

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, 2010



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

ANNUAL FINANCIAL STATEMENTS

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

For the Fiscal Year Ended June 30, 2010



Prepared by the Division of Financial Operations

Judith Hederman, *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, 2010 and 2009**

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, 2010.....	14
Statement of Net Assets (Deficit) - As of June 30, 2009.....	15
Statement of Activities - For the Year Ended June 30, 2010.....	16
Statement of Activities - For the Year Ended June 30, 2009.....	17
Fund Financial Statements:	
Balance Sheet - As of June 30, 2010.....	18
Balance Sheet - As of June 30, 2009.....	19
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) - As of June 30, 2010.....	20
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) - As of June 30, 2009.....	21
Statement of Revenues, Expenditures and Changes in Fund Balance - For the Year Ended June 30, 2010.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance - For the Year Ended June 30, 2009.....	23
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities - For the Year Ended June 30, 2010.....	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities - For the Year Ended June 30, 2009.....	25
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund - For the Year Ended June 30, 2010...	26
Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - General Fund - For the Year Ended June 30, 2009...	27
Statement of Fiduciary Net Assets - As of June 30, 2010.....	28
Statement of Fiduciary Net Assets - As of June 30, 2009.....	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, 2010 and 2009**

TABLE OF CONTENTS (Con't)

	<u>Page</u>
Supplemental Financial Schedules of the General Fund:.....	47
Schedule of Aged Receivables as of June 30, 2010 with Comparative Totals to June 30, 2009.....	48
Schedule of Budgeted and Actual Expenditures - For the Year Ended June 30, 2010.....	49
Schedule of Budgeted and Actual Expenditures - For the Year Ended June 30, 2009.....	52
Glossary.....	55

ANNUAL FINANCIAL STATEMENTS

Department of Education of The City of New York

For the Fiscal Year Ended June 30, 2010

I Introductory Section

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

October 31, 2010

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, 2010**

The Annual Financial Statements for the Department of Education of The City of New York (the "DOE") for the fiscal year ended June 30, 2010 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 for the Office of Infrastructure and Portfolio Planning, The Chief Operating Officer, and the Executive Director of the Division of Financial Operations. 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 2010 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.

The DOE is organized and administered in accordance with the provisions of the State of New York Education Law and consists of five Integrated Service Centers (ISC) and four Children First Networks (CFN) across The City of New York (The City). Each geographic ISC includes approximately three hundred and five schools. Each ISC contains up to six community school districts, as well as high schools located within its geographic boundaries. The primary goal of the ISCs and CFNs is to provide support services to the schools in the areas of business, operations and special education. In partnership with School Support Organization (SSOs), school communities are able to focus more energy to providing the highest quality educational services to City school students. ISC professional staff members work directly with principals to ensure that the services provided are effectively delivered to the schools.

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 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. According to the citywide initiative this fiscal year, DOE integrated with FMS. 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.

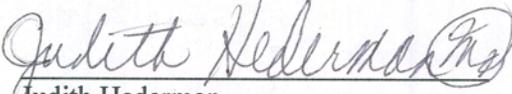
Management of the DOE is responsible for establishing and maintaining an internal control structure. In developing and evaluating the DOE's accounting system, consideration is given to the adequacy of internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance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

 
Sharon Greenberger
Chief Operating Officer

 
Judith Hederman
Executive Director
Division of Financial Operations

ANNUAL FINANCIAL STATEMENTS

Department of Education of The City of New York

For the Fiscal Year Ended June 30, 2010

II Financial Section

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INDEPENDENT AUDITORS' REPORT

The Department of Education
of The City of New York

We have audited the accompanying financial statements of the governmental activities, 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, 2010 and 2009, 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, 2010 and 2009, 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.

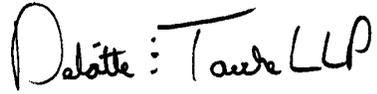
In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major governmental fund, and the aggregate remaining fund information of the DOE, as of June 30, 2010 and 2009, and the respective changes in financial position thereof, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, in 2010, the DOE adopted Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

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 27, 2010, 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.

A handwritten signature in black ink that reads "Deloitte : Touche LLP". The signature is written in a cursive, flowing style.

October 27, 2010

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, 2010, and have issued our report thereon dated October 27, 2010, which contains an explanatory paragraph regarding the adoption of Governmental Accounting Standards Board Statement ("GASB") No. 51, *Accounting and Financial Reporting for Intangible Assets*. 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, 2010, 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

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.

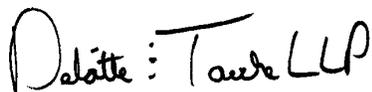
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 27, 2010.

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 27, 2010

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, 2010 and 2009. 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, 2010 was \$6.5 billion, a change in net assets of \$797 million over that of fiscal year 2009.

Net deficit at June 30, 2009 was \$5.7 billion, a change in net assets of \$1.1 billion over that of fiscal year 2008.

- Total assets and liabilities reported in the governmental funds at June 30, 2010 were \$3.3 billion, an increase of about \$404 million from that of fiscal year 2009.

Total assets and liabilities reported in the governmental funds at June 30, 2009 were \$2.9 billion, an increase of about \$34 million from fiscal year 2008.

- General Fund total revenues available and spent during fiscal year 2010 were \$18.4 billion, an increase of 3.3 percent over that of fiscal year 2009.

General Fund total revenues available and spent during fiscal year 2009 were \$18 billion, an increase of 5.5 percent over that of fiscal year 2008.

- In fiscal year 2010 a net surplus of \$60.1 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 2009 a net surplus of \$114.7 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 short-term and long-term information 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	Generally, asset usage and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long- term
Type of inflow/out flow 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, school-selected internal and external instructional support and Integrated Service Center operational support and CFN); 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.

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

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

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 2010, total liabilities of the DOE exceeded total assets by \$6.5 billion, a change in net assets of \$797 million from that at the close of Fiscal Year 2009. Net deficits, as of June 30, 2010, June 30, 2009 and June 30, 2008 are summarized below for all governmental activities.

At the close of Fiscal Year 2009, total liabilities of the DOE exceeded total assets by \$5.7 billion, a change in net assets of \$1.1 billion from that at the close of Fiscal Year 2008.

Figure 1

	Governmental Activities (000's)		
	<u>FY2010</u>	<u>FY2009</u>	<u>FY2008</u>
Current and Other Assets	\$ 3,296,170	\$ 2,894,284	\$ 2,861,383
Capital Assets	<u>20,217,220</u>	<u>17,923,698</u>	<u>15,784,420</u>
Total Assets	<u>\$ 23,513,390</u>	<u>\$ 20,817,982</u>	<u>\$ 18,645,803</u>
Long-Term Liabilities	\$ 26,496,579	\$ 23,387,219	\$ 22,525,081
Other Liabilities	<u>3,542,872</u>	<u>3,159,448</u>	<u>2,967,664</u>
Total Liabilities	<u>30,039,451</u>	<u>26,546,667</u>	<u>25,492,745</u>
Net Assets:			
Investment in Capital Assets, net of Related Debt	20,217,220	17,923,698	15,784,420
Unrestricted Deficit	<u>(26,743,281)</u>	<u>(23,652,383)</u>	<u>(22,631,362)</u>
Total Net Assets (Deficit)	<u>\$ (6,526,061)</u>	<u>\$ (5,728,685)</u>	<u>\$ (6,846,942)</u>

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

In Fiscal Year 2010, assets increased almost \$2.7 billion from \$20.8 billion as of June 30, 2009 to \$23.5 billion as of June 30, 2010 primarily due to the increase of the net value of capital assets of \$2.3 billion. Capital assets were increased due to buildings transferred from the School Construction Authority (SCA) for the DOE's use, \$3.5 billion and offset by increases in net depreciation expense of \$94.5 million. The amounts due from The City decreased by (\$401 million). This account is affected primarily by increases in accounts payable and accounts receivables because of The DOE's dependent fiscal relationship with The City.

In Fiscal Year 2009, assets increased almost \$2.2 billion from \$18.6 billion as of June 30, 2008 to \$20.8 billion as of June 30, 2009 primarily due to the increase of the net value of capital assets of \$2.1 billion. Capital assets were increased due to buildings transferred from the School Construction Authority (SCA) for the DOE use of \$1.7 billion and net increases in Construction in Progress of \$1.2 billion, offset by increases in net depreciation expense of \$71.1 million. The amounts due from The City decreased by (\$37 million). This account is affected primarily by increases in accounts payable and accounts receivables because of the DOE's dependent fiscal relationship with The City.

In Fiscal Year 2010, liabilities increased about \$3.5 billion from \$26.5 billion as of June 30, 2009 to \$30.0 billion as of June 30, 2010, primarily due to increases in the estimate of Other Postemployment Benefits (OPEB) liabilities of \$3.1 billion. Additionally, there were increases in the Accounts Payable and Accrued Expenditures of \$423 million and the liabilities for Accrued Vacation and Sick Leave \$48 million, Capital Lease Obligations \$27 million and Accrued Judgments and Claims \$16 million.

In Fiscal Year 2009, liabilities increased about \$1 billion from \$25.5 billion as of June 30, 2008 to \$26.5 billion as of June 30, 2009, primarily due to increases in the estimate of Other Postemployment Benefits (OPEB) liabilities of \$729 million. Additionally, there were increases in the Accounts Payable and Accrued Expenditures \$21 million, Deferred Revenue \$13 million, and the liabilities for Accrued Vacation and Sick Leave \$124 million, Capital Lease Obligations (\$13 million), and Accrued Judgments and Claims (\$29 million).

In Fiscal Year 2010, total Accounts Receivable increased by \$802 million due to increases in state of about \$315 million and decrease in Non-Government Receivables about \$14 million and a increase in Federal Receivables \$501 million. There were also increases in Cash \$3.2 million and Inventories decreased by \$1.9 million.

In Fiscal Year 2009, total Accounts Receivable increased by \$67 million due to increases in state of about \$116 million and Non-Government receivables of about \$28 million and a decrease in Federal Receivables \$77 million. There were also increases in Cash \$5 million and Inventories decreased by \$1.4 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 2010, The DOE's net deficit increased by \$797.3 million from July 1, 2009 to June 30, 2010 and in fiscal 2009, The DOE's net deficit decreased by \$1.1 billion from July 1, 2008 to June 30, 2009. The key elements of these changes are as follows:

Figure 2

	Governmental Activities (000's Omitted)		
	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>
<u>Revenues</u>			
<u>Program Revenues:</u>			
Charges for Services.	\$ 72,892	\$ 65,381	\$ 74,412
Operating Grants and Contributions.	11,276,517	10,610,110	9,938,824
<u>General Revenues:</u>			
City Funded.	7,122,517	7,213,437	6,952,590
Other	<u>27,212</u>	<u>14,134</u>	<u>16,252</u>
Total Revenues	<u>18,499,138</u>	<u>17,903,062</u>	<u>16,982,078</u>
<u>Expenses</u>			
School Leadership, Instruction and Special Education Support . . .	16,108,646	14,124,538	14,534,690
School Support Services.	3,354,157	3,043,183	2,887,722
School Support Organization.	411,981	352,850	375,524
Central Administration.	475,664	450,258	496,918
Non-Public Schools.	<u>1,901,515</u>	<u>1,565,041</u>	<u>1,333,966</u>
Total Expenses.	<u>22,251,963</u>	<u>19,535,870</u>	<u>19,628,820</u>
Net Revenue (Expenses)	(3,752,825)	(1,632,808)	(2,646,742)
Net Change in Capital Assets and Inventory.	<u>2,955,449</u>	<u>2,896,817</u>	<u>2,376,846</u>
Change in Net Assets (Deficit)	(797,376)	1,264,009	(269,896)
Net Assets (Deficit)—Beginning	(5,728,685)	(6,846,942)	(6,577,046)
Restatement of Beginning Balance	<u>-</u>	<u>(145,752)</u>	<u>-</u>
Net Assets (Deficit)—Ending.	<u>\$ (6,526,061)</u>	<u>\$ (5,728,685)</u>	<u>\$ (6,846,942)</u>

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

In Fiscal Year 2010, the DOE received \$1.22 billion as a result of the American Recovery and Reinvestment Act (ARRA) of 2009 which resulted in an increase of Federal program revenues of 71 percent from \$1.73 billion in Fiscal Year 2009 to \$2.95 billion in Fiscal Year 2010. However, State program revenues decreased 6.6 percent from \$8.7 billion to \$8.1 billion.

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 2010, the full accrual expenses include \$18.5 billion of modified accrual expenses and over \$3.7 billion of additional expenses incurred by The City to report a full accrual expense of \$22.3 billion, an increase of 13.9 percent, or \$2.7 billion from Fiscal Year 2009. In Fiscal Year 2009, the full accrual expenses include \$17.9 billion of modified accrual expenses and over \$1.6 billion of additional expenses incurred by The City to report a full accrual expense of \$19.5 billion, a decrease of 0.5 percent, or \$93 million from Fiscal Year 2008.

In Fiscal Year 2010, the category of School Leadership, Instruction and Special Education Support increased about 14 percent from \$14.1 billion in Fiscal Year 2009 to \$16.1 billion in Fiscal Year 2010; contractual services, supplies and equipment. School Support Services increased 10.2 percent or \$311 million in Fiscal Year 2010 due to costs of the allocation of OPEB expenses \$187 million, energy and consumer price index increases to the school bus contracts. Central Administration increased by 5.6 percent or \$25 million, primarily due to contractual services and fixed charges. Non-Public Schools had increases of \$336 million resulting from increases in charter school expenditures, tuition for pre-K and school age special education and in Pre-K transportation.

In Fiscal Year 2009, the category of School Leadership, Instruction and Special Education Support decreased about 3 percent from \$14.5 billion in Fiscal Year 2008 to \$14.1 billion in Fiscal Year 2009; this decrease is due to negotiated union contracts, contractual services, supplies and equipment. School Support Services increased 5.4 percent or \$155 million in Fiscal Year 2009 due to costs of the allocation of OPEB expenses \$51 million, energy and consumer price index increases to the school bus contracts. Central Administration decreased by 9.4 percent, or \$47 million, primarily due to contractual services and fixed charges. Non-Public Schools had increases of \$231 million resulting from increases in charter school expenditures, tuition for pre-K and school age special education, and in Pre-K transportation.

The increase in net deficit in each Fiscal Year was primarily the result of the transfer of completed capital assets from the SCA to the DOE of \$3.5 billion in Fiscal Year 2010, \$1.7 billion in Fiscal Year 2009 and \$1.4 billion in Fiscal Year 2008.

**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 \$404 million (14.1 percent) for fiscal year 2010 compared to fiscal year 2009 where assets and liabilities increased \$34 million (1.2 percent) as follows:

Figure 3

Condensed Balance Sheet (in millions of dollars)

	Governmental Activities			<u>Amount Change</u>		<u>Percentage Change</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>	<u>2009- 2010</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2008-2009</u>
Assets							
General Fund.	\$ 3,289	\$ 2,885	\$ 2,846	\$ 404	\$ 39	14.1%	1.4%
Capital Projects Fund.....	-	-	5	-	(5)	-	(100)%
Total Assets	<u>\$ 3,289</u>	<u>\$ 2,885</u>	<u>\$ 2,851</u>	<u>\$ 404</u>	<u>\$ 34</u>	<u>14.1%</u>	<u>1.2%</u>
Liabilities							
General Fund.	\$ 3,289	\$ 2,885	\$ 2,846	\$ 404	\$ 39	14.1%	1.4 %
Capital Projects Fund	-	-	5	-	(5)	-	(100)%
Total Liabilities	<u>\$ 3,289</u>	<u>\$ 2,885</u>	<u>\$ 2,851</u>	<u>\$ 404</u>	<u>\$ 34</u>	<u>14.1%</u>	<u>1.2%</u>

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

Changes in Total Assets for fiscal Year 2010: First, there was a net decrease of \$402 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 \$3.2 million; an increase in the accounts receivable from federal sources of \$501 million; and increases in state of \$315 million; and a decrease in non-governmental sources (\$14 million).

Changes in Total Assets for fiscal year 2009: First, there was a net increase of \$37 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 \$5 million; a decrease in the accounts receivable from federal sources (\$77 million); and increases in state of \$116 million; and non-governmental sources of \$28 million.

Changes in Total Liabilities for fiscal year 2010: Governmental fund liabilities increased \$404 million due to increases of almost \$422 million in accounts payable in the General Fund and an increase in the Capital Projects Fund of \$.6 million. Also, there was a decrease of (\$19 million) in the balance of the deferred revenue in the General Fund.

Changes in Total Liabilities for fiscal year 2009: Governmental fund liabilities increased \$34 million because of increases of almost \$21 million in accounts payable in the General Fund \$26 million and the decrease in the Capital Projects Fund (\$5 million). Also, there was an increase of \$13 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 2010 total revenues and expenditures increased \$595 million, 3.3 percent, compared to June 30, 2009. Total revenues and expenditures increased \$926 million, 5.5 percent, for the year ended June 30, 2009 compared to June 30, 2008.

Figure 4

Changes in Revenue and Expenditures (in millions of dollars)

	<u>General Funds</u>			<u>Percentage Change 2009-2010</u>	<u>Percentage Change 2008-2009</u>
	<u>FY2010</u>	<u>FY2009</u>	<u>FY2008</u>		
<u>Revenues</u>					
Federal Aid.	\$ 2,953.7	\$ 1,729.7	\$ 1,787.3	70.1%	(3.2%)
State Aid.	8,079.6	8,654.4	8,066.8	(6.7%)	7.3%
Funding by The City	7,149.1	7,227.6	6,963.8	(1.1%)	3.8%
Other.	<u>316.1</u>	<u>291.4</u>	<u>159.1</u>	8.5%	83.2%
Total Revenues	<u>\$ 18,498.5</u>	<u>\$ 17,903.1</u>	<u>\$ 16,977.0</u>	3.2%	5.5%
<u>Expenditures</u>					
School Leadership, Instruction and Special Education Support	\$ 12,824.3	\$ 12,753.6	\$ 12,240.2	0.6%	4.2%
School Support Services.	3,045.4	2,851.5	2,646.1	6.8%	7.8%
School Support Organization	325.1	318.2	316.3	2.1%	1.0%
Central Administration.	402.2	414.7	440.4	(3.1%)	(5.8%)
Non-Public Schools	<u>1,901.5</u>	<u>1,565.1</u>	<u>1,334.0</u>	21.5%	17.3%
Total Expenditures	<u>\$ 18,498.5</u>	<u>\$ 17,903.1</u>	<u>\$ 16,977.0</u>	3.2%	5.5%

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 2010, the overall Federal program revenues increased 70.1 percent from \$1.73 billion in Fiscal Year 2009 to \$2.9 billion in Fiscal Year 2010, State program revenues decreased (6.7 percent) from \$8.7 billion in 2009 to \$8.1 billion in 2010, and City revenues decreased (1.1 percent) from \$7.23 billion in 2009 to \$7.15 billion in 2010.

In Fiscal Year 2009, the overall Federal program revenues decreased (3.2 percent) from \$1.79 billion in Fiscal Year 2008 to \$1.73 billion in Fiscal Year 2009, State program revenues increased 7.3 percent from \$8.1 billion in 2008 to \$8.7 billion in 2009, and City revenues increased 3.8 percent from \$6.96 billion in 2008 to \$7.23 billion in 2009.

In Fiscal Year 2010, major programs that benefited from increased individual revenues included: Federal Aid increases of \$4.4 million for Universal Pre-K; \$2.1 million for Occupational Education Aid (offset by Federal Aid decreases of \$18.9 million for Title I Disadvantaged Children; and \$6.6 million for Reading First and \$17.7 million for Transportation Aid; and \$16.2 million for Private Excess Cost Aid).

In Fiscal Year 2009, major programs that benefited from increased individual revenues included: Federal Aid increases of \$1.2 million for Universal Pre-K; \$14 million for Occupational Education Aid (offset by Federal Aid

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

decreases of \$6.3 million for Title I Disadvantaged Children; \$18 million for Reading First; and \$13 million for Title II Math & Science); and State Aid increases of \$549 million for Foundation Aid; \$8.3 million for Transportation Aid; and \$22 million for Private Excess Cost Aid.

In Fiscal Year 2010, total expenditures, under modified accrual accounting, increased 3.2 percent or \$595 million. Expenditures in the area of School Leadership, Instruction and Special Education Support increased \$71 million (1 percent) mainly for personal services costs (salaries) for teachers in the classroom and the respective fringe costs for these salaries. School Support Services increased \$194 million, 6.8 percent mainly for: Pupil Transportation, whose school bus contracts contain an annual adjustment based on consumer price index; increases in the escort costs; and growth in the number of routes. Expenditures in the area of School Support Organization increased about \$6.9 million, 2.1 percent, as a result from Children First Reform agenda. Central Administration decreased overall by \$12.5 million (3.1 percent). Non-Public Schools expenditures increased \$336 million, 21.5 percent, mainly from increases in charter school expenditures, tuition for Pre-K and school age special education and in Pre-K transportation.

In Fiscal Year 2009, total expenditures, under modified accrual accounting, increased 5.5 percent or \$926 million. Expenditures in the area of School Leadership, Instruction and Special Education Support increased \$513 million, 4.2 percent, mainly for personal services costs (salaries) for teachers in the classroom, and the respective fringe costs for these salaries. School Support Services increased \$205 million, 7.8 percent, mainly for: Pupil Transportation, whose school bus contracts contain an annual adjustment based on consumer price index; increases in the escort costs; and growth in the number of routes. Expenditures in the area of School Support Organization increased about \$1.9 million, 1 percent, as a result from Children First Reform agenda. Central Administration decreased overall by (\$25.7 million, 5.8 percent). Non-Public Schools expenditures increased \$231 million, 17.3 percent, mainly from increases in charter school expenditures, tuition for Pre-K and school age special education, and in Pre-K transportation.

General Fund Budgetary Highlights

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

- Intra-city adjustments of \$5.7 million to Tax-Levy budgets and \$13.8 million to Reimbursable Program Budgets.
- City Council adjustments of \$1.2 million to Tax-levy budgets.
- Executive and Adopted Budget Actions which decreased Tax-levy budgets by (\$165.8) million and increased Reimbursable Program Budgets by \$41.3 million. In addition, the Schools rolled Tax-levy surpluses of \$81 million from fiscal year 2010 to fiscal year 2011, of which \$41 million was reflected in the fiscal year 2011 Executive Budget and \$40 million was reflected prior to the fiscal year 2010 Adopted Budget.
- November and January Plan Actions, which increased Tax-levy Budgets by \$18.6 million and increased Reimbursable Program Budgets by \$31.8 million; included in the January Plan is The City's reduction program which reduced Tax-levy budgets by (\$64.9) million.
- School Food programs were increased by \$12.6 million to Tax-levy budgets and by \$2 million to Reimbursable program budgets.
- Final Fiscal Year Close Actions, Tax-levy budgets decreased by (\$25.4) million and Reimbursable Program Budgets increased by \$13.7 million.
- Additional Fiscal Year Close Actions, which include an increase to Tax Levy budgets of \$170.9 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 \$100.9 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)		
		<u>FY2010</u>	<u>FY2009</u>	<u>FY2008</u>
Land.	\$	446,997	\$ 446,997	\$ 446,997
Buildings.		16,201,258	13,376,275	12,390,052
Equipment.		73,334	76,294	84,453
Construction in Progress.		<u>3,495,631</u>	<u>4,024,132</u>	<u>2,862,918</u>
Total	\$	<u>20,217,220</u>	<u>\$ 17,923,698</u>	<u>\$ 15,784,420</u>

In Fiscal Year 2010, capital assets, net of accumulated depreciation, increased from fiscal year 2009 by \$2.3 billion, primarily due to capital assets (completed new construction and equipment) that were transferred to the DOE from the SCA in the amount of \$3.5 billion. In Fiscal Year 2009, capital assets, net of accumulated depreciation, increased from fiscal year 2008 by \$2.1 billion, primarily due to capital assets that were transferred to the DOE from the SCA in the amount of \$1.7 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 and remanded the matter for further proceedings. 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.

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 1701, Brooklyn, New York 11201.

Department of Education of The City of New York
Statement of Net Assets (Deficit)
As of June 30, 2010
(\$000 Omitted)

	Governmental Activities
ASSETS:	
Cash	\$ 18,297
Accounts Receivable	
Federal	990,502
State	1,763,352
Non-Governmental	55,871
Due from The City of New York	461,247
Inventories	6,901
Capital Assets (Net of Accumulated Depreciation)	
Land	446,997
Buildings	16,201,258
Equipment (Including Software)	73,334
Construction in Progress	3,495,631
	\$ 23,513,390
LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 3,228,819
Deferred Revenue	60,450
Other Postemployment Benefit Obligations	24,264,152
Pollution Remediation Obligations	
Due within one year	108,059
Due in more than one year	12,007
Accrued Vacation and Sick Leave	
Due within one year	45,772
Due in more than one year	1,796,441
Capital Lease Obligations	
Due within one year	13,511
Due in more than one year	176,929
Accrued Judgments and Claims	
Due within one year	86,261
Due in more than one year	247,050
	\$ 30,039,451
NET ASSETS:	
Investment in Capital Assets, net of Related Debt	20,217,220
Unrestricted Deficit	(26,743,281)
TOTAL NET ASSETS (DEFICIT)	\$ (6,526,061)

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, 2009
(\$000 Omitted)

	Governmental Activities
ASSETS:	
Cash	\$ 15,066
Accounts Receivable	
Federal	489,366
State	1,448,607
Non-Governmental	69,639
Due from The City of New York	862,821
Inventories	8,785
Capital Assets (Net of Accumulated Depreciation)	
Land	446,997
Buildings	13,376,275
Equipment (Including Software)	76,294
Construction in Progress	4,024,132
	\$ 20,817,982
LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 2,805,893
Deferred Revenue	79,606
Other Postemployment Benefit Obligations	21,208,859
Pollution Remediation Obligations	
Due within one year	135,491
Due in more than one year	15,055
Accrued Vacation and Sick Leave	
Due within one year	43,047
Due in more than one year	1,750,943
Capital Lease Obligations	
Due within one year	12,771
Due in more than one year	177,696
Accrued Judgments and Claims	
Due within one year	82,640
Due in more than one year	234,666
	\$ 26,546,667
NET ASSETS:	
Investment in Capital Assets, net of Related Debt	17,923,698
Unrestricted Deficit	(23,652,383)
TOTAL NET ASSETS (DEFICIT)	\$ (5,728,685)

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, 2010
(\$000 Omitted)

<u>Function/Programs</u>	<u>Program Revenue</u>			<u>Net (Expenses) Revenue</u>
	<u>Program Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
School Leadership, Instruction and Special Education Support	\$ 16,108,646	\$ 4,775	\$ 9,110,811	\$ (6,993,060)
School Support Services	3,354,157	55,379	1,622,479	(1,676,299)
School Support Organization	411,981	-	-	(411,981)
Central Administration	475,664	-	-	(475,664)
Non-Public Schools	1,901,515	12,738	543,227	(1,345,550)
Total Department Activities	<u>\$ 22,251,963</u>	<u>\$ 72,892</u>	<u>\$ 11,276,517</u>	<u>(10,902,554)</u>
General Revenues				
City Funded				7,122,517
Intra-city Sales				27,212
Other Adjustments				
Net Change in Capital Assets and Inventory				<u>2,955,449</u>
CHANGE IN NET ASSETS				(797,376)
Net Assets (Deficit) - Beginning				<u>(5,728,685)</u>
Net Assets (Deficit) - Ending				<u>\$ (6,526,061)</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, 2009
(\$000 Omitted)

<u>Function/Programs</u>	<u>Program Revenue</u>			<u>Net (Expenses) Revenue</u>
	<u>Program Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
School Leadership, Instruction and Special Education Support	\$ 14,124,538	\$ 5,658	\$ 8,476,851	\$ (5,642,029)
School Support Services	3,043,183	53,899	1,524,320	(1,464,964)
School Support Organization	352,850	-	-	(352,850)
Central Administration	450,258	-	-	(450,258)
Non-Public Schools	1,565,041	5,824	608,939	(950,278)
Total Department Activities	<u>\$ 19,535,870</u>	<u>\$ 65,381</u>	<u>\$ 10,610,110</u>	<u>(8,860,379)</u>
General Revenues				
City Funded				7,213,437
Intra-city Sales				14,134
Other Adjustments				
Net Change in Capital Assets and Inventory				<u>2,896,817</u>
CHANGE IN NET ASSETS				1,264,009
Net Assets (Deficit) - Beginning				(6,846,942)
Restatement of Beginning Balance (Note 1)				<u>(145,752)</u>
Net Assets (Deficit) - Ending				<u>\$ (5,728,685)</u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Balance Sheet
As of June 30, 2010
(\$000 Omitted)

	<u>Governmental Fund Types</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
ASSETS:			
Cash	\$ 18,297	\$ -	\$ 18,297
Accounts Receivable			
Federal	990,502	-	990,502
State	1,763,352	-	1,763,352
Non-Governmental	55,871	-	55,871
Due from The City of New York	460,614	633	461,247
Total Assets	<u>\$ 3,288,636</u>	<u>\$ 633</u>	<u>\$ 3,289,269</u>
LIABILITIES:			
Accounts Payable and Accrued Expenditures	\$ 3,228,186	\$ 633	\$ 3,228,819
Deferred Revenue	60,450	-	60,450
Total Liabilities	<u>3,288,636</u>	<u>633</u>	<u>3,289,269</u>
FUND BALANCE:			
Total Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 3,288,636</u>	<u>\$ 633</u>	<u>\$ 3,289,269</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, 2009
(\$000 Omitted)

	<u>Governmental Fund Types</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
ASSETS:			
Cash	\$ 15,066	\$ -	\$ 15,066
Accounts Receivable			
Federal	489,366	-	489,366
State	1,448,607	-	1,448,607
Non-Governmental	69,639	-	69,639
Due from The City of New York	<u>862,812</u>	<u>9</u>	<u>862,821</u>
 Total Assets	 <u>\$ 2,885,490</u>	 <u>\$ 9</u>	 <u>\$ 2,885,499</u>
LIABILITIES:			
Accounts Payable and Accrued Expenditures	\$ 2,805,884	\$ 9	\$ 2,805,893
Deferred Revenue	<u>79,606</u>	<u>-</u>	<u>79,606</u>
 Total Liabilities	 <u>2,885,490</u>	 <u>9</u>	 <u>2,885,499</u>
FUND BALANCE:			
Total Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>
 Total Liabilities and Fund Balance	 <u>\$ 2,885,490</u>	 <u>\$ 9</u>	 <u>\$ 2,885,499</u>

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

See accompanying notes to the financial statements.

**Department of Education of The City of New York
 Reconciliation of the Balance Sheet of Governmental Funds
 To The Statement of Net Assets (Deficit)
 As of June 30, 2010**

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.		6,901
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.		20,217,220
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		(24,264,152)
Accrued Vacation and Sick Leave		(1,842,213)
Pollution Remedation Obligations		(120,066)
Capital Lease Obligations		(190,440)
Accrued Judgements and Claims		<u>(333,311)</u>
Net assets (deficit) of governmental activities	\$	<u><u>(6,526,061)</u></u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Reconciliation of the Balance Sheet of Governmental Funds
To The Statement of Net Assets (Deficit)
As of June 30, 2009

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.		8,785
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.		17,923,698
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		(21,208,859)
Accrued Vacation and Sick Leave		(1,793,990)
Pollution Remedation Obligations		(150,546)
Capital Lease Obligations		(190,467)
Accrued Judgements and Claims		<u>(317,306)</u>
Net assets (deficit) of governmental activities	\$	<u><u>(5,728,685)</u></u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Revenues, Expenditures and Changes in Fund Balance
All Governmental Fund Types
For the Year Ended June 30, 2010
(\$000 Omitted)

	<u>Government Fund Types</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
REVENUES			
Federal Aid	\$ 2,953,694	\$ -	\$ 2,953,694
State Aid	8,079,611	-	8,079,611
Universal Services Fund	870	-	870
Other Assistance	216,487	-	216,487
Charges for Services:			
School Construction Authority	30,500	-	30,500
Student Lunches	18,883	-	18,883
Rentals	36,494	-	36,494
Other	12,870	-	12,870
Subtotal	<u>11,349,409</u>	<u>-</u>	<u>11,349,409</u>
Net Change in Estimate of Prior Receivables	(44,592)	-	(44,592)
Subtotal	<u>11,304,817</u>	<u>-</u>	<u>11,304,817</u>
Funding Provided by The City of New York	<u>7,166,476</u>	<u>633</u>	<u>7,167,109</u>
Total Revenues and Other Financing Sources	<u>18,471,293</u>	<u>633</u>	<u>18,471,926</u>
EXPENDITURES			
General Education Instruction and School Leadership	6,052,113	-	6,052,113
Special Education Instruction and School Leadership	1,007,085	-	1,007,085
School Support Organization	212,717	-	212,717
Citywide Education Instruction and School Leadership	742,219	-	742,219
Special Education Instructional Support	470,332	-	470,332
School Facilities	776,720	-	776,720
Pupil Transportation	995,662	-	995,662
School Food Services	402,077	-	402,077
School Safety	294,679	-	294,679
Energy and Leases	422,748	-	422,748
Central Administration	355,644	-	355,644
Fringe Benefits	2,502,862	-	2,502,862
Pre-Kindergarten Contracts	852,591	-	852,591
Charter and Contract Schools and Foster Care Payments	977,903	-	977,903
Non-Public Schools	71,021	-	71,021
Collective Bargaining	33,967	-	33,967
Capital Outlay	-	633	633
Subtotal	<u>16,170,340</u>	<u>633</u>	<u>16,170,973</u>
Reimbursable:			
Categorical Programs	2,328,165	-	2,328,165
Intracity Sales	(27,212)	-	(27,212)
Subtotal	<u>18,471,293</u>	<u>633</u>	<u>18,471,926</u>
Net Change in Estimate of Prior Payables	(60,085)	-	(60,085)
Total Expenditures	<u>18,411,208</u>	<u>633</u>	<u>18,411,841</u>
Other Financing Uses - Transfer to The City of New York	60,085	-	60,085
Total Expenditures and Other Uses	<u>18,471,293</u>	<u>633</u>	<u>18,471,926</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-
FUND BALANCE	<u>\$ -</u>	<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 Types
For the Year Ended June 30, 2009
(\$000 Omitted)

	<u>Government Fund Types</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
REVENUES			
Federal Aid	\$ 1,729,653	\$ -	\$ 1,729,653
State Aid	8,654,406	-	8,654,406
Universal Services Fund	-	-	-
Other Assistance	203,330	-	203,330
Charges for Services:			
School Construction Authority	28,200	-	28,200
Student Lunches	19,666	-	19,666
Rentals	34,233	-	34,233
Other	6,003	-	6,003
Subtotal	<u>10,675,491</u>	<u>-</u>	<u>10,675,491</u>
Net Change in Estimate of Prior Receivables	<u>(30,030)</u>	<u>-</u>	<u>(30,030)</u>
Subtotal	<u>10,645,461</u>	<u>-</u>	<u>10,645,461</u>
Funding Provided by The City of New York	<u>7,243,458</u>	<u>9</u>	<u>7,243,467</u>
Total Revenues and Other Financing Sources	<u>17,888,919</u>	<u>9</u>	<u>17,888,928</u>
EXPENDITURES			
General Education Instruction and School Leadership	6,399,232	-	6,399,232
Special Education Instruction and School Leadership	1,146,923	-	1,146,923
School Support Organization	219,665	-	219,665
Citywide Education Instruction and School Leadership	726,511	-	726,511
Special Education Instructional Support	446,636	-	446,636
School Facilities	749,037	-	749,037
Pupil Transportation	968,460	-	968,460
School Food Services	383,714	-	383,714
School Safety	217,002	-	217,002
Energy and Leases	393,840	-	393,840
Central Administration	371,632	-	371,632
Fringe Benefits	2,314,142	-	2,314,142
Pre-Kindergarten Contracts	739,296	-	739,296
Charter and Contract Schools and Foster Care Payments	764,305	-	764,305
Non-Public Schools	61,440	-	61,440
Collective Bargaining	41,156	-	41,156
Capital Outlay	-	9	9
Subtotal	<u>15,942,991</u>	<u>9</u>	<u>15,943,000</u>
Reimbursable:			
Categorical Programs	1,960,062	-	1,960,062
Intracity Sales	<u>(14,134)</u>	<u>-</u>	<u>(14,134)</u>
Subtotal	<u>17,888,919</u>	<u>9</u>	<u>17,888,928</u>
Net Change in Estimate of Prior Payables	<u>(114,672)</u>	<u>-</u>	<u>(114,672)</u>
Total Expenditures	<u>17,774,247</u>	<u>9</u>	<u>17,774,256</u>
Other Financing Uses - Transfer to The City of New York	<u>114,672</u>	<u>-</u>	<u>114,672</u>
Total Expenditures and Other Uses	<u>17,888,919</u>	<u>9</u>	<u>17,888,928</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE	<u>\$ -</u>	<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
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2010
(\$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.		633
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.		(664,444)
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	(3,055,293)	
Change in Sick Leave and Vacation Liability	(48,223)	
Change in Pollution Remediation Obligations	30,480	
Change in Capital Lease Obligations	27	
Change in Judgments and Claims Liability	<u>(16,005)</u>	(3,089,014)
Net changes in capital assets and inventory where neither revenues nor expenses are incurred by the Department, net of Department costs.		<u>2,955,449</u>
Change in Net Assets - governmental activities	\$	<u><u>(797,376)</u></u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2009
(\$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.		9
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.		(758,978)
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	(729,332)	
Change in Sick Leave and Vacation Liability	(123,499)	
Change in Pollution Remediation Obligations	(4,794)	
Change in Capital Lease Obligations	12,771	
Change in Judgments and Claims Liability	<u>(28,985)</u>	(873,839)
Net changes in capital assets and inventory where neither revenues nor expenses are incurred by the Department, net of Department costs.		<u>2,896,817</u>
Change in Net Assets - governmental activities	\$	<u><u>1,264,009</u></u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2010
(\$'000 Omitted)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Favorable / (Unfavorable)</u>
REVENUES				
Federal Aid	\$ 2,746,105	\$ 2,953,694	\$ 2,953,694	\$ -
State Aid	8,186,177	8,079,611	8,079,611	-
Universal Services Fund	-	870	870	-
Other Assistance	42,804	216,451	216,487	36
Charges for Services:				
School Construction Authority	8,000	30,500	30,500	-
Student Lunches	20,075	20,073	18,883	(1,190)
Rentals	28,000	35,500	36,494	994
Other	9,800	9,800	12,870	3,070
Subtotal	<u>11,040,961</u>	<u>11,346,499</u>	<u>11,349,409</u>	<u>2,910</u>
Net Change in Estimate of Prior Receivables	-	-	(44,592)	(44,592)
Subtotal	<u>11,040,961</u>	<u>11,346,499</u>	<u>11,304,817</u>	<u>(41,682)</u>
Funding Provided by The City of New York	<u>7,331,326</u>	<u>7,126,714</u>	<u>7,166,476</u>	<u>39,762</u>
Total Revenues and Other Financing Sources	<u>18,372,287</u>	<u>18,473,213</u>	<u>18,471,293</u>	<u>(1,920)</u>
EXPENDITURES				
General Education Instruction and School Leadership	5,821,575	6,052,374	6,052,113	261
Special Education Instruction and School Leadership	1,388,825	1,019,603	1,007,085	12,518
School Support Organization	208,862	212,572	212,717	(145)
Citywide Education Instruction and School Leadership	732,914	748,430	742,219	6,211
Special Education Instructional Support	492,250	489,180	470,332	18,848
School Facilities	544,743	743,870	776,720	(32,850)
Pupil Transportation	1,004,986	996,180	995,662	518
School Food Services	393,220	408,603	402,077	6,526
School Safety	290,137	295,455	294,679	776
Energy and Leases	442,595	422,810	422,748	62
Central Administration	360,854	359,127	355,644	3,483
Fringe Benefits	2,484,103	2,501,844	2,502,862	(1,018)
Pre-Kindergarten Contracts	764,658	852,653	852,591	62
Charter and Contract Schools and Foster Care Payments	853,845	978,050	977,903	147
Non-Public Schools	63,969	71,317	71,021	296
Collective Bargaining	320,774	33,967	33,967	-
Subtotal	<u>16,168,310</u>	<u>16,186,035</u>	<u>16,170,340</u>	<u>15,695</u>
Reimbursable:				
Categorical Programs	2,212,761	2,315,467	2,328,165	(12,698)
Intracity Sales	(8,784)	(28,289)	(27,212)	(1,077)
Subtotal	<u>18,372,287</u>	<u>18,473,213</u>	<u>18,471,293</u>	<u>1,920</u>
Net Change in Estimate of Prior Payables	-	-	(60,085)	60,085
Total Expenditures	<u>18,372,287</u>	<u>18,473,213</u>	<u>18,411,208</u>	<u>62,005</u>
Other Financing Uses - Transfer to The City of New York	-	-	60,085	(60,085)
Total Expenditures and Other Uses	<u>18,372,287</u>	<u>18,473,213</u>	<u>18,471,293</u>	<u>1,920</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-	-
FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2009
(\$000 Omitted)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Favorable / (Unfavorable)</u>
REVENUES				
Federal Aid	\$ 1,760,822	\$ 1,729,653	\$ 1,729,653	\$ -
State Aid	8,513,822	8,654,406	8,654,406	-
Universal Services Fund	-	-	-	-
Other Assistance	31,268	203,330	203,330	-
Charges for Services:				
School Construction Authority	8,000	28,200	28,200	-
Student Lunches	20,074	20,074	19,666	(408)
Rentals	28,000	31,000	34,233	3,233
Other	9,800	9,800	6,003	(3,797)
Subtotal	<u>10,371,786</u>	<u>10,676,463</u>	<u>10,675,491</u>	<u>(972)</u>
Net Change in Estimate of Prior Receivables	-	-	(30,030)	(30,030)
Subtotal	<u>10,371,786</u>	<u>10,676,463</u>	<u>10,645,461</u>	<u>(31,002)</u>
Funding Provided by The City of New York	<u>7,371,920</u>	<u>7,215,571</u>	<u>7,243,458</u>	<u>27,887</u>
Total Revenues and Other Financing Sources	<u>17,743,706</u>	<u>17,892,034</u>	<u>17,888,919</u>	<u>(3,115)</u>
EXPENDITURES				
General Education Instruction and School Leadership	6,380,812	6,384,439	6,399,232	(14,793)
Special Education Instruction and School Leadership	1,391,532	1,269,827	1,146,923	122,904
School Support Organization	217,832	221,310	219,665	1,645
Citywide Education Instruction and School Leadership	709,071	707,847	726,511	(18,664)
Special Education Instructional Support	363,722	395,419	446,636	(51,217)
School Facilities	525,705	742,777	749,037	(6,260)
Pupil Transportation	1,068,988	968,460	968,460	-
School Food Services	409,640	383,714	383,714	-
School Safety	214,086	217,328	217,002	326
Energy and Leases	450,207	407,141	393,840	13,301
Central Administration	366,629	375,589	371,632	3,957
Fringe Benefits	2,283,441	2,314,142	2,314,142	-
Pre-Kindergarten Contracts	653,497	739,296	739,296	-
Charter and Contract Schools and Foster Care Payments	673,771	764,305	764,305	-
Non-Public Schools	60,923	61,440	61,440	-
Collective Bargaining	70,251	41,156	41,156	-
Subtotal	<u>15,840,107</u>	<u>15,994,190</u>	<u>15,942,991</u>	<u>51,199</u>
Reimbursable:				
Categorical Programs	1,915,583	1,912,307	1,960,062	(47,755)
Intracity Sales	(11,984)	(14,463)	(14,134)	(329)
Subtotal	<u>17,743,706</u>	<u>17,892,034</u>	<u>17,888,919</u>	<u>3,115</u>
Net Change in Estimate of Prior Payables	-	-	(114,672)	114,672
Total Expenditures	<u>17,743,706</u>	<u>17,892,034</u>	<u>17,774,247</u>	<u>117,787</u>
Other Financing Uses - Transfer to The City of New York	-	-	114,672	(114,672)
Total Expenditures and Other Uses	<u>17,743,706</u>	<u>17,892,034</u>	<u>17,888,919</u>	<u>3,115</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-	-
FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Fiduciary Net Assets
As of June 30, 2010
(\$000 Omitted)

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ <u>71,834</u>
Total Assets	\$ <u><u>71,834</u></u>
 LIABILITIES:	
Due To Students/Teachers	\$ 29,812
Holding Accounts Payable	35,395
Due to Tax Agents	<u>6,627</u>
Total Liabilities	\$ <u><u>71,834</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, 2009
(\$000 Omitted)

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ <u>64,361</u>
Total Assets	\$ <u><u>64,361</u></u>
 LIABILITIES:	
Due To Students/Teachers	\$ 29,975
Holding Accounts Payable	28,597
Due to Tax Agents	<u>5,789</u>
Total Liabilities	\$ <u><u>64,361</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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The DOE is organized and administered in accordance with the provisions of the State of New York Education Law and consists of five Integrated Service Centers (ISCs) and four Children First Network CFN/School Support Organizations, Empowerment Support Organization (ESO), Learning Support Organization (LSO), Integrated Service Center (ISC), Partnership Support Organization (PSO) across The City of New York (The City) and School Support Organization (SSOs). Each geographic ISC includes approximately three hundred and five schools. Each ISC contains up to six community school districts, as well as, the high schools located within their geographic boundaries. The SSOs are comprised of four (4) LSOs; two ESO/ESA and PSO. The schools are self-affiliated to one of the SSOs. The ESOs were conceived in 2004 and have a network of 515 schools in the current school year. The PSOs led by non-profit groups with strong records of community services as well as LSOs. LSOs are led and operated by four accomplished educators who develop theme based comprehensive services packages for the schools. The ISC Management Team is led by an Executive Director in each ISC.

The DOE continues to be fiscally dependent on The City and, accordingly, is included in The City's financial statements. As such, 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.

New Accounting Standards Adopted

In fiscal year 2010, the DOE adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*
- Statement No. 53 *Accounting and Financial Reporting for Derivative Instrument*
- Statement No. 57 *OPEB Measurement by Agents Employers and Agent Multiple-Employer Plans*
- Statement No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies*

Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Statement No. 51 also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The objective of Statement No. 51 is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies relating to recognition, initial measurement, and amortization, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. Additionally, the Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. Statement No. 51 also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software. The Statement also establishes guidance specific to intangible assets related to amortization. Guidance is provided on determining the useful life of intangible asset when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful lives are subsequently determined to no longer be indefinite due to a change in circumstances.

The financial reporting impact resulting from the implementation of Statement No. 51 had no effect on net assets in the government-wide financial statements since the recognition of intangible assets was wholly a clarification of the existing equipment fixed assets class description to convey its inclusion of software. None of the intangible assets included in the equipment fixed assets class were considered to have indefinite useful lives and therefore all of the intangible assets are subject to amortization.

Statement No. 53 enhances the usefulness and comparability of derivative instrument information reported by state and local governments by providing a comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and future contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transaction (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of Statement No. 53 is that certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive, are reported a fair value by governments in their government-wide financial statements. This provision should allow users of those financial statements to more fully understand a government's resources available to provide services. The application of interperiod equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. Alternatively, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. The Statement describes several quantitative methods and a qualitative method for evaluating effectiveness. The disclosures required by Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, have been incorporated into Statement No. 53. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms and the risks associated with the derivative instruments.

There was no impact on the DOE's financial statements as a result of the implementation of GASB statement No. 53.

Statement No. 57 provides guidance on two implementation issues related to Other Postemployment Benefits (OPEB). The Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option,

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. The Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible. Additionally, Statement No. 57 clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measure should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

There was no practical impact on the DOE's financial statements as a result of the implementation of GASB Statement No. 57. The New York City Health Benefit Program is a single-employer defined benefit healthcare plan whose total plan membership vastly exceeds the allowable cutoff for using the alternative measurement method and the Program does not participate in a agent multiple-employer OPEB plan.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. For accounts payable, notes, debentures and bonds, and related interest payable, the Statement requires government to base remeasurement on the new payment plan. For leases, pollution remediation liabilities, and liabilities for pension and other postemployment benefit plans, the Statement requires remeasurement based on existing authoritative guidance. For governments that are not expected to emerge from bankruptcy as going concerns, Statement No. 58 requires remeasurement of assets to a value that represents the amount expected to be received. The Statement classifies gains or losses resulting from remeasurement of liabilities and assets as an extraordinary item. The Statement does not apply to troubled debt restructurings that occur outside of bankruptcy. Governments that have filed for bankruptcy are required to disclose information regarding, among other things, the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services. The objective of Statement No. 58 is to improve financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that have filed for bankruptcy under Chapter 9. The disclosures required by the Statement cease to apply for periods following the fiscal year in which the bankruptcy case is closed or the government has its petition dismissed.

There was no impact on the DOE's financial statements as a result of the implementation of GASB Statement No. 58 since the City and the DOE were not in bankruptcy nor has it filed for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

Pronouncements Issued But Not Yet Effective

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Governments are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required. Governments are also required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications. Statement No. 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The objective of this Statement is to enhance the usefulness of fund balance

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The requirements of Statement No. 54 are effective for financial statements for periods beginning after June 15, 2010. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balances for all prior periods presented. While earlier application of the Statement is encouraged, the DOE has not completed the process of evaluating the impact of Statement No. 54 on its financial statements.

In June, 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice.

GASB Statement No. 59 includes the following guidance:

- Emphasizes the applicability of U.S. Securities and Exchange Commission requirements to certain external investment pools-known as 2a7-like pools-to provide users more consistent information on qualifying pools.
- Addresses the applicability of statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to certain financial instruments to clarify which financial instruments are within the scope of that pronouncement and to provide greater consistency in financial reporting.
- Applies the reporting provisions for interest-earning investment contracts of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and OPEB plans.

The requirements of Statement No. 59 are effective for financial statements for periods beginning after June 15, 2010. While earlier application of the Statement is encouraged, the DOE has not completed the process of evaluating the impact of Statement No. 59 on its financial statements.

B. Basis of Presentation

Department-wide Financial Statements — The Department-wide Financial Statements consist of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets presents the difference between 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 2010 and 2009, the SCA transferred \$3.5 billion and \$1.7 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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

- **School Support Services** — which includes the costs of school facilities, pupil transportation, food, school safety, energy and leases.
- **School Support Organization** — which includes operations of CFN 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. Major individual governmental funds are reported as separate columns in the fund financial statements. The DOE has no governmental funds that are considered non-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 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. The following are the DOE's governmental funds, both of which are considered major funds:

- **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.
- **Capital Projects Fund** — The Capital Projects Fund is used to account for financial resources used for school improvements and other facility related expenditures. These amounts do not reflect capital expenditures and commitments by the SCA on behalf of the DOE. The SCA commitment and expenditure activity is included in The City's basic financial statements.

Fiduciary Funds — Fiduciary Funds are used to account for assets held by 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.

C. Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The Department-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which 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

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

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 in Note 1 - 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, 2010 and accruals for payments to be made in the future, which applies to liabilities incurred as of June 30, 2010. Further, included in accounts payable are all payments that were processed through the DOE's accounting system, but not yet cleared The City's accounting system. In addition, included are all prior year accruals which have not been liquidated through The City's accounting system.

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

Donated Commodities — 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 \$21.4 million.

The value of these donated commodities received and still on hand, as of June 30, 2010 and 2009 was \$0.5 million and \$0.9 million respectively.

Materials and Supplies — Inventories on hand at June 30, 2010 amounted to approximately \$6.4 million based on the moving average cost method. Inventories are recorded as expenditures in governmental funds at the time of purchase and, accordingly, have not been reported on the governmental funds balance sheet. As of June 30, 2009 this value was \$7.9 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 \$60.4 million received by the DOE against which qualifying expenditures have not yet been incurred, as of June 30, 2010. As of June 30, 2009, cash advances amounted to \$79.6 million.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

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 2010 was \$1.8 billion. As of June 30, 2009, the value of these services was \$1.4 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 is 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.

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 1,819 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, 2010 (\$22.2 billion) differ from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balance (\$18.4 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, 2010

Figure 1

	Amount (\$000 Omitted)
Total Expenditures and Other Uses (from the Statement of Revenues, Expenditures and Changes in Fund Balance).....	\$ 18,471,293
Add back Intra-City Sales (which are included in General Revenue in Statement of Activities).....	27,212
Depreciation Expense	664,444
Long-term liabilities per full accrual basis:	
Other Postemployment Benefit Obligations	3,055,293
Sick Leave and Vacation Balances	48,223
Pollution Remediation Obligations.....	(30,480)
Capital Leases.....	(27)
Judgments and Claims	<u>16,005</u>
 Total Program Expenses (from the Statement of Activities)	 <u>\$ 22,251,963</u>

The total program expenses included in the Statement of Activities for the year ended June 30, 2009 (\$19.5 billion) differs from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balance (\$18 billion) because of adjustments necessary to convert expenditures from the modified accrual basis of accounting to the full accrual basis (as outlined in the Management’s Discussion and Analysis section). The following schedule reconciles these two accounting basis:

Figure 2

	Amount (\$000 Omitted)
Total Expenditures and Other Uses (from the Statement of Revenues, Expenditures and Changes in Fund Balance).....	\$ 17,888,919
Add back Intra-City Sales (which are included in General Revenue in Statement of Activities).....	14,134
Depreciation Expense	758,978
Long-term liabilities per full accrual basis:	
Other Postemployment Benefit Obligations	729,332
Sick Leave and Vacation Balances	123,499
Pollution Remediation Obligations.....	4,794
Capital Leases.....	(12,771)
Judgments and Claims	<u>28,985</u>
 Total Program Expenses (from the Statement of Activities)	 <u>\$ 19,535,870</u>

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

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

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

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

B. Appropriations Modifications

The following schedule summarizes budget modifications for the year ended June 30, 2010 (\$000 omitted):

Figure 3

	Originally Adopted Budget	Net Modifications	Modified Budget
Tax Levy Programs.....	\$ 16,168,310	\$ 17,725	\$ 16,186,035
Reimbursable Programs	2,212,761	102,706	2,315,467
Sub Total.....	18,381,071	120,431	18,501,502
Less: Intracity Sales	(8,784)	(19,505)	(28,289)
Total	<u>\$ 18,372,287</u>	<u>\$ 100,926</u>	<u>\$ 18,473,213</u>

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

Figure 4

	Tax Levy	Reimbursable
Intra-city Purchases	\$ 5,663	\$ 13,842
City Council Actions	1,183	-
Executive & Adoption.	(165,822)	41,311
Nov. & Jan. Plan Actions	18,632	31,846
School Food Programs.....	12,566	1,960
Year-end Closing Actions.....	(25,369)	13,747
GASB # 49 Pollution Remediation.....	170,872	-
Total Net Modifications.....	<u>\$ 17,725</u>	<u>\$ 102,706</u>

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

The following schedule summarizes budget modifications for the year ended June 30, 2009 (\$000 omitted):

Figure 5

	Originally Adopted Budget	Net Modifications	Modified Budget
Tax Levy Programs.....	\$ 15,840,107	\$ 154,083	\$ 15,994,190
Reimbursable Programs	1,915,583	(3,276)	1,912,307
Sub Total.....	17,755,690	150,807	17,906,497
Less: Intracity Sales	(11,984)	(2,479)	(14,463)
Total.....	<u>\$ 17,743,706</u>	<u>\$ 148,328</u>	<u>\$ 17,892,034</u>

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

Figure 6

	Tax Levy	Reimbursable
Intra-city Purchases.....	\$ 610	\$ 1,869
Executive & Adoption	60,713	9,795
Nov. & Jan. Plan Actions.....	(155,179)	6,314
School Food Programs	5,963	1,010
Year-end Closing Actions.....	76,882	(15,713)
GASB No. 49 – Pollution Remediation	158,543	-
Transfer to Reimbursable.....	6,551	(6,551)
Total Net Modifications	<u>\$ 154,083</u>	<u>\$ (3,276)</u>

3. DETAILED NOTES ON ALL FUNDS

A. Cash

Bank balances are maintained with banks that are members of the Federal Deposit Insurance Corporation (FDIC). The FDIC insures bank balances up to a maximum of \$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 1,819 accounts maintained at the school level, the DOE cannot determine the amounts that are insured or collateralized. The City's June 30, 2010 and June 30, 2009 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 110% to 120% 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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

C. Lease Commitments

The DOE leases various types of property and equipment. Total lease expenditures for the year ended June 30, 2010 and June 30, 2009, were approximately \$143 million and \$128 million, respectively. As of June 30, 2010, 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
2011	\$ 108,331	\$ 23,237	\$ 85,094
2012	107,263	22,065	85,198
2013	93,942	22,352	71,590
2014	87,334	21,297	66,037
2015	83,025	21,103	61,922
2016-2020	355,896	79,207	276,689
2021-2025	195,303	50,702	144,601
2026-2030	100,642	21,750	78,892
2031-2035	55,470	15,624	39,846
2036-2040	24,194	36	24,158
2041-2049	25,158	-	25,158
Total minimum lease payments	<u>\$ 1,236,558</u>	<u>\$ 277,373</u>	<u>\$ 959,185</u>
Less imputed interest		(86,933)	
Present value of net minimum lease payments		<u>\$ 190,440</u>	

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 2010 and 2009 and funds have been appropriated for such payments.

Changes in the various components of the long-term liabilities for fiscal year 2010 are as follows (\$000 omitted):

Figure 8

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due Within One Year
Accrued Vacation and Sick Leave...	\$ 1,793,990	\$ 93,995	\$ (45,772)	\$ 1,842,213	\$ 45,772
Capital Lease Obligations.....	190,467	13,484	(13,511)	190,440	13,511
Accrued Judgments and Claims.....	317,306	77,025	(61,020)	333,311	86,261
Pollution Remediation.....	150,546	140,392	(170,872)	120,066	108,059
OPEB Obligations.....	21,208,859	3,502,987	(447,694)	24,264,152	-
TOTALS.....	<u>\$ 23,661,168</u>	<u>\$ 3,827,883</u>	<u>\$ (738,869)</u>	<u>\$ 26,750,182</u>	<u>\$ 253,603</u>

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

Changes in the various components of the long-term liabilities for fiscal year 2009 are as follows (\$000 omitted):

Figure 9

	Balance			Balance	Due Within
	July 1, 2008	Additions	Deletions	June 30, 2009	One Year
Accrued Vacation and Sick Leave	\$ 1,670,491	\$ 166,546	\$ (43,047)	\$ 1,793,990	\$ 43,047
Capital Lease Obligations	203,238	-	(12,771)	190,467	12,771
Accrued Judgments and Claims	288,321	88,369	(59,384)	317,306	82,640
Pollution Remediation	145,752	150,546	(145,752)	150,546	135,491
OPEB Obligations	20,479,527	1,123,700	(394,368)	21,208,859	-
TOTALS	\$ 22,787,329	\$ 1,529,161	\$ (655,322)	\$ 23,661,168	\$ 273,949

As described in Note 3E 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.

The Pollution Remediation Obligations (PRO) at June 30, 2010 and June 30, 2009, summarized by obligating event and pollution type, respectively, are as follows:

Obligating Event

	<u>Fiscal Year 2010</u>		<u>Fiscal Year 2009</u>	
	<u>Amount</u> (000's)	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Imminent endangerment	\$ 36,020	30.0%	\$ 45,164	30.0%
Violation of pollution prevention-related permit or license	4,002	3.3%	5,018	3.3%
Named by regulator as a potentially responsible party	1,001	0.8%	1,004	0.7%
Voluntary commencement	79,043	65.9%	99,360	66.0%
Total	\$ 120,066	100.0%	\$ 150,546	100.0%

Pollution Type

	<u>Amount</u> (000's)	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Asbestos removal	\$ 88,541	73.7%	\$ 128,466	85.3%
Lead paint removal	1,784	1.5%	7,025	4.7%
Soil remediation	29,177	24.3%	15,055	10.0%
Other	564	0.5%	-	-
Total	\$ 120,066	100.0%	\$ 150,546	100.0%

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

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

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, or portions thereof, that is not yet recognized because they are not reasonably estimable The City's Law Department relates that we have approximately 27 cases involving hazardous substances, including underground and aboveground storage tanks, spills from underground and aboveground storage tanks, and other contamination on, or caused by facilities on, City-owned property. Due to the uncertainty of legal proceedings, we cannot estimate future liabilities. Also, we have one case involving environmental review and land use relating to the Bronx Committee for Toxic Free Schools, that is involved a suit over the remediation of a property by SCA. The remediation has been completed and the lawsuit, which is on appeal, concerns the scope of monitoring the remediation.

E. 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 1,500 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 2010 can be reported, as follows (\$000's omitted):

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

Figure 10

CAPITAL ASSETS					
	Balance				Balance
	June 30, 2009	Additions	Transfers	Deletions	June 30, 2010
Capital Assets Not Being Depreciated:					
Land and Site Improvement	\$ 446,997	\$ -	\$ -	\$ -	\$ 446,997
Construction In Progress	4,024,132	2,953,167	(3,481,668)	-	3,495,631
Total Capital Assets					
Not Being Depreciated	4,471,129	2,953,167	(3,481,668)	-	3,942,628
Capital Assets Being Depreciated:					
Building and Additions	22,258,217	-	3,481,668	(6,102)	25,733,783
Equipment (Including Software)	274,203	11,016	-	(115)	285,104
Gross Balance Capital Assets	22,532,420	11,016	3,481,668	(6,217)	26,018,887
Less Accumulated Depreciation:					
Building and Additions	8,881,942	656,684	-	(6,101)	9,532,525
Equipment	197,909	13,960	-	(99)	211,770
Total Accumulated Depreciation	9,079,851	670,644	-	(6,200)	9,744,295
Net Capital Assets Being					
Depreciated	13,452,569	(659,628)	3,481,668	(17)	16,274,592
Total All Capital Assets	<u>\$ 17,923,698</u>	<u>\$ 2,293,539</u>	<u>\$ -</u>	<u>\$ (17)</u>	<u>\$ 20,217,220</u>

The overall changes substantial in the various classes of Capital Assets occurring during fiscal year 2009 can be reported, as follows (\$000's omitted):

Figure 11

CAPITAL ASSETS					
	Balance				Balance
	June 30, 2008	Additions	Transfers	Deletions	June 30, 2009
Capital Assets Not Being Depreciated:					
Land and Site Improvement	\$ 446,997	\$ -	\$ -	\$ -	\$ 446,997
Construction In Progress	2,862,918	2,908,799	(1,747,585)	-	4,024,132
Total Capital Assets					
Not Being Depreciated	3,309,915	2,908,799	(1,747,585)	-	4,471,129
Capital Assets Being Depreciated:					
Building and Additions	20,527,580	-	1,747,585	(16,948)	22,258,217
Equipment (Including Software)	267,798	6,463	-	(58)	274,203
Gross Balance Capital Assets	20,795,378	6,463	1,747,585	(17,006)	22,532,420
Less Accumulated Depreciation:					
Building and Additions	8,137,528	761,132	-	(16,718)	8,881,942
Equipment (Including Software)	183,345	14,614	-	(50)	197,909
Total Accumulated Depreciation	8,320,873	775,746	-	(16,768)	9,079,851
Net Capital Assets Being					
Depreciated	12,474,505	(769,283)	1,747,585	(238)	13,452,569
Total All Capital Assets	<u>\$ 15,784,420</u>	<u>\$ 2,139,516</u>	<u>\$ -</u>	<u>\$ (238)</u>	<u>\$ 17,923,698</u>

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

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 \$11.3 billion.

Capital Expenditures made on behalf of the DOE amounted to \$2.9 billion each in fiscal years 2010 and 2009. Such expenditures were incurred by the SCA. Upon substantial completion of capital assets, the SCA transfers such assets to the DOE. In Fiscal Years 2010 and 2009, the SCA transferred \$3.5 billion and \$1.7 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, 2010, are certain leased properties aggregating approximately \$291 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, 2010, was accumulated depreciation for leases of \$101 million.

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

For Fiscal Year 2010, The City's Comprehensive Annual Financial Report identifies capital expenditures for education amounting to \$2.95 billion. The capital expenditures incurred by the SCA and DDC on behalf of the DOE totaled \$3.04 billion offset by GASB Statement No. 49 expenditures of \$171 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 2010 and 2009 were approximately \$45.5 million and \$38.2 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.

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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

2. New York City Board of Education Retirement System-Qualified Pension Plan (BERS) is a cost sharing, multiple-employer public employee retirement system, for nonpedagogical 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 in accordance with statute by the systems' Actuary, 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 member’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.

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, 2009, for all City pension systems was \$6.8 billion; \$2.6 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, 2010, 2009 and 2008 were as follows:

Figure 12

Annual Pension Costs
(In millions)

	2010	2009	2008
TRS.....	\$ 2,484.1	\$ 2,223.6	\$ 1,916.5
BERS.....	147.3	134.2	143.1
Total Pension Costs	\$ 2,631.4	\$ 2,357.8	\$ 2,059.6

C. Other Post-Employment Benefits

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 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 808, 1 Centre Street, New York, New York 10007.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2010

The City's annual OPEB cost (expenses) is calculated based on the annual required contribution of the employer, an amount that was actuarially determined. For Fiscal Year 2010, the annual OPEB required contribution for The City was determined to be \$76.6 billion of which the City contributed \$1.6 billion to the PLAN. The Net OPEB Obligation, after City Contributions, was \$75 billion. For the DOE, the allocated Net OPEB Obligation for Fiscal Year 2010 was \$3.1 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 (\$21.2 billion), was also included as a long term liability in the Statement of Net Assets (\$24.3 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 and remanded the matter for further proceedings. 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 \$455.0 million.

(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, 2010

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 2005 through Fiscal Year 2010, as of June 30, 2010. 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, 2010
With Comparative Totals to June 30, 2009
(\$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, 2010</u>	<u>Comparative Total, as of June 30, 2009</u>
Fiscal Year 2010	\$ 978,922	\$ 1,145,133	\$ 39,410	\$ 2,163,465	\$ -
Fiscal Year 2009	11,580	351,222	15,876	378,678	1,683,998
Fiscal Year 2008	-	162,456	585	163,041	202,789
Fiscal Year 2007	-	64,279	-	64,279	76,565
Fiscal Year 2006	-	40,092	-	40,092	43,676
Fiscal Year 2005	-	170	-	170	584
Total Receivables:	<u>\$ 990,502</u>	<u>\$ 1,763,352</u>	<u>\$ 55,871</u>	<u>\$ 2,809,725</u>	<u>\$ 2,007,612</u>

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2010

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<u>GENERAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
401 Salaries	\$ 5,461,170,935	\$ 5,461,158,447	\$ 12,488
402 Supplies	130,115,255	132,513,223	(2,397,968)
402 Furniture and Equipment	59,004,266	63,082,984	(4,078,718)
402 Textbooks	112,617,537	103,950,829	8,666,708
402 Contractual Services	289,465,982	291,407,967	(1,941,985)
TOTAL	6,052,373,975	6,052,113,450	260,525
<u>SPECIAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
403 Salaries	1,013,179,390	1,004,420,662	8,758,728
404 Supplies	3,064,383	1,014,538	2,049,845
404 Furniture and Equipment	301,892	1,011,362	(709,470)
404 Textbooks	479,611	20,013	459,598
404 Contractual Services	2,578,166	618,181	1,959,985
TOTAL	1,019,603,442	1,007,084,756	12,518,686
<u>SCHOOL SUPPORT ORGANIZATION</u>			
415 Salaries	193,377,614	197,803,309	(4,425,695)
416 Supplies	17,280,561	4,061,446	13,219,115
416 Furniture and Equipment	186,673	2,960,069	(2,773,396)
416 Textbooks	142,426	10,250	132,176
416 Contractual Services	1,584,265	7,883,186	(6,298,921)
TOTAL	212,571,539	212,718,260	(146,721)
<u>CITYWIDE EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
421 Salaries	726,185,727	726,114,015	71,712
422 Supplies	6,444,746	5,692,565	752,181
422 Furniture and Equipment	4,975,013	3,628,483	1,346,530
422 Textbooks	2,557,398	1,289,566	1,267,832
422 Contractual Services	8,267,179	5,494,535	2,772,644
TOTAL	748,430,063	742,219,164	6,210,899
<u>SPECIAL EDUCATION INSTRUCTIONAL SUPPORT</u>			
423 Salaries	231,802,887	237,981,984	(6,179,097)
424 Supplies	616,664	749,091	(132,427)
424 Furniture and Equipment	762,913	506,671	256,242
424 Textbooks	500	738	(238)
424 Contractual Services	255,997,414	231,093,529	24,903,885
TOTAL	489,180,378	470,332,013	18,848,365
<u>SCHOOL FACILITIES</u>			
435 Salaries	400,683,448	404,509,575	(3,826,127)
436 Supplies	24,098,163	22,582,763	1,515,400
436 Furniture and Equipment	750,170	160,899	589,271
436 Pollution remediation	170,872,000	170,872,000	-
436 Contractual Services	147,466,170	178,595,158	(31,128,988)
TOTAL	743,869,951	776,720,395	(32,850,444)

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2010

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<u>PUPIL TRANSPORTATION</u>			
438 Supplies	\$ 3,252,001	\$ 2,109,828	\$ 1,142,173
438 Equipment	1,928,999	494,711	1,434,288
438 Contractual Services	3,886,500	3,747,867	138,633
438 Pupil Transportation	987,112,978	989,309,185	(2,196,207)
TOTAL	996,180,478	995,661,591	518,887
<u>SCHOOL FOOD SERVICES</u>			
439 Salaries	211,901,047	206,054,720	5,846,327
440 Supplies	14,481,006	19,839,197	(5,358,191)
440 Food Purchases	135,470,051	146,568,355	(11,098,304)
440 Furniture and Equipment	1,730,045	3,202,809	(1,472,764)
440 Contractual Services	45,020,699	26,411,443	18,609,256
TOTAL	408,602,848	402,076,524	6,526,324
442 SCHOOL SAFETY	295,454,757	294,679,292	775,465
444 ENERGY AND LEASES	422,810,338	422,747,540	62,798
<u>CENTRAL ADMINISTRATION</u>			
453 Salaries	185,604,019	185,591,762	12,257
454 Supplies	24,385,014	11,838,881	12,546,133
454 Furniture and Equipment	8,320,270	9,345,071	(1,024,801)
454 Judgement and Claims	388,217	370,253	17,964
454 Contractual Services	139,737,609	148,328,390	(8,590,781)
454 Fixed Charges	690,826	169,202	521,624
TOTAL	359,125,955	355,643,559	3,482,396
461 FRINGE BENEFITS	2,501,844,421	2,502,861,643	(1,017,222)
470 PRE-KINDERGARTEN CONTRACTS	852,652,868	852,591,377	61,491
472 CHARTER/CONTRACT SCHOOLS AND FOSTER CARE	978,050,140	977,902,789	147,351
474 NON-PUBLIC SCHOOLS AND FIT PAYMENTS	71,317,093	71,021,132	295,961
491 COLLECTIVE BARGAINING	33,966,520	33,966,520	-
TOTAL TAX LEVY	\$ 16,186,034,766	\$ 16,170,340,005	\$ 15,694,761
<u>CATEGORICAL PROGRAMS</u>			
481 Salaries	\$ 1,544,462,688	\$ 1,521,342,121	\$ 23,120,567
482 Supplies	159,390,684	117,290,587	42,100,097
482 Furniture and Equipment	45,867,400	13,137,280	32,730,120
482 Pension	175,412,207	175,385,832	26,375
482 Contractual Services	390,334,388	501,009,243	(110,674,855)
TOTAL CATEGORICAL PROGRAMS	2,315,467,367	2,328,165,063	(12,697,696)

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2010

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
TOTAL APPROPRIATIONS EXPENDED	\$ 18,501,502,133	\$ 18,498,505,068	\$ 2,997,065
Intra-City Sales	<u>(28,288,814)</u>	<u>(27,212,471)</u>	<u>(1,076,343)</u>
Sub-Total	18,473,213,319	18,471,292,597	1,920,722
Net Change in Prior Payables	<u>-</u>	<u>(60,085,318)</u>	<u>60,085,318</u>
Total Expenditures	18,473,213,319	18,411,207,279	62,006,040
Other Financing Uses -			
Transfer to The City of New York	<u>-</u>	<u>60,085,318</u>	<u>(60,085,318)</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 18,473,213,319</u>	<u>\$ 18,471,292,597</u>	<u>\$ 1,920,722</u>

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2009

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<u>GENERAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
401 Salaries	\$ 5,751,149,562	\$ 5,767,429,512	\$ (16,279,950)
402 Supplies	263,529,958	143,069,016	120,460,942
402 Furniture and Equipment	61,736,415	67,635,243	(5,898,828)
402 Textbooks	122,495,494	122,096,934	398,560
402 Contractual Services	185,527,952	299,001,301	(113,473,349)
TOTAL	6,384,439,381	6,399,232,006	(14,792,625)
<u>SPECIAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
403 Salaries	1,263,870,486	1,143,228,127	120,642,359
404 Supplies	2,596,613	1,236,375	1,360,238
404 Furniture and Equipment	301,892	1,399,674	(1,097,782)
404 Textbooks	479,611	38,527	441,084
404 Contractual Services	2,578,166	1,020,201	1,557,965
TOTAL	1,269,826,768	1,146,922,904	122,903,864
<u>SCHOOL SUPPORT ORGANIZATION</u>			
415 Salaries	202,264,591	202,264,591	-
416 Supplies	17,132,459	3,530,999	13,601,460
416 Furniture and Equipment	186,673	2,392,010	(2,205,337)
416 Textbooks	142,426	291,580	(149,154)
416 Contractual Services	1,584,265	11,186,567	(9,602,302)
TOTAL	221,310,414	219,665,747	1,644,667
<u>CITYWIDE EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
421 Salaries	684,308,210	711,911,770	(27,603,560)
422 Supplies	7,615,500	4,927,365	2,688,135
422 Furniture and Equipment	4,975,013	2,999,500	1,975,513
422 Textbooks	2,557,398	1,389,360	1,168,038
422 Contractual Services	8,390,829	5,282,822	3,108,007
TOTAL	707,846,950	726,510,817	(18,663,867)
<u>SPECIAL EDUCATION INSTRUCTIONAL SUPPORT</u>			
423 Salaries	233,988,169	233,988,169	-
424 Supplies	616,664	971,352	(354,688)
424 Furniture and Equipment	762,913	437,800	325,113
424 Textbooks	500	587	(87)
424 Contractual Services	160,050,696	211,237,639	(51,186,943)
TOTAL	395,418,942	446,635,547	(51,216,605)
<u>SCHOOL FACILITIES</u>			
435 Salaries	412,962,919	412,962,919	-
436 Supplies	35,256,900	24,845,880	10,411,020
436 Furniture and Equipment	674,290	335,835	338,455
436 Pollution remediation	158,543,320	158,543,320	-
436 Contractual Services	135,339,207	152,348,595	(17,009,388)
TOTAL	742,776,636	749,036,549	(6,259,913)

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2009

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<u>PUPIL TRANSPORTATION</u>			
438 Supplies	\$ 2,618,387	\$ 1,920,570	\$ 697,817
438 Equipment	1,473,422	409,254	1,064,168
438 Contractual Services	39,130,899	32,444,563	6,686,336
438 Pupil Transportation	925,237,430	933,685,751	(8,448,321)
TOTAL	968,460,138	968,460,138	-
<u>SCHOOL FOOD SERVICES</u>			
439 Salaries	194,791,419	198,717,390	(3,925,971)
440 Supplies	13,169,139	18,198,756	(5,029,617)
440 Food Purchases	125,075,560	137,150,405	(12,074,845)
440 Furniture and Equipment	1,730,245	4,682,924	(2,952,679)
440 Contractual Services	48,947,591	24,964,480	23,983,111
TOTAL	383,713,954	383,713,955	(1)
442 SCHOOL SAFETY	217,327,902	217,001,572	326,330
444 ENERGY AND LEASES	407,141,400	393,840,259	13,301,141
<u>CENTRAL ADMINISTRATION</u>			
453 Salaries	188,950,975	188,950,975	-
454 Supplies	31,865,778	13,733,613	18,132,165
454 Furniture and Equipment	9,296,354	5,549,168	3,747,186
454 Contractual Services	145,088,436	161,421,084	(16,332,648)
454 Fixed Charges	386,217	1,977,239	(1,591,022)
TOTAL	375,587,760	371,632,079	3,955,681
461 FRINGE BENEFITS	2,314,142,368	2,314,142,368	-
470 PRE-KINDERGARTEN CONTRACTS	739,296,339	739,296,339	-
472 CHARTER/CONTRACT SCHOOLS AND FOSTER CARE	764,305,445	764,305,445	-
474 NON-PUBLIC SCHOOLS AND FIT PAYMENTS	61,439,672	61,439,672	-
491 COLLECTIVE BARGAINING	41,155,551	41,155,551	-
TOTAL TAX LEVY	\$ 15,994,189,620	\$ 15,942,990,948	\$ 51,198,672
<u>CATEGORICAL PROGRAMS</u>			
481 Salaries	\$ 1,221,228,905	\$ 1,249,526,758	\$ (28,297,853)
482 Supplies	197,930,106	83,214,336	114,715,770
482 Furniture and Equipment	48,877,400	18,254,473	30,622,927
482 Pension	137,982,662	137,986,886	(4,224)
482 Contractual Services	306,288,457	471,079,542	(164,791,085)
TOTAL CATEGORICAL PROGRAMS	1,912,307,530	1,960,061,995	(47,754,465)

**Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2009**

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
TOTAL APPROPRIATIONS EXPENDED	\$ 17,906,497,150	\$ 17,903,052,943	\$ 3,444,207
Intra-City Sales	<u>(14,462,722)</u>	<u>(14,134,125)</u>	<u>(328,597)</u>
Sub-Total	17,892,034,428	17,888,918,818	3,115,610
Net Change in Prior Payables	<u>-</u>	<u>(114,672,119)</u>	<u>114,672,119</u>
Total Expenditures	17,892,034,428	17,774,246,699	117,787,729
Other Financing Uses -			
Transfer to The City of New York	<u>-</u>	<u>114,672,119</u>	<u>(114,672,119)</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 17,892,034,428</u>	<u>\$ 17,888,918,818</u>	<u>\$ 3,115,610</u>

Department of Education of The City of New York
Annual Financial Statements
For the Fiscal Years Ended June 30, 2010 and 2009

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
ISC	Integrated Service Centers
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

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