

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, 2012

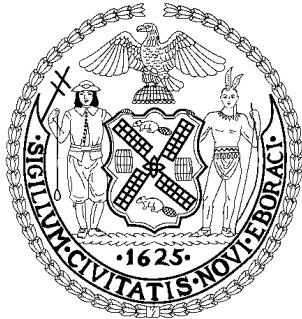


**Michael R. Bloomberg, Mayor
Dennis M. Walcott, Chancellor**

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, 2012



Prepared by the Division of Financial Operations

George Vasiliou, 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, 2012 and 2011

TABLE OF CONTENTS

	<u>Page</u>
I INTRODUCTORY SECTION	
Transmittal Letter.....	I
II FINANCIAL SECTION	
Independent Auditors' Report.....	1
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.....	3
Management's Discussion and Analysis.....	4
Department-wide Financial Statements:	
Statement of Net Assets (Deficit) - As of June 30, 2012.....	14
Statement of Net Assets (Deficit) - As of June 30, 2011.....	15
Statement of Activities - For the Year Ended June 30, 2012.....	16
Statement of Activities - For the Year Ended June 30, 2011.....	17
Fund Financial Statements:	
Balance Sheet - As of June 30, 2012.....	18
Balance Sheet - As of June 30, 2011.....	19
Reconciliation of the Balance Sheet of Governmental Fund to the Statement	
of Net Assets (Deficit) - As of June 30, 2012.....	20
Reconciliation of the Balance Sheet of Governmental Fund to the Statement	
of Net Assets (Deficit) - As of June 30, 2011.....	21
Statement of Revenues, Expenditures and Changes in Fund Balance	
- For the Year Ended June 30, 2012.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance	
- For the Year Ended June 30, 2011.....	23
Reconciliation of the Statement of Revenues, Expenditures and Changes	
in Fund Balance to the Statement of Activities - For the Year Ended	
June 30, 2012.....	24
Reconciliation of the Statement of Revenues, Expenditures and Changes	
in Fund Balance to the Statement of Activities - For the Year Ended	
June 30, 2011.....	25
Statement of Revenues, Expenditures and Changes in Fund Balance	
Budget and Actual - General Fund - For the Year Ended June 30, 2012...	26
Statement of Revenues, Expenditures and Changes in Fund Balance	
Budget and Actual - General Fund - For the Year Ended June 30, 2011...	27
Statement of Fiduciary Net Assets - As of June 30, 2012.....	28
Statement of Fiduciary Net Assets - As of June 30, 2011.....	29
Notes to the Financial Statements.....	30

**Department of Education of The City of New York
Annual Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011**

TABLE OF CONTENTS (Con't)

	<u>Page</u>
Supplemental Financial Schedules of the General Fund:.....	49
Schedule of Aged Receivables as of June 30, 2012 with Comparative Totals to June 30, 2011.....	50
Schedule of Budgeted and Actual Expenditures - For the Year Ended June 30, 2012.....	51
Schedule of Budgeted and Actual Expenditures - For the Year Ended June 30, 2011.....	54
Glossary.....	57

ANNUAL FINANCIAL STATEMENTS

Department of Education of The City of New York

For the Fiscal Year Ended June 30, 2012

I Introductory Section

(This Page Intentionally Left Blank)



DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

Dennis M. Walcott, *Chancellor*

OFFICE OF THE CHANCELLOR

52 Chambers Street, New York, New York 10007

October 26, 2012

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, 2012

The Annual Financial Statements for the Department of Education of The City of New York (the “DOE”) for the fiscal year ended June 30, 2012 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 principles 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 of Operations, The Chief Financial Officer, and the Executive Director. The Chief 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.

Deloitte & Touche LLP has audited the 2012 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 performed in accordance with *Government Auditing Standards*, is also included. This report indicates that the auditors' tests did not identify any deficiencies in internal control over financial reporting that are considered to be material weaknesses nor did their tests disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. 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 audit 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.

As of spring 2010, all New York City public schools receive their primary support from a team of about 15 staff members called a Children First Network (CFN). Each CFN team provides expert support, technical assistance, and quality control for a group of approximately 25 schools: they offer training and coaching for principals and teachers, share instructional resources to meet each school's needs, and help schools across the network collaborate with each other. CFN teams also help schools recruit and hire teachers, spend their budgets effectively, conduct all daily operations, use data and technology, and cultivate partnerships with community-based organizations and cultural institutions. In addition, CFN teams help schools deliver effective services to students with disabilities and English language learners. Because the same team supports each school in all of these different areas, principals can feel confident that every decision will be made strategically, with the school's instructional goals in mind.

There are 60 CFN teams across New York City that are grouped into five Clusters. Each principal, in consultation with the School Leadership Team (a group of teachers, school leaders, and parents), selects the CFN team that he or she believes will best meet the needs and goals of the school. Some network teams support groups of schools that share a specific instructional philosophy or approach. Other networks support mostly small schools, elementary schools, schools with large populations of English language learners, or other common traits. Schools can change networks as often as once a year. However, the vast majority of New York City schools have been with their current network team for several years of partnership.

In addition to the support provided through the network structure, each school is supervised by a superintendent based on the community school district in which the school is located or, in the case of high schools, the borough. Network leaders and superintendents work closely together to provide coherent support and supervision for schools. Superintendents play critical roles related to principal selection and evaluation, teacher tenure decisions, community engagement, and the resolution of issues and complaints.

The DOE is dependent upon 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 the DOE that are not allocated to the 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.

The 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 the DOE to the funding sources based on actual expenditures and on compliance with funding source guidelines.

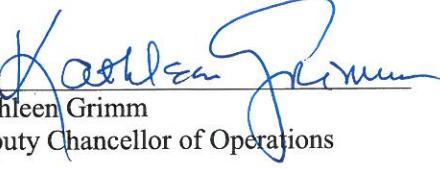
The DOE maintains, for its reporting purposes, a computerized accounting system to interface with The City's Financial Management System (FMS). The DOE Financial Accounting Management Information System (FAMIS) provides a relational database technology allowing the DOE to take advantage of current technology to conduct business in the most cost-effective and user-friendly manner. All of the DOE's financial transactions are recorded in the Department's accounting system (FAMIS) and interface with The City's accounting system (FMS). These transactions are subject to all FMS system edit controls. In January of 2010 the DOE integrated with FMS and as a result the DOE's Other Than Personal Services (OTPS) and Personal Services (PS) expenditures are now synchronized between FAMIS and FMS. FMS maintains the official accounting records for The City.

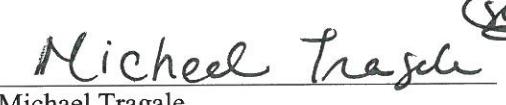
Management of the DOE is responsible for establishing and maintaining an internal control structure. In developing and evaluating the DOE's accounting system, consideration is given to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance 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.

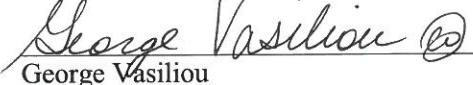
In accordance with the DOE's status as a dependent school district, revenues received for school purposes are required to be deposited into The City's Treasury, which is maintained for the General Fund. As revenues are collected, they are recorded to a series of designated revenue codes established for the 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 the DOE. Budget requests and budget modifications for the use of these revenues are submitted by the 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; the DOE enters budgets and budget modifications into its accounting system (FAMIS).

The DOE is responsible for pre-auditing its own expenditures, which are then transmitted electronically from FAMIS to FMS. Based on the electronic transmission of expenditure data, and FMS pre-approval of OTPS transactions, the New York City Comptroller on behalf of the DOE makes disbursements for these expenditures. The actual vouchers and supporting documentation are maintained and reviewed at the schools or the central processing bureaus of the 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 of Operations


Michael Tragale
Chief Financial Officer


George Vasilou
Executive Director
Division of Financial Operations

(This Page Intentionally Left Blank)

ANNUAL FINANCIAL STATEMENTS

Department of Education of The City of New York

For the Fiscal Year Ended June 30, 2012

II Financial Section

(This Page Intentionally Left Blank)



Deloitte & Touche LLP
Two World Financial Center
New York, NY 10281-1414
USA

Tel: +1 212 436 2000
Fax: +1 212 436 5000
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Department of Education
of The City of New York

We have audited the accompanying financial statements of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the Department of Education of The City of New York (the "DOE"), as of and for the years ended June 30, 2012 and 2011, which collectively comprise the DOE's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the DOE's management. Our responsibility is to express opinions 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 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 discussed in Note 1A, 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 governmental 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, 2012 and 2011, and the changes in its financial position, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion based on our audits, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund, and the aggregate remaining governmental fund information of the DOE, as of June 30, 2012 and 2011, 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 13 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 required 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 financial statements that collectively comprise the DOE's basic financial statements. The accompanying supplementary information listed as the Introductory Section and the Supplemental Financial Schedules of the General Fund, in the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the DOE's management. The Supplemental Financial Schedules of the General Fund have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section, in the foregoing table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, 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 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.

Deloitte & Touche LLP

October 26, 2012

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 financial statements of the Department of Education of The City of New York (the "DOE") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. 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 discussed in Note 1A, 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 governmental 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, 2012, and the changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the DOE is responsible for establishing and maintaining effective 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

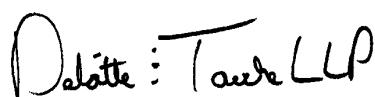
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 grant 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, 2012.

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 anyone other than these specified parties.



October 26, 2012

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 the DOE's financial performance for the fiscal years ended June 30, 2012 and 2011. Please read it in conjunction with the transmittal letter at the beginning of these financial statements and with the DOE's financial statements, which immediately follow this section.

Financial Highlights

- Net deficit at June 30, 2012 was (\$9.8 billion), a decrease in net assets of (\$1.1 billion) over that of fiscal year 2011.
Net deficit at June 30, 2011 was (\$8.7 billion), a decrease in net assets of (\$2.2 billion) over that of fiscal year 2010.
- Total assets and liabilities reported in the governmental funds at June 30, 2012 were \$4.1 billion, an increase of about \$354 million from fiscal year 2011.
Total assets and liabilities reported in the governmental funds at June 30, 2011 were \$3.7 billion, an increase of about \$428 million from that of fiscal year 2010.
- General Fund total revenues available and spent during fiscal year 2012 were \$19.2 billion, an increase of 1.8 percent over that of fiscal year 2011.
General Fund total revenues available and spent during fiscal year 2011 were \$18.9 billion, an increase of 2.4 percent over that of fiscal year 2010.
- In fiscal year 2012 a net surplus of \$112.3 million was returned to The City, as part of the DOE's dependent relationship, to supplement revenues received from federal, state and private sources.
In fiscal year 2011 a net surplus of \$45.6 million was returned to The City, as part of the 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 the DOE.

- The first four statements are "Department-wide Financial Statements" that provide both the short-term and long-term position about the DOE's overall financial status.
- The remaining statements are "Fund Financial Statements" that focus on individual parts of the 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 the DOE acts solely as an 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 the DOE's budget for the year.

Department of Education of The City of New York

Management's Discussion and Analysis

The following summarizes the major features of the DOE's financial statements, including the portion of the 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-wide Statements	Fund Financial Statements Governmental Funds	Fiduciary Funds
Scope	Entire DOE (except fiduciary funds)	The activities of the 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 measurement focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources measurement focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	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 the 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 the DOE as a whole using accounting methods similar to those used by private-sector companies.

The Statement of Net Assets includes all the 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 the DOE in one category: Governmental Activities. These activities include School Leadership, Instruction and Special Education Support; School Support Services (i.e., system-wide); the School Support Organization (i.e., superintendent, student enrollment planning and operations); Central Administration; and Non-Public Schools.

Fund Financial Statements

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

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

The DOE has two kinds of funds:

- Governmental funds: are those by which most functions of the 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 the 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.

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

Financial Analysis of the Department-wide Financial Statements

At the close of Fiscal Year 2012, total liabilities of the DOE exceeded total assets by \$9.8 billion, a decrease in net assets of (\$1.1 billion) from that at the close of Fiscal Year 2011. Net deficits, as of June 30, 2012, June 30, 2011 and June 30, 2010 are summarized below for all governmental activities.

At the close of Fiscal Year 2011, total liabilities of the DOE exceeded total assets by \$8.7 billion, a decrease in net assets of (\$2.2 billion) from that at the close of Fiscal Year 2010.

Figure 1

	Governmental Activities (000's)		
	<u>FY2012</u>	<u>FY2011</u>	<u>FY2010</u>
Current and Other Assets	\$ 4,077,955	\$ 3,724,661	\$ 3,296,170
Capital Assets	<u>21,857,207</u>	<u>21,417,586</u>	<u>20,217,220</u>
Total Assets	<u>\$ 25,935,162</u>	<u>\$ 25,142,247</u>	<u>\$ 23,513,390</u>
Long-Term Liabilities	\$ 31,302,095	\$ 29,788,094	\$ 26,496,579
Other Liabilities	<u>4,393,365</u>	<u>4,065,197</u>	<u>3,542,872</u>
Total Liabilities	<u>\$ 35,695,460</u>	<u>\$ 33,853,291</u>	<u>\$ 30,039,451</u>
Net Assets:			
Investment in Capital Assets, net of Related Debt.....	\$ 21,857,207	\$ 21,417,586	\$ 20,217,220
Unrestricted Deficit	<u>(31,617,505)</u>	<u>(30,128,630)</u>	<u>(26,743,281)</u>
Total Net Assets (Deficit).....	<u>\$ (9,760,298)</u>	<u>\$ (8,711,044)</u>	<u>\$ (6,526,061)</u>

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

In Fiscal Year 2012, assets increased almost \$.8 billion from \$25.1 billion as of June 30, 2011 to \$25.9 billion as of June 30, 2012 primarily due to capital expenditures of \$1.7 billion offset by net depreciation expenses of \$996 million and decrease in construction in progress expense of \$263 million resulting in an increase of the net value of capital assets by \$440 million. The amounts due from The City increased by \$614 million. This account is affected primarily by changes in accounts payable and accounts receivables because of The DOE's dependent fiscal relationship with The City. The total accounts receivables decreased by \$262 million.

In Fiscal Year 2011, assets increased almost \$1.6 billion from \$23.5 billion as of June 30, 2010 to \$25.1 billion as of June 30, 2011 primarily due to capital expenditures of \$2.1 billion offset by depreciation expenses of \$814 million resulting in an increase of the net value of capital assets of \$1.2 billion. Capital assets were increased due to buildings transferred from the School Construction Authority (SCA) for the DOE's use, \$2.7 billion and offset by increases in net depreciation expense of \$132.7 million. The amounts due from The City increased by \$496 million. This account is affected primarily by changes in accounts payable because of the DOE's dependent fiscal relationship with The City.

In Fiscal Year 2012, liabilities increased about \$1.8 billion from \$33.8 billion as of June 30, 2011 to \$35.7 billion as of June 30, 2012, primarily due to increases in the estimate of Other Postemployment Benefits (OPEB) liabilities of \$1.4 billion. Additionally, there were changes in the Accounts Payable and Accrued Expenditures of \$333 million, Capital Lease Obligations \$10 million and Accrued Judgments and Claims \$37 million.

In Fiscal Year 2011, liabilities increased about \$3.8 billion from \$30.0 billion as of June 30, 2010 to \$33.8 billion as of June 30, 2011, primarily due to increases in the estimate of Other Postemployment Benefits (OPEB) liabilities of \$2.9 billion. Additionally, there were changes in the Accounts Payable and Accrued Expenditures of \$445 million, Capital Lease Obligations \$96 million and Accrued Judgments and Claims \$446 million.

The unrestricted deficit results primarily from long-term liabilities for which there are no corresponding capital assets, such as, pollution remediation, 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

In Fiscal Year 2012, The DOE's net deficit increased by \$1.1 billion from July 1, 2011 to June 30, 2012 and in fiscal 2011, The DOE's net deficit increased by \$2.2 billion from July 1, 2010 to June 30, 2011. The key elements of these changes are as follows:

Condensed Statement of Activities

Figure 2

Governmental Activities (000's Omitted)			
	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>
Revenues			
<u>Program Revenues:</u>			
Charges for Services.....	\$ 75,795	\$ 74,868	\$ 72,892
Operating Grants and Contributions.....	10,140,210	11,147,054	11,276,517
<u>General Revenues:</u>			
City Funded.....	9,025,409	7,685,936	7,122,517
Other	<u>41,842</u>	<u>31,040</u>	<u>27,212</u>
Total Revenues	<u>19,283,256</u>	<u>18,938,898</u>	<u>18,499,138</u>
Expenses			
School Leadership, Instruction and Special Education Support ..	15,220,176	16,712,462	16,108,646
School Support Services.....	3,391,669	3,510,339	3,354,157
School Support Organization.....	274,827	267,866	411,981
Central Administration.....	379,498	456,718	475,664
Non-Public Schools.....	<u>2,501,201</u>	<u>2,174,310</u>	<u>1,901,515</u>
Total Expenses.....	<u>21,767,371</u>	<u>23,121,695</u>	<u>22,251,963</u>
Net Revenue (Expenses)	(2,484,115)	(4,182,797)	(3,752,825)
Net Change in Capital Assets and Inventory.....	<u>1,434,861</u>	<u>1,997,814</u>	<u>2,955,449</u>
Change in Net Assets (Deficit)	(1,049,254)	(2,184,983)	(797,376)
Net Assets (Deficit)—Beginning	<u>(8,711,044)</u>	<u>(6,526,061)</u>	<u>(5,728,685)</u>
Net Assets (Deficit)—Ending.....	<u>\$ (9,760,298)</u>	<u>\$ (8,711,044)</u>	<u>\$ (6,526,061)</u>

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

In Fiscal Year 2012, the DOE received \$135 million as a result of The American Recovery and Reinvestment Act (ARRA) of 2009. Federal program revenues decreased (31.3 percent) from \$2.78 billion in Fiscal Year 2011 to \$1.91 billion in Fiscal Year 2012 and the State program revenues funding remained at \$8.1 billion for 2012 and 2011.

Expenditures include liabilities incurred by The City on behalf of the 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 Obligations; (3) Accrued Judgments and Claims; (4) Depreciation Expense; (5) the liability associated with Other Post Employment Benefits Obligations; and (6) change in Pollution Remediation Obligations.

In Fiscal Year 2012, the full accrual expenses include \$19.3 billion of modified accrual expenses and over \$2.5 billion of additional expenses incurred by The City to report a full accrual expense of \$21.8 billion, an increase of 5.9 percent, from Fiscal Year 2011. In Fiscal Year 2011, the full accrual expenses include \$18.9 billion of modified accrual expenses and over \$4.2 billion of additional expenses incurred by The City to report a full accrual expense of \$23.1 billion, an increase of 3.9 percent from Fiscal Year 2010.

In Fiscal Year 2012, as a result of the decrease in the change of the cost allocation in OPEB, Capital Leases and Judgment and Claims from Fiscal Year 2011 to Fiscal Year 2012 respectively, the category of School Leadership, Instruction and Special Education Support decreased about (8.9 percent) from (\$16.7 billion) to (\$15.2 billion), likewise, School Support Services decreased (\$3.5 billion) to (\$3.3 billion). Central Administration decreased by (16.9 percent) or (\$77 million) due to central supervisory and administrative personnel being aligned to school leadership and support in addition to the decrease attributable to the change in OPEB cost allocation. Non-Public Schools had increases of \$327 million due to costs of in-state contract schools, Carter case expenditures, Pre-K transportation, itinerant services, and tuition obligations.

In Fiscal Year 2011, the category of School Leadership, Instruction and Special Education Support increased about 3.8 percent from \$16.1 billion in Fiscal Year 2010 to \$16.7 billion in Fiscal Year 2011 due to increased spending in supplies, equipment, special education teachers, special education related service expenses, along with an increase in health and OPEB allocation costs. School Support Services increased 4.7 percent or \$156 million in Fiscal Year 2011 due to costs of the allocation of OPEB expenses and increased energy, leases, transportation and health expense allocation. Central Administration decreased by (3.9 percent) or (\$19 million) due to central supervisory support personnel being aligned to school leadership. Non-Public Schools had increases of \$273 million due to costs of in-state contract schools, Carter case expenditures, Pre-K transportation, itinerant services and tuition obligations

The increase in net deficit each Fiscal Year was primarily the result of the increase in long-term liabilities for which there were no corresponding capital assets exceeding the increased net value of capital assets.

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

Financial Analysis of The Governmental Funds

Total assets and liabilities increased \$354 million, 9.52 percent, for fiscal year 2012 compared to fiscal year 2011 where assets and liabilities increased \$428 million, 13 percent, as follows:

Figure 3

Condensed Balance Sheets (in millions of dollars)

	Governmental Activities			<u>Amount Change</u>		<u>Percentage Change</u>	
	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>2011-2012</u>	<u>2010-2011</u>	<u>2011-2012</u>	<u>2010-2011</u>
Assets							
General Fund.	\$ 4,071	\$ 3,717	\$ 3,289	\$ 354	\$ 428	9.52%	13%
Total Assets	<u>\$ 4,071</u>	<u>\$ 3,717</u>	<u>\$ 3,289</u>	<u>\$ 354</u>	<u>\$ 428</u>	<u>9.52%</u>	<u>13%</u>
Liabilities							
General Fund.	\$ 4,071	\$ 3,717	\$ 3,289	\$ 354	\$ 428	9.52%	13%
Total Liabilities	<u>\$ 4,071</u>	<u>\$ 3,717</u>	<u>\$ 3,289</u>	<u>\$ 354</u>	<u>\$ 428</u>	<u>9.52%</u>	<u>13%</u>

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

Changes in Total Assets for Fiscal Year 2012: First, there was a net increase of \$615 million of amounts due from The City to pay for outstanding liabilities in the General Fund. At year end there were; a decrease in the accounts receivable from federal sources of (\$192 million); and decrease in state of (\$46 million); and a decrease in non-governmental sources (\$23 million).

Changes in Total Assets for Fiscal Year 2011: First, there was a net increase of \$496 million of amounts due from The City to pay for outstanding liabilities in the General Fund. At year end there were increases in the balances of Cash of \$1.8 million; a decrease in the accounts receivable from federal sources of (\$264 million); and increases in state of \$200 million; and a decrease in non-governmental sources (\$6 million).

Changes in Total Liabilities for Fiscal year 2012: Governmental Fund liabilities increased \$354 million due to increases of almost \$333 million in accounts payable in the General Fund. Also, there was an increase of \$21 million in the balance of the deferred revenue in the General Fund.

Changes in Total Liabilities for Fiscal year 2011: Governmental Fund liabilities increased \$428 million due to increases of almost \$445 million in accounts payable in the General Fund. Also, there was a decrease of (\$17 million) in the balance of the deferred revenue in the General Fund.

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

In fiscal year 2012 total revenues and expenditures increased \$345 million, 1.8 percent, compared to June 30, 2011. Total revenues and expenditures increased \$440 million, 2.4 percent, for the year ended June 30, 2011 compared to June 30, 2010.

Figure 4

Changes in Revenues and Expenditures (in millions of dollars)

	General Funds			Percentage Change 2011-2012	Percentage Change 2011-2010
	FY2012	FY2011	FY2010		
Revenues					
Federal Aid.....	\$ 1,910.1	\$ 2,780.4	\$ 2,953.7	(31.3%)	(5.9%)
State Aid.....	8,035.2	8,135.2	8,079.6	(1.2%)	1.0%
Funding by The City	9,067.3	7,717.0	7,149.1	17.5%	7.9%
Other.....	270.7	306.2	316.1	(11.6%)	(3.1%)
Total Revenues	\$ 19,283.3	\$ 18,938.8	\$ 18,498.5	1.8%	2.4%
Expenditures					
School Leadership, Instruction and Special Education Support	\$ 13,092.8	\$ 13,088.6	\$ 12,824.3	.0.0%	2.1%
School Support Services.....	3,115.6	3,088.3	3,045.4	0.9%	1.4%
School Support Organization	235.9	209.3	325.1	12.7%	(35.7%)
Central Administration.....	337.8	378.3	402.2	(10.7%)	(5.9%)
Non-Public Schools	2,501.2	2,174.3	1,901.5	15.0%	14.4%
Total Expenditures	\$ 19,283.3	\$ 18,938.8	\$ 18,498.5	1.8%	2.4%

Although the 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.

In Fiscal Year 2012, the overall Federal program revenues decreased (31.3 percent) from \$2.8 billion in Fiscal Year 2011 to \$1.9 billion in Fiscal Year 2012 mainly due to the end of most ARRA funding. State program revenues remained at \$8.1 billion in 2012 and 2011, and City revenues increased 17.7 percent from \$7.72 billion in 2011 to \$9.08 billion in 2012.

In Fiscal Year 2011, the overall Federal program revenues decreased (5.9 percent) from \$2.9 billion in Fiscal Year 2010 to \$2.8 billion in Fiscal Year 2011, State program revenues remained at \$8.1 billion in 2011 and 2010, and City revenues increased 7.9 percent from \$7.15 billion in 2010 to \$7.71 billion in 2011.

In Fiscal Year 2012, major programs that benefited from increased individual revenues included: Federal Aid increases of \$20.4 million for Medicaid Assistance Program and \$38.3 million for Title 1 Disadvantaged Children (offset by Federal Aid decreases of (\$39.2 million) for Title 1 Grants to Local Education; and State Aid decreases of (\$129.5 million) for Foundation Aid).

In Fiscal Year 2011, major programs that benefited from increased individual revenues included: Federal Aid increases of \$4.5 million for Universal Pre-K; \$2.1 million for Community Learning Centers (offset by Federal Aid decreases of (\$11.7 million) for Title VI Handicapped Children; and State Aid decreases of (\$17.5 million)

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

for Transportation Aid).

In Fiscal Year 2012, total expenditures, under modified accrual accounting, increased 1.8 percent or \$345 million. Expenditures in the area of School Leadership, Instruction and Special Education Support increased \$4.1 million, less than 1 percent, due to increased spending in teachers' costs. School Support Services increased \$27.3 million, less than 1 percent mainly for Pupil Transportation. Expenditures in the area of School Support Organization increased about \$26.6 million, 12.7 percent, due mostly to alignment of administrative and technical support. Central Administration decreased overall by (\$40.5 million), (10. 7 percent). Non-Public Schools' expenditures increased \$327 million, 15.0 percent due to increased costs of both in-state contract schools and Carter case expenditures in addition to the rise in Pre-K transportation, itinerant services and tuition obligations.

In Fiscal Year 2011, total expenditures, under modified accrual accounting, increased 2.4 percent or \$440 million. Expenditures in the area of School Leadership, Instruction and Special Education Support increased \$264 million, 2.1 percent, due to increased spending in supplies, equipment, special education teachers, special education related service expenses and CFN network support reorganization. School Support Services increased \$43 million, 1.4 percent mainly for: Pupil Transportation and in the areas of energy and leases. Expenditures in the area of School Support Organization decreased about (\$116 million), (35.7 percent) due to reorganization, such as the CFN network support being directly aligned to school leadership. Central Administration decreased overall by (\$23.9 million), (5.9 percent). Non-Public Schools expenditures increased \$273 million, 14.4 percent due to increased costs of both in-state contract schools and Carter case expenditures in addition to the rise in Pre-K transportation, itinerant services and tuition obligations.

General Fund Budgetary Highlights

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

- Intra-city adjustments of \$4.6 million to Tax-levy budgets and \$21.2 million to Reimbursable program budgets.
- Executive and Adopted Budget Actions which decreased Tax-levy Budgets by (\$157.8) million and Reimbursable program budgets by (\$50.3 million).
- Tax-Levy surpluses of \$20 million were rolled from FY2012 to FY2013 as part of the Deferred Program Planning Initiative (DPPI).
- November and January Plan Actions, which decreased Tax-levy budgets by (\$71.3) million and increased Reimbursable program budgets by \$75.6 million.
- School Food programs were decreased by (\$22.1) million to Tax-levy budgets and increased by \$3.1 million to Reimbursable program budgets.
- Final Fiscal Year Close Actions, which decreased Tax-levy budgets by (\$93.7) million and increased Reimbursable program budgets by \$36.7 million.
- Additional Fiscal Year Close Actions, which includes an increase to Tax-Levy budgets of \$121.5 million, are attributable to the effects of GASB Statement No. 49 requirements.

As a result of the above, the DOE made net modifications to the adopted budget of over (\$158.3) million.

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

Capital Assets

The 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)		
	FY2012	FY2011	FY2010
Land.....	\$ 446,993	\$ 446,997	\$ 446,997
Buildings.....	18,788,175	18,079,169	16,201,258
Equipment.....	59,571	65,703	73,334
Construction in Progress.....	2,562,468	2,825,717	3,495,631
Total	<u>\$ 21,857,207</u>	<u>\$ 21,417,586</u>	<u>\$ 20,217,220</u>

In Fiscal Year 2012, capital assets, net of accumulated depreciation, increased from fiscal year 2011 by \$440 million, primarily due to capital assets (completed new construction and equipment) that were transferred to the DOE from the SCA in the amount of \$1.7 billion. In Fiscal Year 2011, capital assets, net of accumulated depreciation, increased from fiscal year 2010 by \$1.2 billion, primarily due to capital assets that were transferred to the DOE from the SCA in the amount of \$2.7 billion.

Factors Bearing on the Department's Future

In 1996, a class action was brought against the City and the State under Title VII of the Civil Rights Act of 1964 alleging that the use by the City Board of Education of two teacher certification examinations mandated by the State had a disparate impact on minority candidates. The lower court dismissed the case. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the lower court's ruling, dismissed the claims against the State, and remanded the matter for further proceedings. The trial court on remand has received extensive briefing from the parties on the issue of City liability. The State has advised The City that there are approximately 3,500 members of the class and has calculated potential damages, based on the difference in salary between a certified public school teaching position and an uncertified parochial or private school teaching position, of approximately \$455 million.

A lawsuit has been brought against The City in the United States District Court for the Southern District of New York by School Safety Agents alleging violation of the Federal Equal Pay Act, Title VII of the Civil Rights Act of 1964 and provisions of State law. Plaintiffs claim that School Safety Agents (who are predominantly female) earn less pay than Special Officers (who are predominantly male) although both jobs require substantially equal skill, effort and responsibility. The case has been certified as a class action. Although the case was commenced by three named plaintiffs in 2010, approximately 4,900 plaintiffs have recently opted into the lawsuit. Plaintiffs seek injunctive relief and damages. If plaintiffs were to ultimately prevail, The City could be subject to substantial liability.

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 the DOE's finances and to demonstrate the 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 1803A, Brooklyn, New York 11201.

Department of Education of The City of New York
Statement of Net Assets (Deficit)
As of June 30, 2012
($\$000$ Omitted)

	Governmental Activities
ASSETS:	
Cash	\$ 22,346
Accounts Receivable	
Federal	534,130
State	1,916,208
Non-Governmental	27,427
Due from The City of New York	1,571,314
Inventories	6,530
Capital Assets (Net of Accumulated Depreciation)	
Land	446,993
Buildings	18,788,175
Equipment (Including Software)	59,571
Construction in Progress	<u>2,562,468</u>
TOTAL ASSETS	<u>\$ 25,935,162</u>
LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 4,006,274
Deferred Revenue	65,151
Other Postemployment Benefit Obligations	28,531,676
Pollution Remediation Obligations	
Due within one year	66,750
Due in more than one year	7,417
Accrued Vacation and Sick Leave	
Due within one year	51,416
Due in more than one year	1,854,170
Capital Lease Obligations	
Due within one year	18,848
Due in more than one year	277,793
Accrued Judgments and Claims	
Due within one year	184,926
Due in more than one year	<u>631,039</u>
TOTAL LIABILITIES	<u>\$ 35,695,460</u>
NET ASSETS:	
Investment in Capital Assets, net of Related Debt	21,857,207
Unrestricted Deficit	<u>(31,617,505)</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$ (9,760,298)</u>

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, 2011
($\$000$ Omitted)

	Governmental Activities
ASSETS:	
Cash	\$ 20,072
Accounts Receivable	
Federal	726,586
State	1,963,045
Non-Governmental	50,331
Due from The City of New York	957,393
Inventories	7,234
Capital Assets (Net of Accumulated Depreciation)	
Land	446,997
Buildings	18,079,169
Equipment (Including Software)	65,703
Construction in Progress	<u>2,825,717</u>
TOTAL ASSETS	<u>\$ 25,142,247</u>
LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 3,673,607
Deferred Revenue	43,820
Other Postemployment Benefit Obligations	27,151,197
Pollution Remediation Obligations	
Due within one year	96,538
Due in more than one year	10,727
Accrued Vacation and Sick Leave	
Due within one year	47,106
Due in more than one year	1,764,107
Capital Lease Obligations	
Due within one year	17,517
Due in more than one year	269,227
Accrued Judgments and Claims	
Due within one year	186,609
Due in more than one year	<u>592,836</u>
TOTAL LIABILITIES	<u>\$ 33,853,291</u>
NET ASSETS:	
Investment in Capital Assets, net of Related Debt	21,417,586
Unrestricted Deficit	<u>(30,128,630)</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$ (8,711,044)</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, 2012
($\$000$ Omitted)

Function/Programs	Program Revenue				Net (Expenses) Revenue
	Program Expenses	Charges for Services	Operating Grants and Contributions		
School Leadership, Instruction and Special Education Support	\$ 15,220,176	\$ 7,701	\$ 7,816,546		\$ (7,395,929)
School Support Services	3,391,669	57,244	1,579,545		(1,754,880)
School Support Organization	274,827	-	-		(274,827)
Central Administration	379,498	-	-		(379,498)
Non-Public Schools	2,501,201	10,850	744,119		(1,746,232)
Total Department Activities	<u>\$ 21,767,371</u>	<u>\$ 75,795</u>	<u>\$ 10,140,210</u>		<u>(11,551,366)</u>
General Revenues					
City Funded					9,025,409
Intra-city Sales					41,842
Other Adjustments					
Net Change in Capital Assets and Inventory					<u>1,434,861</u>
CHANGE IN NET ASSETS					
Net Assets (Deficit) - Beginning					<u>(8,711,044)</u>
Net Assets (Deficit) - Ending					<u>\$ (9,760,298)</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, 2011
($\$000$ Omitted)

Function/Programs	Program Revenue				Net (Expenses) Revenue
	Program Expenses	Charges for Services	Operating Grants and Contributions		
School Leadership, Instruction and Special Education Support	\$ 16,712,462	\$ 6,618	\$ 8,784,508		\$ (7,921,336)
School Support Services	3,510,339	54,904	1,625,285		(1,830,150)
School Support Organization	267,866	-	-		(267,866)
Central Administration	456,718	-	-		(456,718)
Non-Public Schools	2,174,310	13,346	737,261		(1,423,703)
Total Department Activities	<u>\$ 23,121,695</u>	<u>\$ 74,868</u>	<u>\$ 11,147,054</u>		<u>(11,899,773)</u>
General Revenues					
City Funded					7,685,936
Intra-city Sales					31,040
Other Adjustments					
Net Change in Capital Assets and Inventory					<u>1,997,814</u>
CHANGE IN NET ASSETS					
Net Assets (Deficit) - Beginning					<u>(6,526,061)</u>
Net Assets (Deficit) - Ending					<u>\$ (8,711,044)</u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Balance Sheet
As of June 30, 2012
($\$000$ Omitted)

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
ASSETS:	
Cash	\$ 22,346
Accounts Receivable	
Federal	534,130
State	1,916,208
Non-Governmental	27,427
Due from The City of New York	<u>1,571,314</u>
Total Assets	<u><u>\$ 4,071,425</u></u>
LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 4,006,274
Deferred Revenue	<u>65,151</u>
Total Liabilities	<u>4,071,425</u>
FUND BALANCE:	
Total Fund Balance	<u>-</u>
Total Liabilities and Fund Balance	<u><u>\$ 4,071,425</u></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, 2011
($\$000$ Omitted)

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
ASSETS:	
Cash	\$ 20,072
Accounts Receivable	
Federal	726,586
State	1,963,045
Non-Governmental	50,331
Due from The City of New York	<u>957,393</u>
Total Assets	<u><u>\$ 3,717,427</u></u>
LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 3,673,607
Deferred Revenue	<u>43,820</u>
Total Liabilities	<u><u>3,717,427</u></u>
FUND BALANCE:	
Total Fund Balance	<u>-</u>
Total Liabilities and Fund Balance	<u><u>\$ 3,717,427</u></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 Fund
To The Statement of Net Assets (Deficit)
As of June 30, 2012

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.	6,530
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.	21,857,207
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	(28,531,676)
Accrued Vacation and Sick Leave	(1,905,586)
Pollution Remediation Obligations	(74,167)
Capital Lease Obligations	(296,641)
Accrued Judgments and Claims	<u>(815,965)</u>
Net assets (deficit) of governmental activities	\$ <u>(9,760,298)</u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Reconciliation of the Balance Sheet of Governmental Fund
To The Statement of Net Assets (Deficit)
As of June 30, 2011

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.	7,234
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.	21,417,586
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	(27,151,197)
Accrued Vacation and Sick Leave	(1,811,213)
Pollution Remediation Obligations	(107,265)
Capital Lease Obligations	(286,744)
Accrued Judgments and Claims	<u>(779,445)</u>
Net assets (deficit) of governmental activities	\$ <u>(8,711,044)</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 Balance
All Governmental Fund Type
For the Year Ended June 30, 2012
(*\$000 Omitted*)

	<u>Government Fund Type</u>
	<u>General Fund</u>
REVENUES	
Federal Aid	\$ 1,910,094
State Aid	8,035,181
Universal Services Fund	-
Other Assistance	180,921
Charges for Services:	
School Construction Authority	21,713
Student Lunches	19,063
Rentals	38,183
Other	10,850
Subtotal	<u>10,216,005</u>
Net Change in Estimate of Prior Receivables	<u>(73,300)</u>
Subtotal	<u>10,142,705</u>
Funding Provided by The City of New York	9,098,709
Total Revenues and Other Financing Sources	<u><u>19,241,414</u></u>
EXPENDITURES	
General Education Instruction and School Leadership	6,015,861
Special Education Instruction and School Leadership	1,181,260
School Support Organization	153,773
Citywide Education Instruction and School Leadership	759,593
Special Education Instructional Support	526,260
School Facilities	734,885
Pupil Transportation	1,073,697
School Food Services	389,455
School Safety	298,111
Energy and Leases	456,961
Central Administration	298,690
Fringe Benefits	2,701,352
Pre-Kindergarten Contracts	1,008,570
Charter and Contract Schools and Foster Care Payments	1,421,509
Non-Public Schools	71,124
Collective Bargaining	-
Capital Outlay	-
Subtotal	<u>17,091,101</u>
Reimbursable:	
Categorical Programs	2,192,155
Intracity Sales	<u>(41,842)</u>
Subtotal	<u>19,241,414</u>
Net Change in Estimate of Prior Payables	<u>(112,329)</u>
Total Expenditures	<u>19,129,085</u>
Other Financing Uses - Transfer to The City of New York	<u>112,329</u>
Total Expenditures and Other Uses	<u><u>19,241,414</u></u>
Excess of Revenues and Other Sources Over	
Expenditures and Other Uses	-
FUND BALANCE	<u><u>\$ -</u></u>

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 Balance
All Governmental Fund Type
For the Year Ended June 30, 2011
(*\$000 Omitted*)

	<u>Government Fund Type</u>
	<u>General Fund</u>
REVENUES	
Federal Aid	\$ 2,780,448
State Aid	8,135,200
Universal Services Fund	3,006
Other Assistance	184,017
Charges for Services:	
School Construction Authority	51,001
Student Lunches	18,652
Rentals	36,252
Other	13,346
Subtotal	<u>11,221,922</u>
Net Change in Estimate of Prior Receivables	<u>(43,951)</u>
Subtotal	<u>11,177,971</u>
Funding Provided by The City of New York	<u>7,729,888</u>
Total Revenues and Other Financing Sources	<u>18,907,859</u>
EXPENDITURES	
General Education Instruction and School Leadership	6,006,307
Special Education Instruction and School Leadership	1,049,159
School Support Organization	133,920
Citywide Education Instruction and School Leadership	771,154
Special Education Instructional Support	509,872
School Facilities	763,697
Pupil Transportation	1,017,219
School Food Services	379,990
School Safety	297,900
Energy and Leases	468,567
Central Administration	334,426
Fringe Benefits	2,588,266
Pre-Kindergarten Contracts	943,426
Charter and Contract Schools and Foster Care Payments	1,161,576
Non-Public Schools	69,308
Collective Bargaining	12,309
Capital Outlay	-
Subtotal	<u>16,507,096</u>
Reimbursable:	
Categorical Programs	2,431,803
Intracity Sales	<u>(31,040)</u>
Subtotal	<u>18,907,859</u>
Net Change in Estimate of Prior Payables	<u>(45,624)</u>
Total Expenditures	<u>18,862,235</u>
Other Financing Uses - Transfer to The City of New York	<u>45,624</u>
Total Expenditures and Other Uses	<u>18,907,859</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	<u>-</u>
FUND BALANCE	<u>\$ -</u>

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, 2012
(*\$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.		-
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 and reported as depreciation expense.	(995,944)	
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	(1,380,479)	
Change in Sick Leave and Vacation Liability	(94,373)	
Change in Pollution Remediation Obligations	33,098	
Change in Capital Lease Obligations	(9,897)	
Change in Judgments and Claims Liability	<u>(36,520)</u>	<u>(1,488,171)</u>
Net changes in capital assets and inventory where neither revenues nor expenses are incurred by the Department, net of Department costs.		<u>1,434,861</u>
Change in Net Assets - governmental activities	\$	<u>(1,049,254)</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, 2011
($\$000$ 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.	-
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 and reported as depreciation expense.	(797,115)
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	(2,887,045)
Change in Sick Leave and Vacation Liability	31,000
Change in Pollution Remediation Obligations	12,801
Change in Capital Lease Obligations	(96,304)
Change in Judgments and Claims Liability	<u>(446,134)</u> (3,385,682)
Net changes in capital assets and inventory where neither revenues nor expenses are incurred by the Department, net of Department costs.	<u>1,997,814</u>
Change in Net Assets - governmental activities	\$ <u>(2,184,983)</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 Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2012
(*\$000 Omitted*)

	Adopted Budget	Modified Budget	Actual	Favorable / (Unfavorable)
REVENUES				
Federal Aid	\$ 1,915,158	\$ 1,910,094	\$ 1,910,094	\$ -
State Aid	8,116,463	8,035,181	8,035,181	-
Universal Services Fund	-	-	-	-
Other Assistance	74,804	180,921	180,921	-
Charges for Services:				
School Construction Authority	8,000	21,713	21,713	-
Student Lunches	20,075	18,498	19,063	565
Rentals	35,000	35,000	38,183	3,183
Other	9,800	9,800	10,850	1,050
Subtotal	<u>10,179,300</u>	<u>10,211,207</u>	<u>10,216,005</u>	<u>4,798</u>
Net Change in Estimate of Prior Receivables	-	-	(73,300)	(73,300)
Subtotal	<u>10,179,300</u>	<u>10,211,207</u>	<u>10,142,705</u>	<u>(68,502)</u>
Funding Provided by The City of New York	9,227,821	9,037,599	9,098,709	61,110
Total Revenues and Other Financing Sources	<u>19,407,121</u>	<u>19,248,806</u>	<u>19,241,414</u>	<u>(7,392)</u>
EXPENDITURES				
General Education Instruction and School Leadership	6,119,247	6,015,861	6,015,861	-
Special Education Instruction and School Leadership	1,057,784	1,144,876	1,181,260	(36,384)
School Support Organization	144,514	144,514	153,773	(9,259)
Citywide Education Instruction and School Leadership	794,905	796,770	759,593	37,177
Special Education Instructional Support	598,198	544,929	526,260	18,669
School Facilities	602,619	734,885	734,885	-
Pupil Transportation	1,079,761	1,073,697	1,073,697	-
School Food Services	426,730	389,561	389,455	106
School Safety	302,021	302,021	298,111	3,910
Energy and Leases	512,151	465,684	456,961	8,723
Central Administration	308,158	303,169	298,690	4,479
Fringe Benefits	2,740,127	2,701,352	2,701,352	-
Pre-Kindergarten Contracts	1,129,313	1,039,465	1,008,570	30,895
Charter and Contract Schools and Foster Care Payments	1,496,986	1,436,920	1,421,509	15,411
Non-Public Schools	71,146	71,124	71,124	-
Collective Bargaining	-	-	-	-
Subtotal	<u>17,383,660</u>	<u>17,164,828</u>	<u>17,091,101</u>	<u>73,727</u>
Reimbursable:				
Categorical Programs	2,039,659	2,125,935	2,192,155	(66,220)
Intracity Sales	(16,198)	(41,957)	(41,842)	(115)
Subtotal	<u>19,407,121</u>	<u>19,248,806</u>	<u>19,241,414</u>	<u>7,392</u>
Net Change in Estimate of Prior Payables	-	-	(112,329)	112,329
Total Expenditures	<u>19,407,121</u>	<u>19,248,806</u>	<u>19,129,085</u>	<u>119,721</u>
Other Financing Uses - Transfer to The City of New York	-	-	112,329	(112,329)
Total Expenditures and Other Uses	<u>19,407,121</u>	<u>19,248,806</u>	<u>19,241,414</u>	<u>7,392</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-	-
FUND BALANCE	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2011
(\$000 Omitted)

	Adopted Budget	Modified Budget	Actual	Favorable / (Unfavorable)
REVENUES				
Federal Aid	\$ 2,568,369	\$ 2,780,448	\$ 2,780,448	\$ -
State Aid	7,982,622	8,135,200	8,135,200	- -
Universal Services Fund	-	3,006	3,006	- -
Other Assistance	74,804	184,017	184,017	- -
Charges for Services:				
School Construction Authority	8,000	51,001	51,001	- -
Student Lunches	20,075	20,073	18,652	(1,421)
Rentals	28,000	35,000	36,252	1,252
Other	9,800	9,800	13,346	3,546
Subtotal	<u>10,691,670</u>	<u>11,218,545</u>	<u>11,221,922</u>	<u>3,377</u>
Net Change in Estimate of Prior Receivables	-	-	(43,951)	(43,951)
Subtotal	<u>10,691,670</u>	<u>11,218,545</u>	<u>11,177,971</u>	<u>(40,574)</u>
Funding Provided by The City of New York	7,897,979	7,693,393	7,729,888	36,495
Total Revenues and Other Financing Sources	<u>18,589,649</u>	<u>18,911,938</u>	<u>18,907,859</u>	<u>(4,079)</u>
EXPENDITURES				
General Education Instruction and School Leadership	6,085,706	6,006,307	6,006,307	- -
Special Education Instruction and School Leadership	1,046,567	1,051,951	1,049,159	2,792
School Support Organization	191,380	133,943	133,920	23
Citywide Education Instruction and School Leadership	784,914	772,637	771,154	1,483
Special Education Instructional Support	522,204	509,872	509,872	- -
School Facilities	543,137	759,261	763,697	(4,436)
Pupil Transportation	1,011,664	1,017,219	1,017,219	- -
School Food Services	390,971	379,990	379,990	- -
School Safety	295,621	298,021	297,900	121
Energy and Leases	467,884	484,235	468,567	15,668
Central Administration	297,998	337,708	334,426	3,282
Fringe Benefits	2,619,156	2,588,725	2,588,266	459
Pre-Kindergarten Contracts	964,313	943,635	943,426	209
Charter and Contract Schools and Foster Care Payments	1,114,926	1,161,576	1,161,576	- -
Non-Public Schools	71,396	69,308	69,308	- -
Collective Bargaining	25,801	12,309	12,309	- -
Subtotal	<u>16,433,638</u>	<u>16,526,697</u>	<u>16,507,096</u>	<u>19,601</u>
Reimbursable:				
Categorical Programs	2,164,795	2,416,451	2,431,803	(15,352)
Intracity Sales	<u>(8,784)</u>	<u>(31,210)</u>	<u>(31,040)</u>	<u>(170)</u>
Subtotal	<u>18,589,649</u>	<u>18,911,938</u>	<u>18,907,859</u>	<u>4,079</u>
Net Change in Estimate of Prior Payables	-	-	(45,624)	45,624
Total Expenditures	<u>18,589,649</u>	<u>18,911,938</u>	<u>18,862,235</u>	<u>49,703</u>
Other Financing Uses - Transfer to The City of New York	-	-	45,624	(45,624)
Total Expenditures and Other Uses	<u>18,589,649</u>	<u>18,911,938</u>	<u>18,907,859</u>	<u>4,079</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-	-
FUND BALANCE	\$ -	\$ -	\$ -	\$ -

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, 2012
(\$000 Omitted)

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ <u>76,019</u>
Total Assets	\$ <u><u>76,019</u></u>
 LIABILITIES:	
Due To Students/Teachers	\$ 30,266
Holding Accounts Payable	36,801
Due to Tax Agents	<u>8,952</u>
Total Liabilities	\$ <u><u>76,019</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, 2011
(\$000 Omitted)

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ <u>76,590</u>
Total Assets	\$ <u><u>76,590</u></u>
 LIABILITIES:	
Due To Students/Teachers	\$ 29,806
Holding Accounts Payable	37,148
Due to Tax Agents	<u>9,636</u>
Total Liabilities	\$ <u><u>76,590</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, 2012

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. As of spring 2010, all New York City public schools receive their primary support from a team of about 15 staff members called a Children First Network (CFN). Each CFN team provides expert support, technical assistance, and quality control for a group of approximately 25 schools: they offer training and coaching for principals and teachers, share instructional resources to meet each school's needs, and help schools across the network collaborate with each other. CFN teams also help schools recruit and hire teachers, spend their budgets effectively, conduct all daily operations, use data and technology, and cultivate partnerships with community-based organizations and cultural institutions. In addition, CFN teams help schools deliver effective services to students with disabilities and English language learners.

There are 60 CFN teams across New York City that are grouped into five Clusters. Each principal, in consultation with the School Leadership Team (a group of teachers, school leaders, and parents), selects the CFN team that he or she believes will best meet the needs and goals of the school. Some network teams support groups of schools that share a specific instructional philosophy or approach. Other networks support mostly small schools, elementary schools, schools with large populations of English language learners, or other common traits. Schools can change networks as often as once a year. However, the vast majority of New York City schools have been with their current network team for several years of partnership.

In addition to the support provided through the network structure, each school is supervised by a superintendent, who is determined based on the community school district in which the school is located or, in the case of high schools, the borough. Network leaders and superintendents work closely together to provide coherent support and supervision for schools. Superintendents play critical roles related to principal selection and evaluation, teacher tenure decisions, community engagement, and the resolution of issues and complaints.

The DOE continues to be fiscally dependent on The City and, accordingly, is included in The City's financial statements; therefore, the 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 budget incurs certain costs on behalf of the DOE that are not allocated to the 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 the DOE were an independent school system.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

2. 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 the DOE's total assets and total liabilities. The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the 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 the DOE. In Fiscal Years 2012 and 2011, the SCA transferred \$1.7 billion and \$2.7 billion, respectively, in completed assets to the 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.
- **School Support Organization** — Various Instructional Learning and oversight offices.
- **Central Administration** — 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 the DOE to independent non-public schools.

Fund Financial Statements — The fund financial statements provide information about the DOE's funds, including fiduciary funds. Separate financial statements are provided for governmental and fiduciary funds. All the DOE's governmental funds are considered major. The accounts of the 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 balance, 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. The DOE's funds are grouped in the financial statements in two fund categories, as follows:

Governmental Fund — Governmental fund in which most functions of the 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 is the DOE's governmental fund, which is considered as a major fund:

- **General Fund** — The General Fund is the general operating fund of the DOE. It is used to account for all financial resources except those required to be accounted for in another fund.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

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

Newly Adopted Accounting Standards

In Fiscal Year 2012, the DOE adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*
- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*

Statement No. 61, improves financial reporting for a governmental financial reporting entity by modifying certain requirements for inclusion of Component Units in the financial reporting entity. For organizations that previously were required to be included as Component Units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between primary government and the organization for it to be included in the reporting entity as a Component Unit. For organizations that do not meet the financial accountability criteria for inclusion as Component Units, but that should be included because the primary government's management determines that it would be misleading to exclude them, the Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. For Component Units that currently are blended based on "substantively the same governing body" criterion, the Statement requires that the primary government and the Component Unit have a financial benefit or burden relationship or management of the primary government have operational responsibility of the activities of the Component Unit. New criteria also are added to require blending of Component Units whose total debt outstanding is expected to be repaid almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a Blended Component Unit have the same financial reporting requirements as a fund of the primary government. Reporting guidance is provided for blending a Component Unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. The Statement requires a primary government to report its equity interest in a Component Unit as an asset.

There was no impact on the DOE's financial statements as a result of the implementation of GASB statement No. 61.

Statement No. 62, is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30 1989, which do not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

The Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Those entities who chose to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements can continue to apply those pronouncements as other accounting literature.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

There was no impact on the DOE's financial statements as a result of the implementation of GASB statement No. 62.

Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions an amendment of GASB Statement No. 53. This statement clarifies whether an effective hedge relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

There was no impact on the DOE's financial statements as a result of the implementation of GASB statement No. 64.

3. 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 the 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 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 below - Accounts Receivable. Expenditures are recorded when the related liability is incurred and payment is due.

The fiduciary funds use the 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 balance as reflected on the DOE Fund Balance Sheet and total net assets for the DOE activities as shown on the Department-wide Statement of Net Assets is presented in an accompanying statement to the DOE Fund Balance Sheet.

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

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, 2012 and accruals for payments to be made in the future, which applies to liabilities incurred as of June 30, 2012. 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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

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 — The DOE participates in various federal and state aided food programs. Many of these programs provide for commodities to be supplied to the DOE in lieu of, or in addition to, cash. The value of these donated commodities received and used during the year was approximately \$28.7 million.

The value of these donated commodities received and still on hand, as of June 30, 2012 and 2011 was \$0.3 and \$0.5 million respectively.

Materials and Supplies — Inventories on hand at June 30, 2012, amounted to approximately \$6.5 million based on the moving average cost method. Inventories are recorded as expenditures in governmental fund at the time of purchase and, accordingly, have not been reported on the governmental funds balance sheet. As of June 30, 2011, this value was \$7.2 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 \$65.2 million received by the DOE against which qualifying expenditures have not yet been incurred, as of June 30, 2012. As of June 30, 2011, cash advances amounted to \$43.8 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 2012 was \$1.9 billion. As of June 30, 2011, the value of these services was \$1.9 billion.

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 it is 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, and therefore, payable from future resources, is recorded as a liability in the Department-wide Financial Statements. Under the terms of various labor contracts, the DOE employees are granted vacation and sick leave and CAR in varying amounts.

Judgments and Claims — The City and the DOE are uninsured 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 the 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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

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, OPEB obligations and Pollution Remediation 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 the 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 1,701 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, 2012 of \$21.8 billion differ from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balance of \$19.2 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 1

	Amount (\$000 Omitted)
Total Expenditures and Other Uses (from the Statement of Revenues, Expenditures and Changes in Fund Balance)	\$ 19,241,414
Add back Intra-City Sales (which are included in General Revenue in Statement of Activities).....	41,842
Depreciation Expense	995,944
Long-term liabilities per full accrual basis:	
Other Postemployment Benefit Obligations	1,380,479
Sick Leave and Vacation Balances	94,373
Pollution Remediation Obligations.....	(33,098)
Capital Leases.....	9,897
Judgments and Claims	36,520
 Total Program Expenses (from the Statement of Activities)	<u>\$ 21,767,371</u>

The total program expenses included in the Statement of Activities for the year ended June 30, 2011 \$23.1 billion differs from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balance \$18.9 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
Notes to the Financial Statements
June 30, 2012

Figure 2

	Amount (\$000 Omitted)
Total Expenditures and Other Uses (from the Statement of Revenues, Expenditures and Changes in Fund Balance)	\$ 18,907,859
Add back Intra-City Sales (which are included in General Revenue in Statement of Activities).....	31,040
Depreciation Expense	797,115
Long-term liabilities per full accrual basis:	
Other Postemployment Benefit Obligations	2,887,045
Sick Leave and Vacation Balances	(31,000)
Pollution Remediation Obligations.....	(12,801)
Capital Leases.....	96,303
Judgments and Claims	446,134
Total Program Expenses (from the Statement of Activities).....	<u>\$ 23,121,695</u>

Pronouncements Issued But Not Yet Effective

Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued in November 2010, establishes recognition, measurement and disclosure requirements for Service Concession Arrangements for both transferors and governmental operators. A Service Concession Arrangements is an arrangement between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and the operator collects and is compensated by fees from third parties. A transferor reports the facility subject to a Service Concession Arrangements as capital assets. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor along with a corresponding deferred flow of resources. Revenues are recognized by the transferor on a systematic and rational manner over the term of the arrangement. A governmental operator reports an intangible asset at costs for its right to access the facility and collect third-party fees and amortizes the intangible asset over the term of the arrangement. For revenue sharing arrangements, operators must report all revenues and expenses and transferors must report their portion of the shared revenues.

The requirements of Statement No. 60 are effective for financial statements for periods beginning after December 15, 2011. The DOE has not completed the process of evaluating the impact of Statement No. 60 on its financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. Statement No. 63 also amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The requirements of Statement No. 63 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The DOE has not completed the process of evaluating the impact Statement No. 63 will have on its financial statements.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Government Accounting Standards Board in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The requirements of Statement No. 65 are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The DOE has not completed the process of evaluating the impact of Statement No. 65 on its financial statements.

Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No.62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The DOE has not completed the process of evaluating the impact of Statement No. 66 on its financial statements.

In June of 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered.

This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statement No. 25 and Statement No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

The provisions of Statement No. 67 are effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged. The DOE has not completed the process of evaluating the impact of Statement No. 67 on its financial statements.

Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

The requirements of this Statement apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts that meet certain criteria and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statement No. 27 and Statement No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The provisions of Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The DOE has not completed the process of evaluating the impact of statement No. 68 on its financial statements.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The revenue and expenditure budget is based on GAAP with respect to those elements that are the 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.

The budget of the DOE is categorized into Units of Appropriation. Each Unit of Appropriation represents an area of instructional costs, a service program or a division within the 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 Finance, Budgetary Strategy and Reporting monitor 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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

B. Appropriations Modifications

The following schedule summarizes budget modifications for the year ended June 30, 2012 (\$000 omitted):

Figure 3

	Originally Adopted Budget	Net Modifications	Modified Budget
Tax Levy Programs.....	\$ 17,383,660	\$ (218,832)	\$ 17,164,828
Reimbursable Programs	2,039,659	86,276	2,125,935
Sub Total.....	<u>19,423,319</u>	<u>\$ (132,556)</u>	<u>19,290,763</u>
Less: Intracity Sales	(16,198)	(25,759)	(41,957)
Total	<u>\$ 19,407,121</u>	<u>\$ (158,315)</u>	<u>\$ 19,248,806</u>

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

Figure 4

	Tax Levy	Reimbursable
Intra-city Purchases	\$ 4,602	\$ 21,156
Executive & Adoption.....	(157,811)	(50,315)
November & January Plan Actions	(71,322)	75,644
School Food Programs.....	(22,088)	3,130
Year - end Closing Actions	(93,696)	36,661
GASB No. 49 – Pollution Remediation.....	121,483	-
Total Net Modifications.....	<u>\$ (218,832)</u>	<u>\$ 86,276</u>

The following schedule summarizes budget modifications for the year ended June 30, 2011 (\$000 omitted):

Figure 5

	Originally Adopted Budget	Net Modifications	Modified Budget
Tax Levy Programs.....	\$ 16,433,638	\$ 93,059	\$ 16,526,697
Reimbursable Programs	2,164,795	251,656	2,416,451
Sub Total.....	<u>18,598,433</u>	<u>344,715</u>	<u>18,943,148</u>
Less: Intracity Sales	(8,784)	(22,426)	(31,210)
Total	<u>\$ 18,589,649</u>	<u>\$ 322,289</u>	<u>\$ 18,911,938</u>

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

Figure 6

	Tax Levy	Reimbursable
Intra-city Purchases.....	\$ 19,014	\$ 3,413
City Council Actions.....	135	-
Executive & Adoption	25,990	56,639
July, Nov. & Feb. Plan Actions	(1,248)	199,314
Year – end Closing Actions	(67,110)	(23,311)
GASB No. 49 – Pollution Remediation	131,879	-
Transfer to Reimbursable.....	(15,601)	15,601
Total Net Modifications.....	<u>\$ 93,059</u>	<u>\$ 251,656</u>

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

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 \$250,000 in the aggregate by the FDIC for each bank for all funds. As the 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 1,701 accounts maintained at the school level, the DOE cannot determine the amounts that are insured or collateralized. The City's June 30, 2012 and June 30, 2011 General Fund bank balances, which includes the 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.

The 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.

C. Lease Commitments

The DOE leases various types of property and equipment. Total lease expenditures for the year ended June 30, 2012 and June 30, 2011, were approximately \$164 million and \$153 million, respectively. As of June 30, 2011, the 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
2013	\$ 121,967	\$ 34,527	\$ 87,440
2014	115,760	33,506	82,254
2015	114,206	33,483	80,723
2016	110,676	33,566	77,110
2017	107,042	30,525	76,517
2018-2022	412,547	133,279	279,268
2023-2027	240,333	67,577	172,756
2028-2032	120,672	32,715	87,957
2033-2037	85,291	17,729	67,562
2038-2042	39,884	9,490	30,394
2043-2050	21,383	-	21,383
Total minimum lease payments	<u>\$ 1,489,761</u>	<u>\$ 426,397</u>	<u>\$ 1,063,364</u>
Less imputed interest		(129,756)	
Present value of net minimum lease payments			<u>\$ 296,641</u>

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

D. Long-Term Liabilities

The long-term liabilities include capital leases entered into by the DOE as well as the 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 2012 and 2011 and funds have been appropriated for such payments.

Changes in the various components of the long-term liabilities for fiscal year 2012 are as follows (\$000 omitted):

Figure 8

	Balance		Balance		Due Within
	July 1, 2011	Additions	Deletions	June 30, 2012	One Year
Accrued Vacation and Sick Leave....	\$ 1,811,213	\$ 145,789	\$ (51,416)	\$ 1,905,586	\$ 51,416
Capital Lease Obligations.....	286,744	28,745	(18,848)	296,641	18,848
Accrued Judgments and Claims.....	779,445	146,820	(110,300)	815,965	184,926
Pollution Remediation.....	107,265	88,385	(121,483)	74,167	66,750
OPEB Obligations.....	27,151,197	1,849,538	(469,059)	28,531,676	-
TOTALS.....	\$ 30,135,864	\$ 2,259,277	\$ (771,106)	\$ 31,624,035	\$ 321,940

Changes in the various components of the long-term liabilities for fiscal year 2011 are as follows (\$000 omitted):

Figure 9

	Balance		Balance		Due Within
	July 1, 2010	Additions	Deletions	June 30, 2011	One Year
Accrued Vacation and Sick Leave..	\$ 1,842,213	\$ 16,106	\$ (47,106)	\$ 1,811,213	\$ 47,106
Capital Lease Obligations.....	190,440	113,821	(17,517)	286,744	17,517
Accrued Judgments and Claims....	333,311	498,624	(52,490)	779,445	186,609
Pollution Remediation.....	120,066	119,077	(131,878)	107,265	96,538
OPEB Obligations.....	24,264,152	3,322,773	(435,728)	27,151,197	-
TOTALS.....	\$ 26,750,182	\$ 4,070,401	\$ (684,719)	\$ 30,135,864	\$ 347,770

As described in Note 3F of the financial statements, SCA was created for the purpose of designing, constructing, reconstructing, improving, rehabilitating and repairing the New York City public schools. SCA has reported, and identified Pollution remediation costs as asbestos abatement, lead paint abatement, and soil contamination remediation project work performed at New York City Public Schools. Such costs were associated with capital assets of the DOE and, accordingly are recorded in the DOE financial statements.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

E. Pollution Remediation Obligations

The Pollution Remediation Obligations (PRO) at June 30, 2012 and June 30, 2011, summarized by obligating event and pollution type, respectively, are as follows:

Obligating Event

	Fiscal Year 2012		Fiscal Year 2011	
	Amount (000's)	Percentage	Amount (000's)	Percentage
Imminent endangerment.....	\$ -	0.0%	\$ 32,080	30.0%
Violation of pollution prevention-related permit or license.....	-	0.0%	3,007	3.0%
Named by regulator as a potentially responsible party.....	-	0.0%	3,007	3.0%
Voluntary commencement.....	<u>74,167</u>	<u>100.0%</u>	<u>69,171</u>	<u>64.0%</u>
Total.....	<u>\$ 74,167</u>	<u>100.0%</u>	<u>\$107,265</u>	<u>100.0%</u>

Pollution Type

<u>Pollution Type</u>	Amount (000's)	Percentage	Amount (000's)	Percentage
Asbestos removal	\$ 71,545	96.5%	\$ 97,679	91.0%
Lead paint removal	174	0.2%	522	0.5%
Soil remediation	2,448	3.3%	5,740	5.4%
Other.....	-	- %	3,324	3.1%
Total.....	<u>\$ 74,167</u>	<u>100.0%</u>	<u>\$107,265</u>	<u>100.0%</u>

There are no expected recoveries deemed not yet realized or realizable to reduce the liability. The PRO liability is derived from registered multi-year contracts which offset cumulative expenditures (liquidated/unliquidated) against original encumbered contractual amounts. The potential for changes to existing PRO estimates is recognized due to such factors as: additional remediation work arising during the remediation of an existing pollution project; remediation activities may find unanticipated site conditions resulting in necessary modifications to work plans; changes in methodology during the course of a project may cause cost estimates to change, e.g., the new ambient air quality standard for lead considered a drastic change will trigger the adoption of new/revised technologies for compliance purposes; and changes in the quantity which is paid based on actual field measured quantity for unit price items measured in cubic meters, linear meters, etc. Consequently, changes to original estimates are processed as change orders. Further, regarding pollution remediation liabilities that are not yet recognized because they are not reasonably estimable, the Law Department relates that we have approximately 18 cases involving hazardous substances, including spills from above and underground storage tanks, and other condemnation on, or caused by facilities on City-owned property. There are also four cases involving environmental review and land use, and one case involving polychlorinated biphenyls caulk in the public schools. Due to the uncertainty of the legal proceedings we cannot estimate a future liability.

F. Capital Assets

The 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 the DOE from private sources. Further, the reception of these assets could be at any of the many central the DOE offices or at one of the over 1,700 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 2012 can be reported, as follows (\$000's omitted):

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

Figure 10

CAPITAL ASSETS					
	Balance				Balance
	June 30, 2011	Additions	Transfers	Deletions	June 30, 2012
Capital Assets Not Being Depreciated:					
Land and Site Improvement	\$ 446,997	\$ 16	\$ -	\$ (20)	\$ 446,993
Construction In Progress.....	<u>2,825,717</u>	<u>1,433,213</u>	<u>(1,696,462)</u>	<u>-</u>	<u>2,562,468</u>
Total Capital Assets					
Not Being Depreciated.....	<u>3,272,714</u>	<u>1,433,229</u>	<u>(1,696,462)</u>	<u>(20)</u>	<u>3,009,461</u>
Capital Assets Being Depreciated:					
Building and Additions	28,393,523	29,979	1,696,462	(25,516)	30,094,448
Equipment (Including Software).....	<u>292,760</u>	<u>8,816</u>	<u>-</u>	<u>(10,923)</u>	<u>290,653</u>
Gross Balance Capital Assets.....	<u>28,686,283</u>	<u>38,795</u>	<u>1,696,462</u>	<u>(36,439)</u>	<u>30,385,101</u>
Less Accumulated Depreciation:					
Building and Additions	10,314,354	996,372	-	(4,453)	11,306,273
Equipment	<u>227,057</u>	<u>14,948</u>	<u>-</u>	<u>(10,923)</u>	<u>231,082</u>
Total Accumulated Depreciation	<u>10,541,411</u>	<u>1,011,320</u>	<u>-</u>	<u>(15,376)</u>	<u>11,537,355</u>
Net Capital Assets Being Depreciated	<u>18,144,872</u>	<u>(972,525)</u>	<u>1,696,462</u>	<u>(21,063)</u>	<u>18,847,746</u>
Total All Capital Assets	<u>\$ 21,417,586</u>	<u>\$ 460,704</u>	<u>\$ -</u>	<u>\$ (21,083)</u>	<u>\$ 21,857,207</u>

The overall changes substantial in the various classes of Capital Assets occurring during fiscal year 2011 can be reported, as follows (\$000's omitted):

Figure 11

CAPITAL ASSETS					
	Balance				Balance
	June 30, 2010	Additions	Transfers	Deletions	June 30, 2011
Capital Assets Not Being Depreciated:					
Land and Site Improvement	\$ 446,997	\$ -	\$ -	\$ -	\$ 446,997
Construction In Progress	<u>3,495,631</u>	<u>2,015,322</u>	<u>(2,685,236)</u>	<u>-</u>	<u>2,825,717</u>
Total Capital Assets					
Not Being Depreciated.....	<u>3,942,628</u>	<u>2,015,322</u>	<u>(2,685,236)</u>	<u>-</u>	<u>3,272,714</u>
Capital Assets Being Depreciated:					
Building and Additions	25,733,783	-	2,685,236	(25,496)	28,393,523
Equipment (Including Software).....	<u>285,104</u>	<u>7,849</u>	<u>-</u>	<u>(193)</u>	<u>292,760</u>
Gross Balance Capital Assets.....	<u>26,018,887</u>	<u>7,849</u>	<u>2,685,236</u>	<u>(25,689)</u>	<u>28,686,283</u>
Less Accumulated Depreciation:					
Building and Additions	9,532,525	807,325	-	(25,496)	10,314,354
Equipment (Including Software).....	<u>211,770</u>	<u>15,287</u>	<u>-</u>	<u>-</u>	<u>227,057</u>
Total Accumulated Depreciation.....	<u>9,744,295</u>	<u>822,612</u>	<u>-</u>	<u>(25,496)</u>	<u>10,541,411</u>
Net Capital Assets Being Depreciated.....	<u>16,274,592</u>	<u>(814,763)</u>	<u>2,685,236</u>	<u>(193)</u>	<u>18,144,872</u>
Total All Capital Assets	<u>\$ 20,217,220</u>	<u>\$ 1,200,559</u>	<u>\$ -</u>	<u>\$ (193)</u>	<u>\$ 21,417,586</u>

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

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 2010 through 2014 totaled \$11.01 billion.

Capital Expenditures made on behalf of the DOE amounted to \$1.4 billion and \$2 billion in fiscal year 2012 and 2011 respectively. Such expenditures were incurred by the SCA. Upon substantial completion of capital assets, the SCA transfers such assets to the DOE. In Fiscal Years 2012 and 2011, the SCA transferred \$1.7 billion and \$2.7 billion, respectively, in completed assets to the DOE. The SCA capital assets are an integral part of the DOE capital assets.

Included in land and buildings at June 30, 2012, are certain leased properties aggregating approximately \$406 million. Included in equipment are expenditures made from various units of appropriation in the General Fund. Included in Accumulated Depreciations - Buildings and Additions at June 30, 2012, was accumulated depreciation for leases of \$109 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 generally 25 to 50 years for new construction, 10 to 25 for betterments and/or reconstruction, and 5 to 15 years for equipment.

For Fiscal Year 2012, The City's Comprehensive Annual Financial Report identifies capital expenditures for education amounting to \$1.9 billion. The capital expenditures incurred by the SCA on behalf of the DOE totaled \$2.0 billion offset by GASB Statement No. 49 expenditures of \$121 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 the DOE to partially subsidize its operations. The amounts paid to FIT in Fiscal Year 2012 and 2011 were approximately \$45.4 million and \$45.6 million, respectively.

B. Pensions

Plan Description — On behalf of the DOE, The City sponsors or participates in pension systems providing benefits to the 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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

The majority of the 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 pedagogical employees in the public schools of The City and Charter Schools and certain other specified school employees of the DOE.
2. New York City Board of Education Retirement System-Qualified Pension Plan (BERS) is a cost sharing, multiple-employer public employee retirement system, for non-pedagogical employees of the DOE and Charter Schools and certain employees of the SCA.

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 is to contribute statutorily-required contributions (Statutory Contributions). Together with member contributions and investments income, these Statutory Contributions would ultimately be sufficient to pay benefits when due.

Statutory Contributions, determined by the Actuary in accordance with State statute and City laws are generally funded by the employers within the appropriate fiscal year.

Member contributions are established by law and vary by Plan. In general Tier I and Tier II member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tiers III and IV members make basic contributions of 3 percent of their salary regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000 these members, except for certain Transit Authority employees, are not required to make contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. Effective December, 2000, certain Transit Authority Tier III and Tier IV members make basic member contributions of 2.0 percent of their salary in accordance with Chapter 10 of the Laws of 2000. Certain members of NYCERS, BERS and TRS also make additional member contributions. Tier VI members who join between April 1, 2012 and March 31, 2013 contribute 3% of salary until a new contribution structure takes effect on April 1, 2013. Beginning April 1, 2013, Tier VI members contribute between 3.0% and 6.0% of salary, depending on salary level.

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, 2012, for all City pension systems was \$9 billion; \$2.9 billion for the two major DOE systems. The pension costs are not allocated to the 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 the DOE and charged to reimbursable program expenditures.

The annual pension costs for Fiscal Years ended June 30, 2012, 2011 and 2010 were as follows:

Figure 12

Annual Pension Costs
(In millions)

	2012	2011	2010
TRS.....	\$ 2,673	\$ 2,469	\$ 2,484
BERS	214	180	147
Total Pension Costs.....	<u>\$ 2,887</u>	<u>\$ 2,649</u>	<u>\$ 2,631</u>

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2012

C. Other Post-Employment Benefits

Program Description: The New York City Health Benefits Program (Program) is a single-employer defined benefit healthcare plan funded by the New York City Retiree Health Benefits (PLAN), an Other Employee Benefit Trust Fund of the City, which provides Other Postemployment Benefits (OPEB) to eligible retirees and beneficiaries.

OPEB includes: health insurance, Medicare Premium Part B reimbursements, and welfare fund contributions. PLAN issues a publicly available financial report that includes financial statements and required supplementary information for funding PLAN's OPEB and the report is available at: Office of the Comptroller, Bureau of Accountancy—Room 200 South, 1 Centre Street, New York, New York 10007.

Annual OPEB Cost and Net OPEB Obligations: The City's annual OPEB cost (expenses) is calculated based on the annual required contribution of the employer, an amount that was actuarially determined by using the Frozen Entry Age Actuarial Cost Method. For Fiscal Year 2012, the annual OPEB required contribution for The City was determined to be \$89.6 billion of which the City contributed \$1.4 billion to the PLAN. The Net OPEB Obligation, after City Contributions, was \$88 billion. For the DOE, the allocated Net OPEB obligation for Fiscal Year 2012 was \$2.9 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 (\$27.2 billion), was also included as a long term liability in the Statement of Net Assets (\$28.5 billion).

D. Contingencies

As explained in Note 1, the DOE is fiscally dependent upon The City. Accordingly, the 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 — The 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 the DOE arising out of alleged torts, breaches of contracts and violations of law.

In 1996, a class action was brought against the City and the State under Title VII of the Civil Rights Act of 1964 alleging that the use by the City Board of Education of two teacher certification examinations mandated by the State had a disparate impact on minority candidates. The lower court dismissed the case. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the lower court's ruling, dismissed the claims against the State, and remanded the matter for further proceedings. The trial court on remand has received extensive briefing from the parties on the issue of City liability. The State has advised the City that there are approximately 3,500 members of the class and has calculated potential damages, based on the difference in salary between a certified public school teaching position and an uncertified parochial or private school teaching position, of approximately \$455 million.

A lawsuit has been brought against the City in the United States District Court for the Southern District of New York by School Safety Agents alleging violation of the Federal Equal Pay Act, Title VII of the Civil Rights Act of 1964 and provisions of State law. Plaintiffs claim that School Safety Agents (who are predominantly female) earn less pay than Special Officers (who are predominantly male) although both jobs require substantially equal skill, effort and responsibility. The case has been certified as a class action. Although the case was commenced by three named plaintiffs in 2010, approximately 4,900 plaintiffs have recently opted into the lawsuit. Plaintiffs seek injunctive relief and damages. If plaintiffs were to ultimately prevail, the City could be subject to substantial liability.

Department of Education of The City of New York

Notes to the Financial Statements

June 30, 2012

(2) Other Contingencies — The 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.

* * * * *

Department of Education of The City of New York
Supplemental Financial Schedules of the General Fund
June 30, 2012

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 2006 through Fiscal Year 2012, as of June 30, 2012. 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).

Department of Education of The City of New York
General Fund
Schedule of Aged Receivables
As of June 30, 2012
With Comparative Totals to June 30, 2011
(*\$000 Omitted*)

	<u>Federal Grants Categorical</u>	<u>State Aid and Categorical Grants</u>	<u>Non-Governmental Grants</u>	<u>Total Receivables As of June 30, 2012</u>	<u>Comparative Total, as of June 30, 2011</u>
Fiscal Year 2012	\$ 514,522	\$ 1,265,683	\$ 16,880	\$ 1,797,085	\$ -
Fiscal Year 2011	19,608	285,355	189	305,152	2,029,118
Fiscal Year 2010	-	171,135	870	172,005	303,227
Fiscal Year 2009	-	105,116	9,488	114,604	193,527
Fiscal Year 2008	-	88,919	-	88,919	156,011
Fiscal Year 2007	-	-	-	-	57,961
Fiscal Year 2006	-	-	-	-	118
Total Receivables:	\$ 534,130	\$ 1,916,208	\$ 27,427	\$ 2,477,765	\$ 2,739,962

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2012

<u>UOA</u>	Modified Budget	Expenditures	Favorable (Unfavorable)
<u>GENERAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
401 Salaries	\$ 5,505,616,277	\$ 5,505,616,276	\$ 1
402 Supplies	99,427,391	102,659,713	(3,232,322)
402 Furniture and Equipment	60,860,826	60,921,741	(60,915)
402 Textbooks	103,257,230	93,114,930	10,142,300
402 Contractual Services	<u>246,699,107</u>	<u>253,548,173</u>	(6,849,066)
TOTAL	6,015,860,831	6,015,860,833	(2)
<u>SPECIAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
403 Salaries	1,138,050,860	1,178,383,519	(40,332,659)
404 Supplies	3,465,338	884,215	2,581,123
404 Furniture and Equipment	434,483	1,064,273	(629,790)
404 Textbooks	347,020	4,983	342,037
404 Contractual Services	<u>2,578,166</u>	<u>922,694</u>	1,655,472
TOTAL	1,144,875,867	1,181,259,684	(36,383,817)
<u>SCHOOL SUPPORT ORGANIZATION</u>			
415 Salaries	130,761,938	141,179,214	(10,417,276)
416 Supplies	5,196,391	2,810,600	2,385,791
416 Furniture and Equipment	665,499	918,159	(252,660)
416 Textbooks	142,426	839	141,587
416 Contractual Services	<u>7,747,384</u>	<u>8,864,138</u>	(1,116,754)
TOTAL	144,513,638	153,772,950	(9,259,312)
<u>CITYWIDE EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
421 Salaries	773,354,664	742,797,864	30,556,800
422 Supplies	7,404,670	5,262,387	2,142,283
422 Furniture and Equipment	4,234,079	4,409,325	(175,246)
422 Textbooks	2,256,218	1,101,358	1,154,860
422 Contractual Services	<u>9,520,123</u>	<u>6,021,608</u>	3,498,515
TOTAL	796,769,754	759,592,542	37,177,212
<u>SPECIAL EDUCATION INSTRUCTIONAL SUPPORT</u>			
423 Salaries	234,874,098	234,874,098	-
424 Supplies	616,664	915,139	(298,475)
424 Furniture and Equipment	762,913	792,611	(29,698)
424 Textbooks	500	6,993	(6,493)
424 Contractual Services	<u>308,674,453</u>	<u>289,671,074</u>	19,003,379
TOTAL	544,928,628	526,259,915	18,668,713
<u>SCHOOL FACILITIES</u>			
435 Salaries	391,293,249	391,293,248	1
436 Supplies	24,739,148	25,205,954	(466,806)
436 Furniture and Equipment	1,168,323	534,972	633,351
436 Pollution remediation	121,483,315	121,483,315	-
436 Contractual Services	<u>196,200,702</u>	<u>196,367,237</u>	(166,535)
TOTAL	734,884,737	734,884,726	11

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2012

<u>UOA</u>	Modified Budget	Expenditures	Favorable (Unfavorable)
<u>PUPIL TRANSPORTATION</u>			
438 Supplies	\$ 5,922,057	\$ 5,922,056	\$ 1
438 Equipment	1,751,491	73,340	1,678,151
438 Contractual Services	44,755,082	57,172,583	(12,417,501)
438 Pupil Transportation	<u>1,021,268,353</u>	<u>1,010,529,004</u>	<u>10,739,349</u>
TOTAL	1,073,696,983	1,073,696,983	-
<u>SCHOOL FOOD SERVICES</u>			
439 Salaries	199,247,009	199,247,009	-
440 Supplies	21,296,886	21,296,885	1
440 Food Purchases	138,341,198	138,235,220	105,978
440 Furniture and Equipment	4,747,230	4,747,230	-
440 Contractual Services	<u>25,928,916</u>	<u>25,928,918</u>	<u>(2)</u>
TOTAL	389,561,239	389,455,262	105,977
442 SCHOOL SAFETY	302,021,227	298,111,347	3,909,880
444 ENERGY AND LEASES	465,683,879	456,960,794	8,723,085
<u>CENTRAL ADMINISTRATION</u>			
453 Salaries	146,526,470	142,211,609	4,314,861
454 Supplies	18,089,220	15,907,737	2,181,483
454 Furniture and Equipment	4,421,276	4,526,934	(105,658)
454 Judgments and Claims	121,217	482,733	(361,516)
454 Contractual Services	133,784,696	135,516,315	(1,731,619)
454 Fixed Charges	<u>225,858</u>	<u>45,550</u>	<u>180,308</u>
TOTAL	303,168,737	298,690,878	4,477,859
461 FRINGE BENEFITS	2,701,352,051	2,701,352,051	-
470 PRE-KINDERGARTEN CONTRACTS	1,039,464,698	1,008,569,843	30,894,855
472 CHARTER/CONTRACT SCHOOLS AND FOSTER CARE	1,436,920,220	1,421,509,081	15,411,139
474 NON-PUBLIC SCHOOLS AND FIT PAYMENTS	71,124,053	71,124,052	1
491 COLLECTIVE BARGAINING	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL TAX LEVY	<u>\$ 17,164,826,542</u>	<u>\$ 17,091,100,941</u>	<u>\$ 73,725,601</u>
<u>CATEGORICAL PROGRAMS</u>			
481 Salaries	\$ 1,248,577,432	\$ 1,282,529,531	\$ (33,952,099)
482 Supplies	223,121,174	127,395,111	95,726,063
482 Furniture and Equipment	48,937,783	17,779,034	31,158,749
482 Pension	178,518,881	178,518,880	1
482 Contractual Services	<u>426,779,412</u>	<u>585,932,397</u>	<u>(159,152,985)</u>
TOTAL CATEGORICAL PROGRAMS	<u>\$ 2,125,934,682</u>	<u>\$ 2,192,154,953</u>	<u>\$ (66,220,271)</u>

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2012

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
TOTAL APPROPRIATIONS EXPENDED	\$ 19,290,761,224	\$ 19,283,255,894	\$ 7,505,330
Intra-City Sales	(41,955,219)	(41,842,626)	(112,593)
Sub-Total	19,248,806,005	19,241,413,268	7,392,737
Net Change in Prior Payables	-	(112,329,154)	112,329,154
Total Expenditures	19,248,806,005	19,129,084,114	119,721,891
Other Financing Uses -			
Transfer to The City of New York	-	112,329,154	(112,329,154)
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 19,248,806,005</u>	<u>\$ 19,241,413,268</u>	<u>\$ 7,392,737</u>

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2011

<u>UOA</u>	Modified Budget	Expenditures	Favorable (Unfavorable)
<u>GENERAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
401 Salaries	\$ 5,395,112,381	\$ 5,395,112,392	\$ (11)
402 Supplies	183,755,923	140,755,583	43,000,340
402 Furniture and Equipment	44,243,279	82,250,955	(38,007,676)
402 Textbooks	115,182,058	96,079,375	19,102,683
402 Contractual Services	<u>268,013,679</u>	<u>292,109,026</u>	<u>(24,095,347)</u>
TOTAL	6,006,307,320	6,006,307,331	(11)
<u>SPECIAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
403 Salaries	1,048,630,507	1,046,359,890	2,270,617
404 Supplies	1,960,638	778,189	1,182,449
404 Furniture and Equipment	434,483	1,213,678	(779,195)
404 Textbooks	347,020	37,422	309,598
404 Contractual Services	<u>578,166</u>	<u>769,665</u>	<u>(191,499)</u>
TOTAL	1,051,950,814	1,049,158,844	2,791,970
<u>SCHOOL SUPPORT ORGANIZATION</u>			
415 Salaries	120,858,898	120,836,194	22,704
416 Supplies	6,648,477	3,154,230	3,494,247
416 Furniture and Equipment	1,043,294	1,837,327	(794,033)
416 Textbooks	142,426	-	142,426
416 Contractual Services	<u>5,249,539</u>	<u>8,092,178</u>	<u>(2,842,639)</u>
TOTAL	133,942,634	133,919,929	22,705
<u>CITYWIDE EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
421 Salaries	752,292,438	752,292,354	84
422 Supplies	5,552,149	6,215,747	(663,598)
422 Furniture and Equipment	4,975,013	5,049,287	(74,274)
422 Textbooks	2,149,995	1,283,261	866,734
422 Contractual Services	<u>7,667,179</u>	<u>6,313,207</u>	<u>1,353,972</u>
TOTAL	772,636,774	771,153,856	1,482,918
<u>SPECIAL EDUCATION INSTRUCTIONAL SUPPORT</u>			
423 Salaries	237,753,275	237,753,274	1
424 Supplies	619,399	1,004,829	(385,430)
424 Furniture and Equipment	762,913	535,118	227,795
424 Textbooks	500	-	500
424 Contractual Services	<u>270,735,685</u>	<u>270,578,549</u>	<u>157,136</u>
TOTAL	509,871,772	509,871,770	2
<u>SCHOOL FACILITIES</u>			
435 Salaries	417,813,565	414,769,560	3,044,005
436 Supplies	35,137,025	29,334,099	5,802,926
436 Furniture and Equipment	606,566	435,211	171,355
436 Pollution remediation	131,878,998	131,878,998	-
436 Contractual Services	<u>173,824,984</u>	<u>187,278,843</u>	<u>(13,453,859)</u>
TOTAL	759,261,138	763,696,711	(4,435,573)

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2011

<u>UOA</u>	Modified Budget	Expenditures	Favorable (Unfavorable)
<u>PUPIL TRANSPORTATION</u>			
438 Supplies	\$ 11,122,577	\$ 7,263,960	\$ 3,858,617
438 Equipment	1,928,999	773,160	1,155,839
438 Contractual Services	3,886,500	2,552,248	1,334,252
438 Pupil Transportation	<u>1,000,280,689</u>	<u>1,006,629,397</u>	<u>(6,348,708)</u>
TOTAL	1,017,218,765	1,017,218,765	-
<u>SCHOOL FOOD SERVICES</u>			
439 Salaries	199,748,594	199,748,594	-
440 Supplies	13,154,094	14,554,100	(1,400,006)
440 Food Purchases	141,269,775	136,480,277	4,789,498
440 Furniture and Equipment	1,730,245	3,861,492	(2,131,247)
440 Contractual Services	<u>24,087,588</u>	<u>25,345,832</u>	<u>(1,258,244)</u>
TOTAL	379,990,296	379,990,295	1
442 SCHOOL SAFETY	298,021,484	297,900,228	121,256
444 ENERGY AND LEASES	484,234,713	468,566,930	15,667,783
<u>CENTRAL ADMINISTRATION</u>			
453 Salaries	167,625,150	167,625,150	-
454 Supplies	27,339,661	15,055,908	12,283,753
454 Furniture and Equipment	9,854,082	10,706,016	(851,934)
454 Judgments and Claims	460,822	1,306,435	(845,613)
454 Contractual Services	132,187,801	139,611,411	(7,423,610)
454 Fixed Charges	<u>240,995</u>	<u>121,797</u>	<u>119,198</u>
TOTAL	337,708,511	334,426,717	3,281,794
461 FRINGE BENEFITS	2,588,724,711	2,588,266,354	458,357
470 PRE-KINDERGARTEN CONTRACTS	943,635,023	943,426,079	208,944
472 CHARTER/CONTRACT SCHOOLS AND FOSTER CARE	1,161,575,664	1,161,575,663	1
474 NON-PUBLIC SCHOOLS AND FIT PAYMENTS	69,307,820	69,307,819	1
491 COLLECTIVE BARGAINING	<u>12,309,112</u>	<u>12,309,112</u>	<u>-</u>
TOTAL TAX LEVY	\$ 16,526,696,551	\$ 16,507,096,403	\$ 19,600,148
<u>CATEGORICAL PROGRAMS</u>			
481 Salaries	\$ 1,527,124,722	\$ 1,535,244,242	\$ (8,119,520)
482 Supplies	188,716,487	132,818,750	55,897,737
482 Furniture and Equipment	48,705,400	17,567,967	31,137,433
482 Pension	178,766,910	178,834,516	(67,606)
482 Contractual Services	<u>473,137,387</u>	<u>567,337,199</u>	<u>(94,199,812)</u>
TOTAL CATEGORICAL PROGRAMS	\$ 2,416,450,906	\$ 2,431,802,674	\$ (15,351,768)

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2011

	Modified Budget	Expenditures	Favorable (Unfavorable)
TOTAL APPROPRIATIONS EXPENDED	\$ 18,943,147,457	\$ 18,938,899,077	\$ 4,248,380
Intra-City Sales	(31,209,543)	(31,040,277)	(169,266)
Sub-Total	18,911,937,914	18,907,858,800	4,079,114
Net Change in Prior Payables	-	(45,623,968)	45,623,968
Total Expenditures	18,911,937,914	18,862,234,832	49,703,082
Other Financing Uses -			
Transfer to The City of New York	-	45,623,968	(45,623,968)
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 18,911,937,914</u>	<u>\$ 18,907,858,800</u>	<u>\$ 4,079,114</u>

Department of Education of The City of New York
Annual Financial Statements
For the Fiscal Years Ended June 30, 2012 and 2011

GLOSSARY

BERS.....	Board of Education Retirement System
CFN.....	Children First Network
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 Post Employment 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
UOA.....	Unit of Appropriation

(This Page Intentionally Left Blank)