<b>\$ <u>15,884.4</u></b>	<b>\$ <u>14,959.3</u></b>	<b>6.2%</b>

Although DOE does not maintain a fund balance at the end of each fiscal year, strong financial performance is exhibited in its ability to secure additional revenues from State and City sources to provide additional personnel, programs or facilities to the school system. Although Federal program revenues decreased 1.3 percent from \$1.85 billion in Fiscal Year 2006 to \$1.83 billion in Fiscal Year 2007, State program revenues increased 6.9 percent from \$6.72 billion to \$7.18 billion, and City revenues increased 7.7 percent from \$6.27 billion to \$6.75 billion.

Major programs that benefited from increased revenues included: Federal Aid increases of \$23 million for Universal Pre-K; \$22 million for Reading First State Grant; \$19 million for Title II Math & Science; and \$13 million for Free & Reduced Price Lunch. State Aid revenues that increased included: Sound Basic Education (226 million); Public Excess Cost Aid (\$93 million); Transportation Aid (\$78 million); Extraordinary Needs Aid (\$43 million); Net Support (\$39 million); Family Court Pre-K (\$15 million); and Limited English Proficiency (\$12 million).

## **Department of Education of The City of New York Management's Discussion and Analysis**

Total expenditures, under modified accrual accounting, increased 6.2 percent, or \$925 million. Expenditures in the area of School Leadership, Instruction and Special Education Support increased \$549 million (5.0 percent) mainly for personal services costs (salaries) for teachers in the classroom, and the respective fringe costs for these salaries. In addition, Empowerment School principals' received new discretionary resources to provide professional development and other support services formerly offered by the Regional Administrative and Instructional Support and the Central Administration and Instructional Support areas. School Support Services increased \$311 million (14.1 percent) mainly in the area of Pupil Transportation, whose school bus contracts contain an annual adjust based on consumer price index; for increases in the escort costs and growth in the number of routes. Expenditures in the area of Regional Administration and Instructional Support decreased about \$59 million (15.6 percent) due to reduction resulting from Children First Reform agenda. Also, the Central Administration & Instructional Support decreased overall by \$8 million (1.9 percent). Non-Public Schools expenditures increased \$132 million (13.4 percent), mainly from increases in charter school expenditures, in tuition for Pre-K and school age special education, and in Pre-K transportation.

### **General Fund Budgetary Highlights**

Over the course of the year, DOE revised its annual operating budget several times. These budget modifications fall into five categories:

- Executive and Adopted Budget Actions, which increased Tax Levy budgets by \$83.5 million, including \$26.7 million of CSA collective bargaining settlements, and increased Reimbursable program budgets by \$20.5 million. In addition, the schools rolled Tax Levy surpluses of \$49 million from fiscal year 2007 to fiscal year 2008, of which \$9 million was reflected in the fiscal year 2008 Executive Budget and \$40 million was reflected prior to the fiscal year 2007 Adopted Budget.
- November and January Plan Actions, which increased Tax Levy budgets by \$439.1 million, of which \$106 million is primarily associated with UFT & Dc37 collective bargaining settlements, and decreased Reimbursable Program budgets by \$150 million.
- School Food programs were decreased by \$3.4 million to Tax Levy budgets.
- Other adjustments including an increase of \$4.7 million to Reimbursable program budgets, associated with Intra-city programs; and decreases to Tax Levy budgets of \$0.3 million, associated with City Council actions.
- Final Fiscal Year Close Actions, which decreased Tax Levy budgets by \$53.1 million and increased Reimbursable Program budgets by \$93.1 million.

As a result of the above, DOE made net modifications to the adopted budget of over \$429 million.

# Department of Education of The City of New York

## Management's Discussion and Analysis

### Capital Assets

DOE's investment in capital assets includes land, buildings, equipment and construction in progress, which are detailed as follows (net of accumulated depreciation):

**Figure 5**

### Governmental Activities (000's Omitted)

	<u>FY2007</u>	<u>FY2006</u>
Land. ....	\$ 446,997	\$ 446,881
Buildings. ....	11,685,677	11,006,507
Equipment. ....	68,897	56,055
Construction in Progress. ....	<u>1,888,769</u>	<u>1,079,241</u>
Total	<u>\$ 14,090,340</u>	<u>\$ 12,588,684</u>

In Fiscal Year 2007, capital assets, net of accumulated depreciation, increased from the previous fiscal year by \$1.5 billion, primarily due to capital assets (completed new construction and equipment) that were transferred to DOE from the SCA in the amount of \$1.3 billion. In Fiscal Year 2006, capital assets, net of accumulated depreciation, increased from the previous fiscal year by \$1.2 billion, primarily due to capital assets that were transferred to DOE from the SCA in the amount of \$958 million.

### Factors Bearing on the Department's Future

At the time these financial statements were prepared and audited, DOE was aware of one existing circumstance that would significantly impact its financial health in the future:

- In June 2005 a federal agency issued an audit report recommending a substantial claim for Medicaid to be disallowed to the State based on insufficient documentation of services at the DOE. The State is contesting the audit. However, the State, ultimately, may seek remedy for this disallowance from the DOE.

### Contacting the Department's Financial Management

These financial statements are designed to provide The City's citizens, taxpayers, customers, investors and creditors with a general overview of DOE's finances and to demonstrate DOE's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director of the Division of Financial Operations, 65 Court Street, Room 1802, Brooklyn, New York 11201.

**Department of Education of The City of New York**  
**Statement of Net Assets (Deficit)**  
**As of June 30, 2007**  
(\$000 Omitted)

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash	\$ 12,851
Accounts Receivable	
Federal	587,695
State	1,150,268
Non-Governmental	27,477
Due from The City of New York	878,456
Inventories	10,325
Capital Assets (Net of Accumulated Depreciation)	
Land	446,997
Buildings	11,685,677
Equipment	68,897
Construction in Progress	1,888,769
<b>TOTAL ASSETS</b>	<b>\$ 16,757,412</b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenditures	\$ 2,607,232
Deferred Revenue	49,515
Other Postemployment Benefit Obligations	18,689,770
Accrued Vacation and Sick Leave	
Due within one year	41,679
Due in more than one year	1,490,909
Capital Lease Obligations	
Due within one year	9,397
Due in more than one year	164,878
Accrued Judgments and Claims	
Due within one year	65,713
Due in more than one year	215,365
<b>TOTAL LIABILITIES</b>	<b>23,334,458</b>
<b>NET ASSETS:</b>	
Investment in Capital Assets, net of Related Debt	14,090,340
Unrestricted Deficit	(20,667,386)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ (6,577,046)</b>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Net Assets (Deficit)**  
**As of June 30, 2006**  
(\$000 Omitted)

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash	\$ 26,778
Accounts Receivable	
Federal	751,923
State	1,178,503
Non-Governmental	37,489
Due from The City of New York	594,736
Inventories	12,640
Capital Assets (Net of Accumulated Depreciation)	
Land	446,881
Buildings	11,006,507
Equipment	56,055
Construction in Progress	1,079,241
<b>TOTAL ASSETS</b>	<b>\$ 15,190,753</b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenditures	\$ 2,546,488
Deferred Revenue	42,941
Other Postemployment Benefit Obligations	17,295,027
Accrued Vacation and Sick Leave	
Due within one year	52,757
Due in more than one year	1,342,995
Capital Lease Obligations	
Due within one year	7,810
Due in more than one year	143,204
Accrued Judgments and Claims	
Due within one year	68,021
Due in more than one year	197,493
<b>TOTAL LIABILITIES</b>	<b>21,696,736</b>
<b>NET ASSETS:</b>	
Investment in Capital Assets, net of Related Debt	12,588,684
Unrestricted Deficit	(19,094,667)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ (6,505,983)</b>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**  
(\$000 Omitted)

<b>Function/Programs</b>	<b>Program Expenses</b>	<b>Program Revenue</b>		<b>Net (Expenses) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
School Leadership, Instruction and				
Special Education Support	\$ 13,380,006	\$ 15,528	\$ 7,310,744	\$ (6,053,734)
School Support Services	2,725,189	48,484	1,309,849	(1,366,856)
Regional Admin. & Instructional Support	373,613	-	-	(373,613)
Central Admin. & Instructional Support	472,541	-	-	(472,541)
Non-Public Schools	1,122,085	2,066	444,096	(675,923)
Total Department Activities	<u>\$ 18,073,434</u>	<u>\$ 66,078</u>	<u>\$ 9,064,689</u>	<u>(8,942,667)</u>
<b>General Revenues</b>				
City Funded				6,748,380
Intra-city Sales				12,578
<b>Other Adjustments</b>				
Net Change in Capital Assets and Inventory				<u>2,110,646</u>
<b>CHANGE IN NET ASSETS</b>				(71,063)
Net Assets (Deficit) - Beginning				<u>(6,505,983)</u>
Net Assets (Deficit) - Ending				<u>\$ (6,577,046)</u>

See accompanying notes to the financial statements.



**Department of Education of The City of New York**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**  
(\$000 Omitted)

<b>Function/Programs</b>	<b>Program Expenses</b>	<b>Program Revenue</b>		<b>Net (Expenses) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
School Leadership, Instruction and				
Special Education Support	\$ 27,743,730	\$ 18,415	\$ 6,926,675	\$ (20,798,640)
School Support Services	2,205,578	49,294	1,270,079	(886,205)
Regional Admin. & Instructional Support	959,543	-	-	(959,543)
Central Admin. & Instructional Support	1,099,918	-	-	(1,099,918)
Non-Public Schools	989,750	2,066	424,452	(563,232)
Total Department Activities	<u>\$ 32,998,519</u>	<u>\$ 69,775</u>	<u>\$ 8,621,206</u>	<u>(24,307,538)</u>
<b>General Revenues</b>				
City Funded				6,258,966
Intra-city Sales				13,631
<b>Other Adjustments</b>				
Net Change in Capital Assets and Inventory				<u>1,788,568</u>
<b>CHANGE IN NET ASSETS</b>				(16,246,373)
Net Assets - Beginning				<u>9,740,390</u>
Net Assets (Deficit) - Ending				<u>\$ (6,505,983)</u>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Balance Sheet**  
**As of June 30, 2007**  
(\$000 Omitted)

	<b>Governmental Fund Types</b>		<b>Total</b>
	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Governmental Funds</b>
<b>ASSETS:</b>			
Cash	\$ 12,851	\$ -	\$ 12,851
Accounts Receivable			
Federal	587,695	-	587,695
State	1,150,268	-	1,150,268
Non-Governmental	27,477	-	27,477
Due from The City of New York	871,133	7,323	878,456
Total Assets	<u>\$ 2,649,424</u>	<u>\$ 7,323</u>	<u>\$ 2,656,747</u>
<b>LIABILITIES:</b>			
Accounts Payable and Accrued Expenditures	\$ 2,599,909	\$ 7,323	\$ 2,607,232
Deferred Revenue	49,515	-	49,515
Total Liabilities	<u>2,649,424</u>	<u>7,323</u>	<u>2,656,747</u>
<b>FUND EQUITY:</b>			
Total Fund Equity	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Equity	<u>\$ 2,649,424</u>	<u>\$ 7,323</u>	<u>\$ 2,656,747</u>

Note: The reconciliation of the fund balance of the governmental funds to the net assets of the governmental activities of the Statement of Net Assets is presented in an accompanying schedule.

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Balance Sheet**  
**As of June 30, 2006**  
(\$000 Omitted)

	<b>Governmental Fund Types</b>		<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Capital Projects Fund</b>	
<b>ASSETS:</b>			
Cash	\$ 26,778	\$ -	\$ 26,778
Accounts Receivable			
Federal	751,923	-	751,923
State	1,178,503	-	1,178,503
Non-Governmental	37,489	-	37,489
Due from The City of New York	590,476	4,260	594,736
Total Assets	<u>\$ 2,585,169</u>	<u>\$ 4,260</u>	<u>\$ 2,589,429</u>
<b>LIABILITIES:</b>			
Accounts Payable and Accrued Expenditures	\$ 2,542,228	\$ 4,260	\$ 2,546,488
Deferred Revenue	42,941	-	42,941
Total Liabilities	<u>2,585,169</u>	<u>4,260</u>	<u>2,589,429</u>
<b>FUND EQUITY:</b>			
Total Fund Equity	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Equity	<u>\$ 2,585,169</u>	<u>\$ 4,260</u>	<u>\$ 2,589,429</u>

Note: The reconciliation of the fund balance of the governmental funds to the net assets of the governmental activities of the Statement of Net Assets is presented in an accompanying schedule.

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To The Statement of Net Assets (Deficit)**  
**As of June 30, 2007**  
**(\$000 Omitted)**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total Fund Balance - Governmental Funds	\$ -
Inventories used in governmental activities are not financial resources and therefore, are not reported in governmental funds	10,325
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds	14,090,340
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the governmental funds. These are:	
Other Postemployment Benefit Obligations	(18,689,770)
Accrued Vacation and Sick Leave	(1,532,588)
Capital Lease Obligations	(174,275)
Accrued Judgments and Claims	<u>(281,078)</u>
Net assets (deficit) of governmental activities	\$ <u><u>(6,577,046)</u></u>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To The Statement of Net Assets (Deficit)**  
**As of June 30, 2006**  
**(\$000 Omitted)**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total Fund Balance - Governmental Funds	\$ -
Inventories used in governmental activities are not financial resources and therefore, are not reported in governmental funds	12,640
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds	12,588,684
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the governmental funds. These are:	
Other Postemployment Benefit Obligations	(17,295,027)
Accrued Vacation and Sick Leave	(1,395,752)
Capital Lease Obligations	(151,014)
Accrued Judgements and Claims	<u>(265,514)</u>
Net assets (deficit) of governmental activities	\$ <u><u>(6,505,983)</u></u>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Fund Types**  
**For the Year Ended June 30, 2007**  
**(\$000 Omitted)**

	<b>Government Fund Types</b>		<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Capital Projects Fund</b>	
<b>REVENUES</b>			
Federal Aid	\$ 1,828,431	\$ -	\$ 1,828,431
State Aid	7,181,040	-	7,181,040
Other Assistance	43,881	-	43,881
Charges for Services:			
School Construction Authority	16,359	-	16,359
Student Lunches	20,222	-	20,222
Rentals	28,262	-	28,262
Other	12,572	-	12,572
Subtotal	9,130,767	-	9,130,767
Net Change in Estimate of Prior Receivables	(123,807)	-	(123,807)
Subtotal	9,006,960	-	9,006,960
Funding Provided by The City of New York	6,864,863	7,323	6,872,186
Total Revenues and Other Financing Sources	15,871,823	7,323	15,879,146
<b>EXPENDITURES</b>			
General Education Instruction & School Leadership	5,532,980	-	5,532,980
Special Education Instruction & School Leadership	1,134,154	-	1,134,154
Regional & Citywide Instructional & Operational Admin.	215,225	-	215,225
Citywide Education Instruction & School Leadership	652,272	-	652,272
Special Education Instructional Support	334,680	-	334,680
School Facilities	569,225	-	569,225
Pupil Transportation	937,593	-	937,593
School Food Services	364,605	-	364,605
School Safety	179,968	-	179,968
Energy and Leases	339,782	-	339,782
Central Administration	389,912	-	389,912
Fringe Benefits	1,988,926	-	1,988,926
Pre-Kindergarten Contracts	574,474	-	574,474
Charter & Contract Schools and Foster Care Payments	490,093	-	490,093
Non-Public Schools	57,518	-	57,518
Collective Bargaining	15,821	-	15,821
Capital Outlay	-	7,323	7,323
Subtotal	13,777,228	7,323	13,784,551
Reimbursable:			
Categorical Programs	2,107,173	-	2,107,173
Intracity Sales	(12,578)	-	(12,578)
Subtotal	15,871,823	7,323	15,879,146
Net Change in Estimate of Prior Payables	(123,807)	-	(123,807)
Total Expenditures	15,748,016	7,323	15,755,339
Other Financing Uses - Transfer to The City of New York	123,807	-	123,807
Total Expenditures and Other Uses	15,871,823	7,323	15,879,146
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-
<b>FUND BALANCE</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Note: The reconciliation of the fund balance of the governmental funds to the change in net assets of the governmental activities of the Statement of Activities is presented in an accompanying schedule.

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Fund Types**  
**For the Year Ended June 30, 2006**  
**(\$000 Omitted)**

	<b>Government Fund Types</b>		<b>Total Governmental Funds</b>
	<b>General Fund</b>	<b>Capital Projects Fund</b>	
<b>REVENUES</b>			
Federal Aid	\$ 1,852,118	\$ -	\$ 1,852,118
State Aid	6,717,477	-	6,717,477
Other Assistance	39,866	-	39,866
Charges for Services:			
School Construction Authority	16,232	-	16,232
Student Lunches	20,272	-	20,272
Rentals	29,022	-	29,022
Other	15,994	-	15,994
Subtotal	8,690,981	-	8,690,981
Net Change in Estimate of Prior Receivables	(173,991)	-	(173,991)
Subtotal	8,516,990	-	8,516,990
Funding Provided by The City of New York	6,428,697	4,260	6,432,957
Total Revenues and Other Financing Sources	14,945,687	4,260	14,949,947
<b>EXPENDITURES</b>			
General Education Instruction & School Leadership	4,837,292	-	4,837,292
Special Education Instruction & School Leadership	858,900	-	858,900
Regional & Citywide Instructional & Operational Admin.	230,218	-	230,218
Citywide Education Instruction & School Leadership	624,342	-	624,342
Special Education Instructional Support	311,907	-	311,907
School Facilities	538,709	-	538,709
Pupil Transportation	848,670	-	848,670
School Food Services	339,867	-	339,867
School Safety	157,788	-	157,788
Energy and Leases	320,544	-	320,544
Central Administration	366,872	-	366,872
Fringe Benefits	1,823,301	-	1,823,301
Pre-Kindergarten Contracts	533,248	-	533,248
Charter & Contract Schools and Foster Care Payments	404,793	-	404,793
Non-Public Schools	51,708	-	51,708
Collective Bargaining	23,952	-	23,952
Capital Outlay	-	4,260	4,260
Subtotal	12,272,111	4,260	12,276,371
Reimbursable:			
Categorical Programs	2,687,207	-	2,687,207
Intracity Sales	(13,631)	-	(13,631)
Subtotal	14,945,687	4,260	14,949,947
Net Change in Estimate of Prior Payables	(151,433)	-	(151,433)
Total Expenditures	14,794,254	4,260	14,798,514
Other Financing Uses - Transfer to The City of New York	151,433	-	151,433
Total Expenditures and Other Uses	14,945,687	4,260	14,949,947
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-
<b>FUND BALANCE</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Note: The reconciliation of the fund balance of the governmental funds to the change in net assets of the governmental activities of the Statement of Activities is presented in an accompanying schedule.

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balance to the Statement of Activities**  
**For the Year Ended June 30, 2007**  
**(\$000 Omitted)**

Amounts reported for governmental activities in the Statement of Activities are different because:

Total Fund Balance - Governmental Funds	\$	-
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives.		7,323
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		(618,628)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in Other Postemployment Benefit Obligations	\$ (1,394,743)	
Change in Sick Leave and Vacation Liability	(136,836)	
Change in Capital Lease Obligations	(23,261)	
Change in Judgments and Claims Liability	<u>(15,564)</u>	(1,570,404)
Net changes in capital assets and inventory where neither revenues nor expenses are incurred by the Department, net of Department costs.		<u>2,110,646</u>
Change in Net Assets - governmental activities	\$	<u><u>(71,063)</u></u>

See accompanying notes to the financial statements.



**Department of Education of The City of New York**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balance to the Statement of Activities**  
**For the Year Ended June 30, 2006**  
(\$000 Omitted)

Amounts reported for governmental activities in the Statement of Activities are different because:

Total Fund Balance - Governmental Funds	\$ -
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives.	4,260
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	(567,089)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Change in Other Postemployment Benefits Obligations	\$ (17,295,027)
Change in Sick Leave and Vacation Liability	(177,492)
Change in Capital Lease Obligations	(4,312)
Change in Judgments and Claims Liability	<u>4,719</u> (17,472,112)
Net changes in capital assets, inventory and capital leases where neither revenues nor expenses are incurred by the Department, net of Department costs.	<u>1,788,568</u>
Change in Net Assets - governmental activities	\$ <u><u>(16,246,373)</u></u>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2007**  
**(\$000 Omitted)**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Favorable / (Unfavorable)</u>
<b>REVENUES</b>				
Federal Aid	\$ 1,717,324	\$ 1,828,431	\$ 1,828,431	\$ -
State Aid	7,127,419	7,181,040	7,181,040	-
Other Assistance	19,173	43,881	43,881	-
Charges for Services:				
School Construction Authority	8,000	16,359	16,359	-
Student Lunches	20,074	20,074	20,222	148
Rentals	15,000	20,000	28,262	8,262
Other	9,800	9,800	12,572	2,772
Subtotal	8,916,790	9,119,585	9,130,767	11,182
Net Change in Estimate of Prior Receivables	-	-	(123,807)	(123,807)
Subtotal	8,916,790	9,119,585	9,006,960	(112,625)
Funding Provided by The City of New York	6,529,428	6,756,006	6,864,863	108,857
Total Revenues and Other Financing Sources	15,446,218	15,875,591	15,871,823	(3,768)
<b>EXPENDITURES</b>				
General Education Instruction & School Leadership	5,438,531	5,538,503	5,532,980	5,523
Special Education Instruction & School Leadership	911,764	1,129,752	1,134,154	(4,402)
Regional & Citywide Instructional & Operational Admin.	226,460	215,225	215,225	-
Citywide Education Instruction & School Leadership	636,532	662,969	652,272	10,697
Special Education Instructional Support	286,489	322,863	334,680	(11,817)
School Facilities	562,628	569,225	569,225	-
Pupil Transportation	915,813	937,593	937,593	-
School Food Services	350,115	364,605	364,605	-
School Safety	169,535	179,968	179,968	-
Energy and Leases	371,491	339,782	339,782	-
Central Administration	366,836	391,453	389,912	1,541
Fringe Benefits	1,967,215	1,991,096	1,988,926	2,170
Pre-Kindergarten Contracts	548,142	574,474	574,474	-
Charter & Contract Schools and Foster Care Payments	485,646	490,093	490,093	-
Non-Public Schools	53,799	57,518	57,518	-
Collective Bargaining	24,224	15,821	15,821	-
Subtotal	13,315,220	13,780,940	13,777,228	3,712
Reimbursable:				
Categorical Programs	2,138,973	2,107,306	2,107,173	133
Intracity Sales	(7,975)	(12,655)	(12,578)	(77)
Subtotal	15,446,218	15,875,591	15,871,823	3,768
Net Change in Estimate of Prior Payables	-	-	(123,807)	123,807
Total Expenditures	15,446,218	15,875,591	15,748,016	127,575
Other Financing Uses - Transfer to The City of New York	-	-	123,807	(123,807)
Total Expenditures and Other Uses	15,446,218	15,875,591	15,871,823	3,768
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-	-
<b>FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2006**  
**(\$000 Omitted)**

	<b>Adopted Budget</b>	<b>Modified Budget</b>	<b>Actual</b>	<b>Favorable / (Unfavorable)</b>
<b>REVENUES</b>				
Federal Aid	\$ 1,807,615	\$ 1,852,118	\$ 1,852,118	\$ -
State Aid	6,516,295	6,717,477	6,717,477	-
Other Assistance	21,920	39,866	39,866	-
Charges for Services:				
School Construction Authority	8,000	16,232	16,232	-
Student Lunches	20,074	20,074	20,272	198
Rentals	15,000	25,000	29,022	4,022
Other	9,800	9,800	15,994	6,194
Subtotal	8,398,704	8,680,567	8,690,981	10,414
Net Change in Estimate of Prior Receivables	-	-	(173,991)	(173,991)
Subtotal	8,398,704	8,680,567	8,516,990	(163,577)
Funding Provided by The City of New York	5,736,908	6,269,398	6,428,697	159,299
Total Revenues and Other Financing Sources	14,135,613	14,949,965	14,945,687	(4,278)
<b>EXPENDITURES</b>				
General Education Instruction & School Leadership	4,546,520	4,843,521	4,837,292	6,229
Special Education Instruction & School Leadership	727,548	865,415	858,900	6,515
Regional & Citywide Instructional & Operational Admin.	213,365	230,218	230,218	-
Citywide Education Instruction & School Leadership	565,104	628,573	624,342	4,231
Special Education Instructional Support	251,882	281,813	311,907	(30,094)
School Facilities	513,017	538,709	538,709	-
Pupil Transportation	818,298	848,670	848,670	-
School Food Services	331,000	339,867	339,867	-
School Safety	157,788	157,788	157,788	-
Energy and Leases	311,684	324,380	320,544	3,836
Central Administration	345,290	382,395	366,872	15,523
Fringe Benefits	1,750,514	1,823,301	1,823,301	-
SE Pre-Kindergarten Contracts	455,555	533,248	533,248	-
Charter & Contract Schools and Foster Care Payments	334,266	404,793	404,793	-
Non-Public Schools	51,615	51,708	51,708	-
Collective Bargaining	181,416	23,952	23,952	-
Subtotal	11,554,862	12,278,351	12,272,111	6,240
Reimbursable:				
Categorical Programs	2,589,057	2,685,702	2,687,207	(1,505)
Intracity Sales	(8,306)	(14,088)	(13,631)	(457)
Subtotal	14,135,613	14,949,965	14,945,687	4,278
Net Change in Estimate of Prior Payables	-	-	(151,433)	151,433
Total Expenditures	14,135,613	14,949,965	14,794,254	155,711
Other Financing Uses - Transfer to The City of New York	-	-	151,433	(151,433)
Total Expenditures and Other Uses	14,135,613	14,949,965	14,945,687	4,278
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-	-
<b>FUND BALANCE</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Fiduciary Net Assets**  
**As of June 30, 2007**  
(\$000 Omitted)

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ <u>40,235</u>
Total Assets	\$ <u><u>40,235</u></u>
 <b>LIABILITIES:</b>	
Due To Students	\$ 23,423
Holding Account Payable	9,540
Due to Tax Agents	<u>7,272</u>
Total Liabilities	\$ <u><u>40,235</u></u>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Fiduciary Net Assets**  
**As of June 30, 2006**  
(\$000 Omitted)

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ <u>28,690</u>
Total Assets	\$ <u><u>28,690</u></u>
 <b>LIABILITIES:</b>	
Due To Students	\$ 22,869
Due to Tax Agents	<u>5,821</u>
Total Liabilities	\$ <u><u>28,690</u></u>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

On June 12, 2002 Governor George Pataki signed school governance legislation that removed accountability for the oversight of The City's public schools from an appointed seven member Board of Education to the Mayor. As a result of governance law, the Board of Education is now known as the Department of Education of the City of New York (DOE), with a Chancellor who is appointed by the Mayor and who is accountable to him. Although there has been a change in the title of our public school system and its reporting relationship, the legal entity remains as the Board of Education of the City of New York.

The DOE is organized and administered in accordance with the provisions of the State of New York Education Law and consists of ten Regions across The City of New York (The City) – each of which includes approximately one hundred forty schools. Each Region contains up to four community school districts, as well as, the high schools located within their geographic boundaries. Each Region has a Learning Support Center which houses the instructional leadership team for the Region, as well as, a full service Parent Support Office. Six of the Learning Support Centers also house Regional Operational Centers which provide operational support to schools. The Regions are led by ten Regional Superintendents, and within each Region, the Regional Superintendent supervises approximately ten to twelve Local Instructional Superintendents (LIS). Thirty two LIS's are designated as Community School District Superintendents who oversee a community school district office and the parent-focused Community District Education Councils.

DOE continues to be fiscally dependent on The City and, accordingly, is included in The City's financial statements. As such, DOE does not have the authority to levy taxes or issue debt and is dependent upon The City for a substantial portion of its appropriations (i.e. spending authority). In addition, The City budgets and incurs certain costs on behalf of DOE that are not allocated to DOE and, accordingly, are not reflected in the accompanying financial statements. Such costs include current payments for debt service and pension costs for tax levy funded employees. Thus, the revenues and expenditures, and related budget data included in the accompanying financial statements are not indicative of the level of appropriations, as if DOE were an independent school system.

The Governmental Accounting Standards Board (GASB) has issued four pronouncements that have not been implemented by The City, nor the DOE:

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* was issued on September 29, 2006. This statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. Such transactions are likely to comprise the sale of delinquent taxes, certain mortgages, student loans, or future revenues such as those arising from tobacco settlement agreements. Statement No. 48 also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. In addition to clarifying guidance on accounting for sales and pledges of receivables and future revenues, Statement No. 48: (i) requires enhanced disclosures pertaining to future revenues that have been pledged or sold; (ii) provides guidance on sales of receivables and future revenues within the same financial reporting entity; and (iii) provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues. This Statement will be required to be effective in the fiscal year ending June 30, 2008.

In November 2006 GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes accounting and financial reporting standards for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as, site assessments and

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2007**

cleanups. Pollution remediation obligations exclude pollution prevention or control obligations relating to current operations and future pollution remediation activities, such as, landfill closure and post closure care. Statement 49 identifies the obligating events which require a governmental entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Comparability of financial statements among governments will be enhanced by Statement 49, requiring all governments to account for pollution remediation obligations in the same manner, including required reporting of pollution remediation obligations that previously may not have been reported. The Statement also will enhance the users' ability to assess governments' obligations by requiring more timely and complete reporting of obligations as their components become reasonably estimable.

The requirements of Statement No. 49 are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period, so that, beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented.

In May 2007, GASB issued Statement No. 50, *Pension Disclosures*, an amendment of GASB Statements No. 25 and No. 27. The Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The Statement more closely aligns the financial reporting requirements for pensions with those for Other Postemployment Benefits (OPEB) and consequently, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by Statement 50 amend applicable note disclosure and RSI requirements previously promulgated. The Statement is intended to improve the transparency and decision usefulness of reported information about pensions by state and local government plans and employers.

The requirements of Statement No. 50 are effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires that all intangible assets, not specifically excluded by its scope provisions, be classified as capital assets. Accordingly, existing authoritative guidance relating to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Statement No. 51 also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The objective of Statement No. 51 is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies relating to recognition, initial measurements, and amortization, thereby, enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. Additionally, the Statement establishes a specified-conditions approach to recognize intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. Statement No. 51 also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software. The Statement also establishes guidance specific to intangible assets related to amortization. Guidance is provided on determining

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2007**

the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful lives are subsequently determined to no longer be indefinite due to a change in circumstances.

The requirements of Statement No. 51 are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. Early implementation of this Statement is not encouraged.

**B. Basis of Presentation**

**Department-wide Financial Statements** — The Department-wide Financial Statements consist of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets presents the difference between DOE's total assets and total liabilities. The Statement of Activities presents a comparison between direct expenses and program revenues for each function of DOE's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (i) charges for services such as revenues from providing school lunches and rental revenues; and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Other revenues not recorded as program revenues are reported as general revenue.

Upon substantial completion of capital assets, the School Construction Authority (SCA) transfers such assets to DOE. In Fiscal Years 2007 and 2006, SCA transferred \$1.3 billion and \$958 million, respectively, in completed assets to DOE.

**Description of Functions in the Statement of Activities** — The Statement of Activities summarizes program expenses by major functions, as follows:

- **School Leadership, Instruction and Special Education Support** — which includes district, high school, special education instructional support and special education services expenditures, such as, salary costs of teachers, principals, paraprofessionals and other costs directly and indirectly associated with the classroom.
- **School Support Services** — which includes the costs of school facilities, pupil transportation, food, school safety, energy and leases.
- **Regional Administration and Instructional Support** — which includes operations of regional offices.
- **Central Administration and Instructional Support** — which includes central office support services for system-wide maintenance, and for development of agency-wide budgeting, purchasing, accounting and student demographic information applications.
- **Non-Public Schools** — which represents the amount of funding passing through DOE to independent non-public schools.

**Fund Financial Statements** — The fund financial statements provide information about DOE's funds, including fiduciary funds. Separate financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. DOE has no governmental funds that are considered non-major.



**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2007**

The accounts of DOE are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, and revenues and expenditures where applicable. Government resources are allotted to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. DOE's funds are grouped in the financial statements in two fund categories, as follows:

**Governmental Funds** — Governmental funds are those by which most functions of DOE are financed. The acquisition, use and balance of the expendable available financial resources and the related liabilities are accounted for through governmental funds. The following are DOE's governmental funds, both of which are considered major funds:

- **General Fund** — The General Fund is the general operating fund of DOE. It is used to account for all financial resources except those required to be accounted for in another fund.
- **Capital Projects Fund** — The Capital Projects Fund is used to account for financial resources used for school improvements and other facility related expenditures. These amounts do not reflect capital expenditures and commitments by the SCA on behalf of the DOE. SCA commitment and expenditure activity is included in The City's basic financial statements.

**Fiduciary Funds** — Fiduciary Funds are used to account for assets held by DOE in a custodial capacity. These funds are used to account for assets held by DOE as an agent for student activities, individuals and private organizations. DOE does not have any fiduciary funds, other than agency funds.

### **C. Basis of Accounting**

The basis of accounting determines when transactions are reported on the financial statements. The Department-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which DOE either gives or receives value without directly receiving or giving equal value in exchange, include, for example, grants, entitlements, and donations. On an accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements use the flow of current financial resources measurement focus. This focus is on the determination of, and changes in financial position. These funds use the modified accrual basis of accounting, whereby revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Revenues from categorical and other grants are generally considered available if received within one year after the fiscal year end, except those indicated in Note 1.D. - Accounts Receivable. Expenditures are recorded when the related liability is incurred and payment is due.

The fiduciary funds use the modified accrual basis of accounting and do not measure the results of operations.

**Reconciliation of Department-wide and Fund Financial Statements** — A summary reconciliation of the difference between the total fund balances as reflected on DOE Fund Balance Sheet and total net assets for DOE activities as shown on the Department-wide Statement of Net Assets is presented in an accompanying statement to the DOE Fund Balance Sheet.

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2007**

A summary reconciliation of the difference between net changes in fund balances as reflected on the Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and changes in net assets for activities as shown on the Department-wide Statement of Activities is presented in an accompanying statement, as well.

**D. Assets, Liabilities, and Net Assets**

**Program Revenue** — Program revenue is derived from federal, state, and private aid sources, as well as charges for services and funding from The City.

**Accounts Receivable** — Accounts Receivable includes certain aged receivables from the State which extend beyond the normal period of collection used to determine availability for revenue recognition purposes. However, since payments are being made by the State and federal sources, such receivables have not been deemed uncollectible.

**Accounts Payable** — Accounts Payable includes all payments of bills and payrolls since June 30, 2007 and accruals for payments to be made in the future, which apply to liabilities incurred as of June 30, 2007. Further, included in accounts payable are all payments that were processed through the DOE's accounting system, but not yet cleared The City's accounting system. In addition, included are all prior year accruals which have not been liquidated through The City's accounting system.

**School Supplies and Textbooks** — Expenditures for school supplies and textbooks are charged as expenses to the individual community school districts and schools when school supplies and textbooks are received.

**Donated Commodities** — DOE participates in various federal and state aided food programs. Many of these programs provide for commodities to be supplied to DOE in lieu of, or in addition to, cash. The value of these donated commodities received and used during the year was approximately \$22.2 million. The value of these donated commodities received and still on hand, as of June 30, 2007 and 2006 was \$0.5 million and \$2.6 million, respectively.

**Materials and Supplies** — Inventories on hand at June 30, 2007 amounted to approximately \$9.8 million based on the moving average cost method. Inventories are recorded as expenditures in governmental funds at the time of purchase and, accordingly, have not been reported on the governmental funds balance sheet. As of June 30, 2006 this value was \$10.0 million.

**Encumbrances** — Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriation, is used by the General Fund during the fiscal year to control expenditures. Cost of goods received and services rendered on or before June 30 are recognized as expenditures.

**Deferred Revenue** — Deferred revenue represents cash advances of \$49.5 million received by DOE against which qualifying expenditures have not yet been incurred, as of June 30, 2007. As of June 30, 2006 cash advances amounted to \$42.9 million.

**Salaries** — Most instructional personnel are employed under annual employment contracts covering the period from September through the following August. Since all services required under the annual contracts generally are performed prior to June 30, salaries which are disbursed for the months of July and August are accrued at June 30. The value of these services paid in July and August 2007 was \$1.34 billion. As of June 30, 2006 the value of these services was \$1.26 billion.

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2007**

**Vacation and Sick Leave and Cumulative Annual Reserve** — Earned vacation and sick leave and Cumulative Annual Reserve (CAR) are recorded as expenditures in the period when payable from current financial resources in the fund financial statements. The estimated value of vacation leave and CAR earned by employees, which may be used in subsequent years or earned as vacation and sick leave and CAR to be paid upon termination or retirement, is payable from future resources. Under the terms of various labor contracts, DOE employees are granted vacation and sick leave and CAR in varying amounts.

**Judgments and Claims** — The City is self-insured with respect to most risks including, but not limited to, property damage, and personal injury, and workers' compensation. In the fund financial statements, expenditures for judgments and claims (other than workers' compensation) are recorded by The City on the basis of settlements reached, or judgments entered into, within the current fiscal year. Expenditures for workers' compensation are recorded when paid.

**Pensions** — The provision for pension costs for DOE is recorded in The City's General Fund. That provision includes normal costs, interest on prior pension costs not funded, and amortization of past service costs as determined by the actuary employed by the Boards of Trustees of The City's major pension systems. (See Note 4.B.)

**Changes in Estimates of Prior Year Payables and Receivables** — Changes in estimated prior year payables and receivables result in changes in transfers from and to The City. These changes, including the net transfer from and to The City, have no net effect on the excess of revenues over expenditures.

**Estimates and Assumptions** — A number of estimates and assumptions relating to the reporting of revenues, expenditures, assets and liabilities and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Significant estimates include accrued expenses and other liabilities, depreciable lives of buildings and equipment – assuming normal maintenance, amortization of leasehold improvements, accrued vacation and sick leave, accrued judgments and claims, and OPEB obligations. Actual results could differ from those estimates.

**School Activity Funds** — General school funds are established by individual schools to account for monies received from students and organizations for programs independent of DOE. These monies are raised primarily through school or student extra-classroom activities to finance approved activities. Since the community school districts and the individual schools function solely as an agent in the collection and disbursement of these monies, the monies are reported as Fiduciary Funds in the accompanying statements. The cash in the agency fund includes the balances of 1,120 separate school activity funds. All but three of these bank accounts are maintained by the schools under the responsibility of the respective principals. Three bank accounts are maintained in the central office for the benefit of the schools.

**Program Expenses** — Program expenses denote the use of funds derived from federal and state aid sources, charges for services and funding from The City.

The total program expenses included in the Statement of Activities for the year ended June 30, 2007 (\$18.1 billion) differs from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balances (\$15.9 billion) because of adjustments necessary to convert expenditures from the modified accrual basis of accounting to the full accrual basis (as outlined in the Management's Discussion and Analysis section). The following schedule reconciles these two accounting basis:

**Department of Education of The City of New York**  
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**Figure 1**

	<b>Amount (\$000 Omitted)</b>
Total Expenditures and Other Uses (from the Statement of Revenues, Expenditures and Changes in Fund Balance) . . . . .	\$ 15,871,823
Add back Intra-City Sales (which are included in General Revenue in Statement of Activities) . . .	12,578
Depreciation Expense . . . . .	618,628
Long-term liabilities per full accrual basis	
Other Postemployment Benefit Obligations . . . . .	1,394,743
Sick Leave and Vacation Balances . . . . .	136,836
Capital Leases . . . . .	23,261
Judgments and Claims . . . . .	15,564
Total Program Expenses (from the Statement of Activities) . . . . .	<u>\$ 18,073,434</u>

The total program expenses included in the Statement of Activities for the year ended June 30, 2006 (\$33 billion) differs from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balances (\$14.9 billion) because of adjustments necessary to convert expenditures from the modified accrual basis of accounting to the full accrual basis (as outlined in the Management's Discussion and Analysis section). The following schedule reconciles these two accounting basis:

**Figure 2**

	<b>Amount (\$000 Omitted)</b>
Total Expenditures and Other Uses (from the Statement of Revenues, Expenditures and Changes in Fund Balance) . . . . .	\$ 14,945,687
Add back Intra-City Sales (which are included in the General Revenue in Statement of Activities) . . .	13,631
Depreciation Expense . . . . .	567,089
Long-term liabilities per full accrual basis	
Other Postemployment Benefit Obligations . . . . .	17,295,027
Sick Leave and Vacation Balances . . . . .	177,492
Capital Leases . . . . .	4,312
Judgments and Claims . . . . .	(4,719)
Total Program Expenses (from the Statement of Activities) . . . . .	<u>\$ 32,998,519</u>

## **2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Data**

The revenue and expenditure budget is based on GAAP with respect to those elements that are DOE's responsibility, and such budget is to be balanced in accordance with mandatory requirements of The City Charter. Annual expenditure budget appropriations are adopted as described below for the General Fund. During the year, decreases or increases to the budget, including amounts rolled to the subsequent fiscal year, adjust the final modified budget. Unused budget amounts lapse at the fiscal year end. Appropriations are also made in a Capital Budget to authorize the expenditure of funds for various capital projects. Capital appropriations, unless modified or rescinded, remain in effect until the completion of each project.

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The budget of DOE is categorized into Units of Appropriation. Each Unit of Appropriation represents an area of instructional costs, a service program or a division within DOE. The City Council through the Adopted Budget of The City appropriates funds to these Units of Appropriation.

Distinct Units of Appropriation are required for Personal Service expenditures and for Other Than Personal Service expenditures. Each Unit of Appropriation is delineated further by Budget Codes, which designate individual functions within a Unit of Appropriation (office, bureau or type of service). For Personal Service expenditures, Line Numbers further refine Budget Codes identifying specifically the titles funded. For Other Than Personal Service expenditures, Object Codes further refine Budget Codes identifying specifically the types of goods or services funded (supplies, equipment, contractual services, etc.).

The Division of Budget Operations and Review monitors expenditures throughout the fiscal year to insure that spending remains within the amount of funds authorized in each Unit of Appropriation. Budget modifications are processed as required to transfer funds from one Unit of Appropriation, Budget Code, Line Number or Object Code to another as needed. Budget modifications require City Council approval if cumulative modifications are greater than or equal to 5 percent of the adopted budget for the Unit of Appropriation. The appropriation for heat, light and power is based upon cost allocation formulas developed by other City agencies.

**B. Appropriations Modifications**

The following schedule summarizes budget modifications for the year ended June 30, 2007 (\$000 omitted):

**Figure 3**

	Originally Adopted Budget	Net Modifications	Modified Budget
Tax Levy Programs .....	\$ 13,315,220	\$ 465,720	\$ 13,780,940
Reimbursable Programs. ....	2,138,973	(31,668)	2,107,306
Sub Total .....	15,454,193	434,052	15,888,246
Less: Intracity Sales. ....	(7,975)	(4,679)	(12,655)
Total .....	<u>\$ 15,446,218</u>	<u>\$ 429,373</u>	<u>\$ 15,875,591</u>

The modifications included the following (\$000 omitted):

**Figure 4**

	Tax Levy	Reimbursable
Intra-city Purchases. ....	\$ -	\$ 4,679
City Council Actions. ....	(348)	-
Executive & Adoption. ....	83,455	20,525
Nov. & Jan. Plan Actions .....	439,060	(149,960)
School Food Programs .....	(3,353)	-
Year-end Closing Actions. ....	(53,094)	93,088
Total Net Modifications .....	<u>\$ 465,720</u>	<u>\$ (31,668)</u>

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The following schedule summarizes budget modifications for the year ended June 30, 2006 (\$000 omitted):

**Figure 5**

	<b>Originally Adopted Budget</b>	<b>Net Modifications</b>	<b>Modified Budget</b>
Tax Levy Programs .....	\$ 11,554,862	\$ 723,489	\$12,278,351
Reimbursable Programs .....	2,589,057	96,645	2,685,702
Sub Total .....	14,143,919	820,134	14,964,053
Less: Intracity Sales .....	(8,306)	(5,782)	(14,088)
Total .....	<u>\$ 14,135,613</u>	<u>\$ 814,352</u>	<u>\$ 14,949,965</u>

The modifications included the following (\$000 omitted):

**Figure 6**

	<b>Tax Levy</b>	<b>Reimbursable</b>
Intra-city Purchases .....	\$ -	\$ 5,783
City Council Actions .....	(323)	-
Executive & Adoption .....	194,271	(38,810)
Nov. & Jan. Plan Actions .....	491,633	92,772
School Food Programs .....	(204)	-
Year-end Closing Actions .....	12,474	34,269
Collective Bargaining Actions .....	25,638	2,631
Total Net Modifications .....	<u>\$ 723,489</u>	<u>\$ 96,645</u>

### **3. DETAILED NOTES ON ALL FUNDS**

#### **A. Cash**

Bank balances are maintained with banks that are members of the Federal Deposit Insurance Corporation (FDIC). The FDIC insures bank balances up to a maximum of \$100,000 in the aggregate by the FDIC for each bank for all funds. As DOE's general fund cash balance is part of The City's cash management system, which is considered one depositor for FDIC purposes, and as the Agency Funds include over 1,120 accounts maintained at the school level, DOE cannot determine the amounts that are insured or collateralized. The City has reported that approximately 0.46 and 0.36 percent of The City's June 30, 2007 and June 30, 2006 General Fund bank balances, which includes DOE's General Fund bank deposits, were uninsured and uncollateralized with securities held by The City's agent in The City's name.

#### **B. Investments**

In accordance with New York State Education Law, substantially all General Fund revenues are paid directly to and deposited with The City. Such amounts are commingled and invested with The City's funds and are not included in the accompanying balance sheets. The City's investment of cash in its Governmental Fund Types is currently limited to U.S. Government guaranteed securities and U.S. Government agency securities purchased directly and through repurchase agreements from primary dealers as well as commercial paper rated A1 and P1 by Standard & Poor's Corporation and Moody's Investors Service, Inc., respectively. The repurchase agreements must be collateralized by U.S. Government guaranteed securities, U. S. Government agency securities or eligible commercial paper in a range of 100% to 102% of the matured value of the repurchase agreements.

DOE's regulations permit schools to deposit and invest student activity funds in banks authorized to do business in New York State, including making investments in time deposits and certificates of deposit.

**Department of Education of The City of New York**  
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**C. Lease Commitments**

DOE leases various types of property and equipment. Total lease expenditures for the year ended June 30, 2007 and June 30, 2006 were approximately \$103 million and \$98 million, respectively. As of June 30, 2007, DOE has future minimum rental obligations on leases with a remaining term in excess of one year as follows (\$000 omitted):

**Figure 7**

Year(s) Ending June 30,	Total Amount	Capital Leases	Operating Leases
2008 .....	\$ 83,308	\$ 17,599	\$ 65,709
2009 .....	82,682	18,016	64,666
2010 .....	75,726	17,730	57,996
2011 .....	66,420	16,385	50,035
2012 .....	60,469	15,209	45,260
2013-2017 .....	264,525	69,831	194,694
2018-2022 .....	166,844	50,385	116,459
2023-2027 .....	84,229	27,221	57,008
2028-2032 .....	47,115	22,329	24,786
2033-2037 .....	25,003	6,523	18,480
2038-2046 .....	87	-	87
Total minimum lease payments .....	<u>\$ 956,408</u>	<u>261,228</u>	<u>\$ 695,180</u>
Less imputed interest .....		(86,953)	
Present value of net minimum lease payments. ....		<u>\$ 174,275</u>	

**D. Long-Term Liabilities**

The long-term liabilities include capital leases entered into by DOE as well as DOE's portion of various other long-term liabilities, payment for which The City is responsible. Funding for these allocated liabilities will be provided through future appropriations of The City. Payments for certain amounts of these liabilities are due in fiscal years 2007 and 2006 and funds have been appropriated for such payments.

Changes in the various components of the long-term liabilities for fiscal year 2007 are as follows (\$000 omitted):

**Figure 8**

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
Accrued Vacation and Sick Leave. .	\$ 1,395,752	\$ 178,515	\$ (41,679)	\$ 1,532,588	\$ 41,679
Capital Lease Obligations .....	151,014	32,658	(9,397)	174,275	9,397
Accrued Judgments and Claims. ...	265,514	72,310	(56,746)	281,078	65,713
OPEB Obligations	17,295,027	1,737,927	(343,184)	18,689,770	-
TOTALS. ....	<u>\$19,107,307</u>	<u>\$ 2,021,410</u>	<u>\$ (451,006)</u>	<u>\$ 20,677,711</u>	<u>\$ 116,789</u>

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Changes in the various components of the long-term liabilities for fiscal year 2006 are as follows  
(\$000 omitted):

**Figure 9**

	Balance June 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
Accrued Vacation and Sick Leave. . .	\$ 1,218,260	\$ 230,249	\$ (52,757)	\$ 1,395,752	\$ 52,757
Capital Lease Obligations . . . . .	146,702	12,122	(7,810)	151,014	7,810
Accrued Judgments and Claims. . .	270,233	55,598	(60,317)	265,514	68,021
OPEB Obligations . . . . .	-	17,295,027	-	17,295,027	-
<b>TOTALS. . . . .</b>	<b>\$ 1,635,195</b>	<b>\$17,592,996</b>	<b>\$ (120,884)</b>	<b>\$ 19,107,307</b>	<b>\$ 128,588</b>

**E. Capital Assets**

DOE receives funding for assets from various sources, some of which are combined for the same fixed asset. In addition, many fixed assets are donated or sold to DOE from private sources. Further, the reception of these assets could be at any of the many central DOE offices or at one of the over 1,400 school locations. Therefore, a fixed assets schedule by source, location, or use is not presented in this report. However, the overall changes in the various classes of Capital Assets occurring during fiscal year 2007 can be reported, as follows  
(\$000's omitted):

**Figure 10**

	<b>CAPITAL ASSETS</b>				
	Balance June 30, 2006	Additions	Transfers	Deletions	Balance June 30, 2007
Capital Assets Not Being Depreciated:					
Land & Site Improvement . . . . .	\$ 446,881	\$ 116	\$ —	\$ —	\$ 446,997
Construction In Progress. . . . .	1,079,241	2,099,051	(1,289,523)	—	1,888,769
Total Capital Assets Not Being Depreciated. . . . .	1,526,122	2,099,167	(1,289,523)	—	2,335,766
Capital Assets Being Depreciated:					
Building & Additions . . . . .	17,857,061	—	1,289,523	—	19,146,584
Equipment . . . . .	219,826	21,901	—	(784)	240,943
Gross Balance Capital Assets . . . .	18,076,887	21,901	1,289,523	(784)	19,387,527
Less Accumulated Depreciation:					
Building & Additions . . . . .	6,850,554	610,353	—	—	7,460,907
Equipment . . . . .	163,771	9,056	—	(781)	172,046
Total Accumulated Depreciation. . .	7,014,325	619,409	—	(781)	7,632,953
Net Capital Assets Being Depreciated . . . . .	11,062,562	(597,508)	1,289,523	(3)	11,754,574
<b>Total All Capital Assets . . . . .</b>	<b>\$ 12,588,684</b>	<b>\$ 1,501,659</b>	<b>\$ —</b>	<b>\$ (3)</b>	<b>\$ 14,090,340</b>



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The overall changes substantial in the various classes of Capital Assets occurring during fiscal year 2006 can be reported, as follows (\$000's omitted):

**Figure 11**

	<b>CAPITAL ASSETS</b>				
	<b>Balance June 30, 2005</b>	<b>Additions</b>	<b>Transfers</b>	<b>Deletions</b>	<b>Balance June 30, 2006</b>
Capital Assets Not Being Depreciated:					
Land & Site Improvement . . . . .	\$ 448,576	\$ —	\$ —	\$ (1,695)	\$ 446,881
Construction In Progress. . . . .	255,768	1,781,903	(958,430)	—	1,079,241
Total Capital Assets Not Being Depreciated . . . . .	704,344	1,781,903	(958,430)	(1,695)	1,526,122
Capital Assets Being Depreciated:					
Building & Additions . . . . .	16,912,173	—	958,430	(13,542)	17,857,061
Equipment . . . . .	193,531	29,508	—	(3,213)	219,826
Gross Balance Capital Assets . . . . .	17,105,704	29,508	958,430	(16,755)	18,076,887
Less Accumulated Depreciation:					
Building & Additions . . . . .	6,289,726	565,618	—	(4,790)	6,850,554
Equipment . . . . .	157,510	8,276	—	(2,015)	163,771
Total Accumulated Depreciation. . .	6,447,236	573,894	—	(6,805)	7,014,325
Net Capital Assets Being Depreciated . . . . .	10,658,468	(544,386)	958,430	(9,950)	11,062,562
Total All Capital Assets . . . . .	<u>\$ 11,362,812</u>	<u>\$ 1,237,517</u>	<u>\$ —</u>	<u>\$(11,645)</u>	<u>\$ 12,588,684</u>

In December 1988, the State of New York Legislation created the SCA for the purposes of designing, constructing, reconstructing, improving, rehabilitating and repairing the New York City public schools. Operations are funded by appropriations made by The City. Such appropriations are guided by Five-Year Capital Plans, developed by the DOE. The City's appropriations for the Five-Year Capital Plan for the fiscal years 2000 through 2004 totaled \$6.6 billion. The Five-Year Capital Plan for the fiscal years 2005 through 2009 is \$13.5 billion.

Capital Expenditures made on behalf of the DOE amounted to \$2.1 billion and \$1.8 billion in fiscal years 2007 and 2006, respectively. Such expenditures were incurred by the SCA and the New York City Department of Design and Construction (DDC).

Upon substantial completion of capital assets, the SCA transfers such assets to DOE. In Fiscal Years 2007 and 2006, SCA transferred \$1.3 billion and \$958 million, respectively, in completed assets to DOE.

Included in land and buildings at June 30, 2007 are certain leased properties aggregating approximately \$298 million (of which \$32.6 million were new additions). Included in equipment are expenditures made from various units of appropriation in the General Fund. Included in Accumulated Depreciations - Buildings & Additions at June 30, 2007 was accumulated depreciation for leases of \$85 million.

Accumulated depreciation is reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon the estimated useful lives of 40 to 50 years for buildings and 5 to 35 years for equipment.

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For Fiscal Year 2007, the New York City Comprehensive Annual Financial Report reports capital expenditures for education as \$2.132 billion. This amount includes capital expenditures vouchered by SCA and DDC on behalf of DOE in the amount of \$2.099 billion and capital lease expenditures of \$32.6 million.

**4. OTHER INFORMATION**

**A. Non-Public Schools and Fashion Institute of Technology (FIT)**

Expenditures for non-public elementary and secondary schools located within The City, special education pre-school tuition, related services, and transportation and the Fashion Institute of Technology (FIT) are reflected under the financial statement caption Non-Public Schools. Expenditures for non-public elementary and secondary schools are related primarily to textbook purchases, transportation and school lunch programs and are funded, in part, by federal and state aid.

FIT receives, through appropriations provided by the City, a grant from DOE to partially subsidize its operations. The amounts paid to FIT in Fiscal Year 2007 and 2006 were approximately \$37.2 million and \$31.1 million, respectively.

**B. Pensions**

**Plan Description** — On behalf of DOE, The City sponsors pension systems providing benefits to DOE employees. The pension systems function in accordance with existing State statutes and City laws. Each system combines features of a defined benefit pension plan with those of a defined contribution pension plan. Contributions are made by the employer and the employees.

The majority of DOE's employees are members of one of the following two major pension systems:

1. New York City Teacher's Retirement System-Qualified Pension Plan (TRS), a cost sharing multiple-employer public employee retirement system for teachers in the public schools of The City and certain other specified school employees of DOE. The Administrator of the Plan is the Executive Director of TRS.
2. Board of Education Retirement System-Qualified Pension Plan (BERS), a cost sharing multiple-employer public employee retirement system, for non-pedagogical employees of DOE and certain employees of the SCA. The Administrator of the Plan is the Executive Director of BERS.

TRS and BERS publish separate annual financial statements that may be obtained from the Office of the Comptroller, Bureau of Accountancy, Pension Accounting Division - Room 803, 1 Centre Street, New York, New York 10007.

**Funding Policy** — The City's funding policy for periodic employer contributions to the actuarial pension systems is to contribute percentages of annualized covered payroll that, together with member contributions, will be sufficient to accumulate assets to pay benefits when due.

Annual contributions, determined in accordance with statute by the systems' Actuary, are generally funded by the employers within the appropriate fiscal year.

Member contributions are established by law and vary by Plan. For those members who joined prior to June 30, 1976 (Tiers I and II) employee contribution rates are dependent upon the member's age at membership and retirement plan election. The required contribution rate of active plan members for those who joined the Plan after June 30, 1976 (Tiers III and IV) is 3 percent of their gross salary, regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members are not required to make contributions after the 10th anniversary of their membership date or completion of ten years

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2007**

of credited service, whichever is earlier. Certain members of BERS make additional member contributions.

The City contributes to the above pension systems on behalf of all City-funded personnel positions. The total City actual statutory pension contribution, for the fiscal year ended June 30, 2007, for all City pension systems was \$4.9 billion; \$1.7 billion for the two major DOE systems. The pension costs are not allocated to DOE or reflected in its financial statements, except that contributions for positions funded through federal and state programs aggregating approximately \$124 million were allocated to DOE and charged to reimbursable program expenditures.

The total pension costs, including those computed by the Actuary, for the actuarial pension systems and costs related to certain entity's other than DOE (i.e., SCA and the City University) whose employees participate in the pension systems, for the fiscal years ended June 30, 2007, June 30, 2006 and June 30, 2005 were, as follows:

**Figure 12**

**City Pension Costs**  
(in millions)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
TRS .....	\$ 1,600.9	\$ 1,316.6	\$ 1,304.0
BERS .....	129.8	90.8	106.4
Total Pension Costs .....	<u>\$ 1,730.7</u>	<u>\$ 1,407.4</u>	<u>\$ 1,410.4</u>

**C. Other Post-Employment Benefits**

The New York City Health Benefits Program (Plan) is a single-employer defined health care plan funded by the New York City Retiree Health Benefits Trust (RHBT). RHBT was established for the exclusive benefit of The City's retired employees and their dependents who meet the eligibility requirements to fund the post employment benefits (other than those paid through the Management Benefits Fund) provided through the welfare benefit plans and welfare benefit funds and the reimbursement of certain health insurance and Medicare premiums. RHBT was enacted by local law to afford The City the ability to address the ongoing liability of funding the increasing costs of health benefits for The City's retired workers and their dependents covered under the City's health and welfare plans. Amounts contributed to RHBT by The City are held in trust and are irrevocable and may not be used for any other purpose than to fund the cost of health and welfare benefits of its eligible participants. To qualify, retirees must (a) have worked for DOE with at least five years credited service as a member of an approved pension system (requirement does not apply if retirement is as a result of accidental disability); (b) have been employed by DOE prior to retirement; (c) have worked regularly for at least twenty hours a week prior to retirement; and (d) be receiving a pension check from a retirement system maintained by DOE. The separate annual financial statements of RHBT are available at: Office of the Comptroller, Bureau of Accountancy – Room 808, 1 Centre Street, New York, New York 10007.

The City's annual OPEB cost (expenses) is calculated based on the annual required contribution of the employer, an amount that was actuarially determined. For Fiscal Year 2007, the annual OPEB cost (expense) for The City was determined to be \$60.7 billion of which the City contributed \$2.9 billion to the RHBT. The Net OPEB Obligation, after City contributions, was \$57.8 billion. For the DOE, the allocated Net OPEB Obligations for Fiscal Year 2007 was \$1.4 billion. This amount was allocated to Programs/Activities' expenses in presenting full accrual accounting within the Statement of Activities. This amount, when added to the allocated amount for last year (\$17.3 billion), was also included as a long term liability in the Statement of Net Assets (\$18.7 billion).

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**Notes to the Financial Statements**  
**June 30, 2007**

**D. Contingencies**

As explained in Note 1, DOE is fiscally dependent upon The City. Accordingly, DOE's liability for loss contingencies is limited to the extent that spending authority has been appropriated by The City. Such liability, including but not limited to property damage, personal injury and grant disallowances, is assumed by and charged to budget appropriations of The City. A description of material contingencies follows:

**(1) Judgments and Claims** — DOE is a defendant in a significant number of lawsuits pertaining to material matters, including claims asserted which are incidental to performing routine educational services and other functions. Such litigation includes, but is not limited to, actions commenced and claims asserted against DOE arising out of alleged torts, breaches of contracts and violations of law.

**(2) Grant Programs** — DOE participates in a number of grant programs, funding for which is provided by the State or Federal agencies. These grant programs are subject to financial and compliance audits by the grantors or their representatives. The City reports a reserve for known and potential disallowances of these grant programs on behalf of DOE. On June 16, 2005, the Office of the Inspector General of the United States Department of Health and Human Services (HHS) issued its audit report on claims submitted to the New York State Medicaid program by DOE (then known as the Board of Education) with respect to speech services for students with disabilities for the period 1993 through 2001. The audit states generally that the State of New York improperly billed HHS nearly \$436 million in Federal Financial Participation (FFP) for State Medicaid expenditures for speech services that were not sufficiently supported by documentation establishing the provision of such services in accordance with applicable standards. The State Department of Health has formally submitted a response to the Centers for Medicare and Medicaid Services (CMS) raising objections, based in law and policy, to the audit findings and requesting that CMS take no action to disallow Medicaid funding on the basis of the audit report of the Office of the Inspector General of HHS. In addition, on September 15, 2005 the Office of the Inspector General of HHS issued its audit report on claims submitted to the New York State Medicaid program by DOE with respect to transportation services for students with disabilities for the period 1993 through 2001. The audit states that none of the claims in the statistical sample of 120 claims complied with laws and regulations generally relating to documentation of services; it concludes that approximately \$96 million in claims improperly billed to HHS should be refunded, and that the State should work with CMS to resolve approximately \$12 million in additional claims. DOE and the State Department of Health have formally submitted responses to the transportation audit to CMS; the responses take the position that the audit was flawed and unlawfully conducted and, as in the case of the speech audit, request that CMS takes no further action with respect to the audit. In both audits, CMS has not imposed any disallowances of FFP to date. Both the speech and transportation audits may be the subject of further administrative or judicial review that may result in changes in amounts alleged to be owed by the State. In the event that FFP is ultimately disallowed and found to be owed by the State to HHS, the State may in turn seek to collect amounts received by DOE for services that are the subject of such disallowances, or may attempt to offset amounts owed to DOE.

**(3) Other Contingencies** — DOE has no authority to issue debt obligations. The City issues all debt obligations necessary for educational purposes, principally capital projects. The State Finance Law provides that if The City should default on the payments of principal or interest on bonds or notes issued for school purposes, State aid for education must be withheld by the State and applied to cure such default.

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**Department of Education of The City of New York**  
**Supplemental Financial Schedules of the General Fund**  
**June 30, 2007**

The General Fund is the general operating fund of DOE that is used to account for all of the financial resources, except those required to be accounted for in another fund. The Schedule of Aged Receivables includes Federal, State and Non-Governmental Grants and other aid from Fiscal Year 2001 through Fiscal Year 2007, as of June 30, 2007. The Schedule of Budget and Actual Expenditures reflects the final modified budget as approved by The City. This budget is modified throughout the year and then a final modification is submitted by DOE at year end to distribute surplus balances and to provide additional funding to categories with expenses that are projected to be in excess of budget appropriations. (See Note 2 of the Notes to the Financial Statements)

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**General Fund**  
**Schedule of Aged Receivables**  
**As of June 30, 2007**  
**With Comparative Totals to June 30, 2006**  
**(\$000 Omitted)**

	<b>Federal Grants <u>Categorical</u></b>	<b>State Aid and Categorical <u>Grants</u></b>	<b>Non- Governmental <u>Grants</u></b>	<b>Total Receivables <u>As of June 30, 2007</u></b>	<b>Comparative Total, as of <u>June 30, 2006</u></b>
<b>Fiscal Year 2007:</b>	\$ 532,701	\$ 966,916	\$ 19,364	\$ 1,518,981	\$ -
<b>Fiscal Year 2006:</b>	23,341	127,748	1,326	152,415	1,589,105
<b>Fiscal Year 2005:</b>	31,653	55,604	6,787	94,044	277,353
<b>Fiscal Year 2004:</b>	-	-	-	-	50,367
<b>Fiscal Year 2003:</b>	-	-	-	-	48,793
<b>Fiscal Year 2002:</b>	-	-	-	-	192
<b>Fiscal Year 2001:</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,105</u>
<b>Total Receivables:</b>	<u><u>\$ 587,695</u></u>	<u><u>\$ 1,150,268</u></u>	<u><u>\$ 27,477</u></u>	<u><u>\$ 1,765,440</u></u>	<u><u>\$ 1,967,915</u></u>

**Department of Education of The City of New York**  
**General Fund**  
**Schedule of Budgeted and Actual Expenditures**  
**For the Year Ended June 30, 2007**

<u>UOA</u>		<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b><u>GENERAL EDUCATION INSTRUCTION &amp; SCHOOL LEADERSHIP</u></b>				
401	Salaries	\$ 4,959,896,952	\$ 4,954,813,557	\$ 5,083,395
402	Supplies	170,893,290	170,760,727	132,563
402	Furniture and Equipment	77,854,528	77,795,916	58,612
402	Textbooks	111,140,824	111,057,152	83,672
402	Contractual Services	218,717,367	218,552,708	164,659
	<b>TOTAL</b>	<b>5,538,502,961</b>	<b>5,532,980,060</b>	<b>5,522,901</b>
<b><u>SPECIAL EDUCATION INSTRUCTION &amp; SCHOOL LEADERSHIP</u></b>				
403	Salaries	1,120,336,643	1,130,200,718	(9,864,075)
404	Supplies	4,219,947	1,774,004	2,445,943
404	Furniture and Equipment	3,333,116	1,398,105	1,935,011
404	Textbooks	687,143	288,228	398,915
404	Contractual Services	1,174,652	492,718	681,934
	<b>TOTAL</b>	<b>1,129,751,501</b>	<b>1,134,153,773</b>	<b>(4,402,272)</b>
<b><u>REGIONAL &amp; CITYWIDE INSTRUCTIONAL &amp; OPERATIONAL ADMINISTRATION</u></b>				
415	Salaries	200,214,046	200,214,151	(105)
416	Supplies	4,096,825	4,096,720	105
416	Furniture and Equipment	1,442,876	1,442,876	-
416	Textbooks	207,398	207,398	-
416	Contractual Services	9,263,577	9,263,577	-
	<b>TOTAL</b>	<b>215,224,722</b>	<b>215,224,722</b>	<b>-</b>
<b><u>CITYWIDE EDUCATION INSTRUCTION &amp; SCHOOL LEADERSHIP</u></b>				
421	Salaries	637,408,302	634,526,214	2,882,088
422	Supplies	7,939,415	5,511,985	2,427,430
422	Furniture and Equipment	7,276,205	5,051,547	2,224,658
422	Textbooks	2,479,308	1,721,274	758,034
422	Contractual Services	7,866,189	5,461,147	2,405,042
	<b>TOTAL</b>	<b>662,969,419</b>	<b>652,272,167</b>	<b>10,697,252</b>
<b><u>SPECIAL EDUCATION INSTRUCTIONAL SUPPORT</u></b>				
423	Salaries	179,303,983	191,121,759	(11,817,776)
424	Supplies	2,124,477	2,124,582	(105)
424	Furniture and Equipment	873,421	873,421	-
424	Textbooks	843	843	-
424	Contractual Services	140,559,745	140,559,745	-
	<b>TOTAL</b>	<b>322,862,469</b>	<b>334,680,350</b>	<b>(11,817,881)</b>
<b><u>SCHOOL FACILITIES</u></b>				
435	Salaries	395,563,190	395,563,190	-
436	Supplies	26,499,619	26,499,619	-
436	Furniture and Equipment	577,451	577,451	-
436	Contractual Services	146,584,468	146,584,468	-
	<b>TOTAL</b>	<b>569,224,728</b>	<b>569,224,728</b>	<b>-</b>

**Department of Education of The City of New York**  
**General Fund**  
**Schedule of Budgeted and Actual Expenditures**  
**For the Year Ended June 30, 2007**

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b><u>PUPIL TRANSPORTATION</u></b>			
438 Supplies	\$ 1,980,063	\$ 1,980,063	\$ -
438 Contractual Services	83,624,938	83,624,938	-
438 Pupil Transportation	851,988,307	851,988,307	-
	937,593,308	937,593,308	-
<b><u>SCHOOL FOOD SERVICES</u></b>			
439 Salaries	188,910,432	188,910,432	-
440 Supplies	19,062,111	19,062,111	-
440 Food Purchases	125,870,184	125,870,184	-
440 Furniture and Equipment	4,921,905	4,921,905	-
440 Contractual Services	25,840,702	25,840,702	-
TOTAL	364,605,334	364,605,334	-
442 <b>SCHOOL SAFETY</b>	179,968,193	179,968,193	-
444 <b>ENERGY AND LEASES</b>	339,781,542	339,781,542	-
<b><u>CENTRAL ADMINISTRATION</u></b>			
453 Salaries	167,656,191	167,656,190	1
454 Supplies	22,876,317	22,718,654	157,663
454 Furniture and Equipment	6,075,617	6,033,744	41,873
454 Contractual Services	194,552,083	193,211,237	1,340,846
454 Fixed Charges	293,088	291,068	2,020
TOTAL	391,453,296	389,910,893	1,542,403
461 <b>FRINGE BENEFITS</b>	1,991,096,307	1,988,926,217	2,170,090
470 <b>SE PRE-KINDERGARTEN CONTRACTS</b>	574,473,724	574,473,724	-
472 <b>CHARTER/CONTRACT SCHOOLS &amp; FOSTER CARE</b>	490,093,022	490,093,022	-
474 <b>NON-PUBLIC SCHOOLS &amp; FIT PAYMENTS</b>	57,518,496	57,518,496	-
491 <b>COLLECTIVE BARGAINING</b>	15,821,013	15,821,013	-
<b>TOTAL TAX LEVY</b>	<u>\$ 13,780,940,035</u>	<u>\$ 13,777,227,542</u>	<u>\$ 3,712,493</u>
<b><u>CATEGORICAL PROGRAMS</u></b>			
481 Salaries	\$ 1,392,406,870	\$ 1,392,406,870	\$ -
482 Supplies	95,796,065	95,778,216	17,849
482 Furniture and Equipment	37,803,216	37,796,173	7,043
482 Pension	124,429,615	124,406,431	23,184
482 Contractual Services	456,870,450	456,785,326	85,124
<b>TOTAL CATEGORICAL PROGRAMS</b>	2,107,306,216	2,107,173,016	133,200



**Department of Education of The City of New York**  
**General Fund**  
**Schedule of Budgeted and Actual Expenditures**  
**For the Year Ended June 30, 2007**

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b>TOTAL APPROPRIATIONS EXPENDED</b>	\$ 15,888,246,251	\$ 15,884,400,558	\$ 3,845,693
Intra-City Sales	<u>(12,654,885)</u>	<u>(12,577,719)</u>	<u>(77,166)</u>
Sub-Total	15,875,591,366	15,871,822,839	3,768,527
Net Change in Prior Payables	<u>-</u>	<u>(123,806,663)</u>	<u>123,806,663</u>
<b>Total Expenditures</b>	15,875,591,366	15,748,016,176	127,575,190
<b>Other Financing Uses -</b>			
Transfer to The City of New York	<u>-</u>	<u>123,806,663</u>	<u>(123,806,663)</u>
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<u>\$ 15,875,591,366</u>	<u>\$ 15,871,822,839</u>	<u>\$ 3,768,527</u>

**Department of Education of The City of New York**  
**General Fund**  
**Schedule of Budgeted and Actual Expenditures**  
**For the Year Ended June 30, 2006**

<u>UOA</u>		<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b><u>GENERAL EDUCATION INSTRUCTION &amp; SCHOOL LEADERSHIP</u></b>				
401	Salaries	\$ 4,372,678,750	\$ 4,366,449,891	\$ 6,228,859
402	Supplies	129,605,391	129,605,391	-
402	Furniture and Equipment	69,646,488	69,646,488	-
402	Textbooks	107,789,824	107,789,824	-
402	Contractual Services	163,800,238	163,800,238	-
	<b>TOTAL</b>	<b>4,843,520,691</b>	<b>4,837,291,832</b>	<b>6,228,859</b>
<b><u>SPECIAL EDUCATION INSTRUCTION &amp; SCHOOL LEADERSHIP</u></b>				
403	Salaries	856,166,098	856,166,098	-
404	Supplies	3,200,604	946,057	2,254,547
404	Furniture and Equipment	2,433,279	719,246	1,714,033
404	Textbooks	1,465,564	433,202	1,032,362
404	Contractual Services	2,149,557	635,382	1,514,175
	<b>TOTAL</b>	<b>865,415,102</b>	<b>858,899,985</b>	<b>6,515,117</b>
<b><u>REGIONAL &amp; CITYWIDE INSTRUCTIONAL &amp; OPERATIONAL ADMINISTRATION</u></b>				
415	Salaries	206,881,637	206,881,636	1
416	Supplies	5,907,484	5,907,483	1
416	Furniture and Equipment	2,063,546	2,063,546	-
416	Textbooks	58,311	58,311	-
416	Contractual Services	15,306,572	15,306,572	-
	<b>TOTAL</b>	<b>230,217,550</b>	<b>230,217,548</b>	<b>2</b>
<b><u>CITYWIDE EDUCATION INSTRUCTION &amp; SCHOOL LEADERSHIP</u></b>				
421	Salaries	600,647,496	600,647,496	-
422	Supplies	8,403,662	7,130,258	1,273,404
422	Furniture and Equipment	9,761,836	8,282,630	1,479,206
422	Textbooks	3,342,846	2,836,306	506,540
422	Contractual Services	6,417,286	5,444,878	972,408
	<b>TOTAL</b>	<b>628,573,126</b>	<b>624,341,568</b>	<b>4,231,558</b>
<b><u>SPECIAL EDUCATION INSTRUCTIONAL SUPPORT</u></b>				
423	Salaries	171,531,535	175,250,462	(3,718,927)
424	Supplies	254,384	315,223	(60,839)
424	Furniture and Equipment	98,873	122,520	(23,647)
424	Textbooks	4,786	5,931	(1,145)
424	Contractual Services	109,923,575	136,213,173	(26,289,598)
	<b>TOTAL</b>	<b>281,813,153</b>	<b>311,907,309</b>	<b>(30,094,156)</b>
<b><u>SCHOOL FACILITIES</u></b>				
435	Salaries	396,581,979	396,581,979	-
436	Supplies	17,223,024	17,223,024	-
436	Furniture and Equipment	350,812	350,812	-
436	Contractual Services	124,553,432	124,553,431	1
	<b>TOTAL</b>	<b>538,709,247</b>	<b>538,709,246</b>	<b>1</b>

**Department of Education of The City of New York**  
**General Fund**  
**Schedule of Budgeted and Actual Expenditures**  
**For the Year Ended June 30, 2006**

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b><u>PUPIL TRANSPORTATION</u></b>			
438 Supplies	\$ 426,846	\$ 426,846	\$ -
438 Contractual Services	75,913,766	75,913,766	-
438 Pupil Transportation	<u>772,329,852</u>	<u>772,329,852</u>	<u>-</u>
	848,670,464	848,670,464	-
<b><u>SCHOOL FOOD SERVICES</u></b>			
439 Salaries	183,485,551	183,485,551	-
440 Supplies	16,954,631	16,954,630	1
440 Food Purchases	114,864,430	114,864,430	-
440 Furniture and Equipment	4,421,093	4,421,093	-
440 Contractual Services	<u>20,141,296</u>	<u>20,141,296</u>	<u>-</u>
TOTAL	339,867,001	339,867,000	1
442 <b>SCHOOL SAFETY</b>	157,787,629	157,787,629	-
444 <b>ENERGY AND LEASES</b>	324,380,224	320,544,282	3,835,942
<b><u>CENTRAL ADMINISTRATION</u></b>			
453 Salaries	165,047,188	165,047,188	-
454 Supplies	29,995,823	27,853,541	2,142,282
454 Furniture and Equipment	10,880,174	10,103,119	777,055
454 Contractual Services	176,221,072	163,635,480	12,585,592
454 Fixed Charges	<u>249,978</u>	<u>232,125</u>	<u>17,853</u>
TOTAL	382,394,235	366,871,453	15,522,782
461 <b>FRINGE BENEFITS</b>	1,823,301,170	1,823,301,170	-
470 <b>SE PRE-KINDERGARTEN CONTRACTS</b>	533,248,236	533,248,227	9
472 <b>CHARTER/CONTRACT SCHOOLS &amp; FOSTER CARE</b>	404,793,366	404,793,351	15
474 <b>NON-PUBLIC SCHOOLS &amp; FIT PAYMENTS</b>	51,708,420	51,708,418	2
491 <b>COLLECTIVE BARGAINING</b>	<u>23,951,849</u>	<u>23,951,849</u>	<u>-</u>
<b>TOTAL TAX LEVY</b>	<u>\$ 12,278,351,463</u>	<u>\$ 12,272,111,331</u>	<u>\$ 6,240,132</u>
<b><u>CATEGORICAL PROGRAMS</u></b>			
481 Salaries	\$ 1,800,568,462	\$ 1,800,568,462	\$ -
482 Supplies	150,096,724	150,351,936	(255,212)
482 Furniture and Equipment	47,411,540	47,492,154	(80,614)
482 Pension	135,776,232	136,007,094	(230,862)
482 Contractual Services	<u>551,848,529</u>	<u>552,786,843</u>	<u>(938,314)</u>
<b>TOTAL CATEGORICAL PROGRAMS</b>	2,685,701,487	2,687,206,489	(1,505,002)

**Department of Education of The City of New York**  
**General Fund**  
**Schedule of Budgeted and Actual Expenditures**  
**For the Year Ended June 30, 2006**

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b>TOTAL APPROPRIATIONS EXPENDED</b>	\$ 14,964,052,950	\$ 14,959,317,820	\$ 4,735,130
Intra-City Sales	<u>(14,088,317)</u>	<u>(13,630,728)</u>	<u>(457,589)</u>
Sub-Total	14,949,964,633	14,945,687,092	4,277,541
Net Change in Prior Payables	<u>-</u>	<u>(151,432,752)</u>	<u>151,432,752</u>
<b>Total Expenditures</b>	14,949,964,633	14,794,254,340	155,710,293
<b>Other Financing Uses -</b>			
Transfer to The City of New York	<u>-</u>	<u>151,432,752</u>	<u>(151,432,752)</u>
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<u><u>\$ 14,949,964,633</u></u>	<u><u>\$ 14,945,687,092</u></u>	<u><u>\$ 4,277,541</u></u>

Department of Education of The City of New York  
Annual Financial Statements  
For the Fiscal Years Ended June 30, 2007 and 2006

**GLOSSARY**

BERS . . . . .	Board of Education Retirement System
CMS. . . . .	Centers of Medical and Medicaid services
DDC . . . . .	New York City Department of Design and Construction
DOE . . . . .	Department of Education of the City of New York
FAMIS . . . . .	Financial Accounting Management Information System
FDIC . . . . .	Federal Deposit Insurance Corporation
Federal . . . . .	One of the agencies of the United States of America
FFP . . . . .	Federal Financial Participation
FIT . . . . .	Fashion Institute of Technology
FMS . . . . .	New York City Financial Management System
FY. . . . .	Fiscal Year
GAAP . . . . .	Generally Accepted Accounting Principles
GASB . . . . .	Governmental Accounting Standards Board
HHS . . . . .	United States Department of Health and Human Services
OMB . . . . .	New York City Office of Management and Budget
OPEB . . . . .	Other PostEmployment Benefits
OTPS. . . . .	Other Than Personal Services
PS. . . . .	Personal Services
RHBT. . . . .	New York City Retiree Health Benefits Trust
RSI . . . . .	Required Supplementary Information
SCA . . . . .	School Construction Authority
SED. . . . .	State Education Department
State . . . . .	The State of New York
Tax Levy . . . . .	Appropriations provided by The City of New York
TFA . . . . .	New York City Transitional Finance Authority
The City . . . . .	The City of New York
TRS. . . . .	Teachers Retirement System
UFT. . . . .	United Federation of Teachers