

ANNUAL FINANCIAL STATEMENTS

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

For the Fiscal Years Ended June 30, 2014 and 2013



Bill De Blasio, Mayor
Carmen Fariña, Chancellor

ANNUAL FINANCIAL STATEMENTS

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

For the Fiscal Years Ended June 30, 2014 and 2013



Prepared by the Division of Financial Operations

Michael Tragale, Chief Financial Officer
Division of Financial Operations

John Wall, Chief Administrator
Division of Financial Operations

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

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DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

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ANNUAL FINANCIAL STATEMENTS

Department of Education of The City of New York

For the Fiscal Years Ended June 30, 2014 and 2013

Introductory Section

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DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

Carmen Fariña, Chancellor

OFFICE OF THE CHANCELLOR

52 Chambers Street, New York, New York 10007

October 29, 2014

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, 2014

The Annual Financial Statements for the Department of Education of The City of New York (the “DOE”) for the fiscal year ended June 30, 2014 are submitted herewith and include a Management’s Discussion and Analysis, Financial Statements, Notes to the Financial Statements and supplemental schedules. We believe it is complete and accurate in all material aspects; that it is presented in accordance with accounting principles designed to set forth fairly the financial position and results of operations of the DOE as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the appropriate understanding of the DOE’s financial affairs have been included. Responsibility for completeness and clarity of the report, including disclosures, rests with the Chancellor, the Deputy Chancellor of Operations, The Chief Financial Officer, and the Executive Director. The Chief Administrator of the Office of Accounting of the Division of Financial Operations, who is responsible for the data presented herein, prepares the Annual Financial Statements.

Deloitte & Touche LLP has audited the 2014 financial statements included in this report; their opinion is expressed on page 7. The auditor’s report on the basic financial statements is unmodified 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 auditor’s report on internal controls over financial reporting and on compliance and other matters, based on an audit of the financial statements performed in accordance with *Government Auditing Standards*, is also included. This report indicates that the auditors’ tests did not identify any deficiencies in internal control over financial reporting that are considered to be material weaknesses nor did their tests disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the Management’s Discussion and Analysis is included as supplementary information required by GAAP. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, no audit opinion is expressed on it. The Supplemental Financial Schedules of the General Fund are presented for purposes of additional analysis and are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

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

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

The DOE is dependent upon The City for appropriations (spending authority) and does not have the authority to levy taxes or issue debt. As part of the DOE’s dependent relationship with The City, The City incurs certain costs on behalf of the DOE that are not allocated to the DOE. Accordingly, these costs are not reflected in the accompanying financial statements. These costs are included in The City’s fiscal year budget appropriations and include debt service costs.

The DOE has two basic sources of funding:

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

The DOE maintains, for its reporting purposes, a computerized accounting system to interface with The City’s Financial Management System (“FMS”). The DOE Financial Accounting Management Information System (“FAMIS”) provides a relational database technology allowing the DOE to take advantage of current technology to conduct business in the most cost-effective and user-friendly manner. All of the DOE’s financial transactions are recorded in the Department’s accounting system and interface with The City’s accounting system. These transactions are subject to all FMS system edit controls.

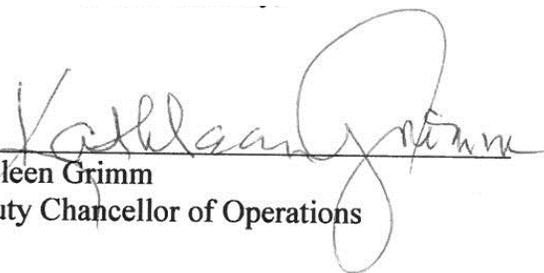
In January of 2010 the DOE integrated with FMS and as a result the DOE's Other Than Personal Services ("OTPS") and Personal Services ("PS") expenditures are now synchronized between FAMIS and FMS. FMS maintains the official accounting records for The City.

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

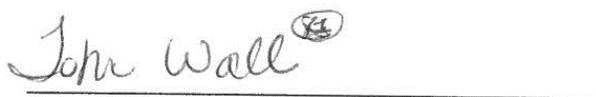
In accordance with the DOE's status as a dependent school district, revenues received for school purposes are required to be deposited into The City's Treasury, which is maintained for the General Fund. As revenues are collected, they are recorded to a series of designated revenue codes established for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

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

Respectfully submitted by,


Kathleen Grimm
Deputy Chancellor of Operations


Michael Tragale
Chief Financial Officer


John Wall
Chief Administrator
Division of Financial Operations

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ANNUAL FINANCIAL STATEMENTS

Department of Education of The City of New York

For the Fiscal Years Ended June 30, 2014 and 2013

Financial Section

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INDEPENDENT AUDITOR'S REPORT

The Department of Education of The City of New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major governmental fund, and the aggregate remaining governmental fund information of the Department of Education of The City of New York (the "DOE"), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the DOE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to The City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the DOE's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major governmental fund, and the aggregate remaining governmental fund information, of the DOE, as of June 30, 2014 and 2013, and the respective changes in financial position, where applicable thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1B, in 2014, the DOE adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

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, 2014 and 2013, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 13 through 23 and the Required Supplementary Information on pages 63-66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We, as it relates to Management’s Discussion and Analysis only, have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the DOE’s basic financial statements. The Introductory Section, and the Supplemental Financial Schedules of the General Fund, as listed in the foregoing table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

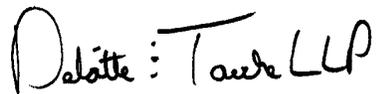
The Supplemental Financial Schedules of the General Fund is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling

such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion the Supplemental Financial Schedules of the General Fund is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Introductory Section has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014, 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 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 in considering the DOE's internal control over financial reporting and compliance.

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

October 29, 2014

INDEPENDENT AUDITOR’S 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, in accordance with the 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, the financial statements of the governmental activities, each major governmental fund, and the aggregate remaining governmental fund information of the Department of Education of The City of New York (the “DOE”) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the DOE’s basic financial statements, and have issued our report thereon dated October 29, 2014, which contains an explanatory paragraph regarding the adoption of Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. 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, 2014, 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 of the financial statements, we considered the DOE’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the DOE’s internal control.

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 DOE’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

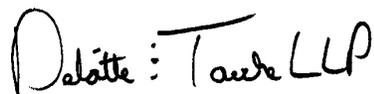
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the DOE's financial statements is free from 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 the financial statements 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 the Audit Committee and management of the DOE in a separate letter dated October 29, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DOE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the DOE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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October 29, 2014

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DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the DOE's Annual Financial Statements discusses and analyzes the DOE's financial performance for the fiscal years ended June 30, 2014 and 2013. 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, 2014 was \$26.7 billion, a decrease in net position of \$7.9 billion over that of fiscal year 2013.

Net deficit at June 30, 2013 was \$34.7 billion, a change in net position of \$24.9 billion over that of fiscal year 2012.

- Total assets, liabilities and deferred inflows of resources reported in the governmental funds at June 30, 2014 were \$3.5 billion, an decrease of \$951 million from fiscal year 2013.

Total assets, liabilities and deferred inflows of resources reported in the governmental funds at June 30, 2013 were \$4.5 billion, an increase of \$405 million from fiscal year 2012.

- General Fund total revenues available and spent during fiscal year 2014 were \$20.0 billion, an increase of \$853 million over that of fiscal year 2013.

General Fund total revenues available and spent during fiscal year 2013 were \$19.2 billion, decrease of \$51 million over that of fiscal year 2012.

- In fiscal year 2014 a net surplus of \$765 million was returned to The City due to a write down of prior year payables (\$1.4 billion) and a write down of prior receivables (\$612 million).

In fiscal year 2013 a net surplus of \$0.30 billion was returned to The City due to a write down of prior year payables (\$73.5 million) and a write down of prior receivables (\$73.2 million).

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.

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 Position 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/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

In fiscal year 2014, the DOE implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB Statement No. 68”). GASB Statement No. 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to employees of state and local government. The DOE participates in cost sharing multiple-employer pension systems as defined by GASB Statement No. 68. The implementation of GASB Statement No. 68 resulted in the recognition of pension expense as well as the reporting of deferred inflows of resources and a net pension liability based on the DOE’s proportionate share of those plans, calculated as specified in GASB Statement No. 68. (See Note 1B and Note 4 for cumulative change and for details of GASB Statement No. 68).

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 Position includes all the DOE’s assets, liabilities and deferred inflows of resources. All of the current year’s revenues and expenses are accounted for in the Statement of Activities regardless of when the cash is received or paid.

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

Fund Financial Statements

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

The DOE has two kinds of funds:

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

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

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

Financial Analysis of the Department-wide Financial Statements

At the close of fiscal year 2014, total liabilities and deferred inflows of resources of the DOE exceeded total assets by (\$26.7 billion), a decrease in net position of \$7.9 billion from that at the close of fiscal year 2013. Net positions, as of June 30, 2014, June 30, 2013 and June 30, 2012 are summarized below for all governmental activities.

At the close of fiscal year 2013, total liabilities and Deferred Inflows of Resources of the DOE exceeded total assets by (\$34.7 billion), a change in net position of (\$24.9 billion) from that at the close of fiscal year 2012.

Figure 1

	Governmental Activities (000's Omitted)		
	2014	2013	2012
Current and other assets	\$ 11,097,937	\$ 7,263,095	\$ 4,077,955
Capital assets	<u>23,433,231</u>	<u>22,438,324</u>	<u>21,857,207</u>
Total assets	<u>\$ 34,531,168</u>	<u>\$ 29,701,419</u>	<u>\$ 25,935,162</u>
Long-term liabilities	\$ 49,809,360	\$ 56,779,485	\$ 31,302,095
Other liabilities	<u>3,858,076</u>	<u>4,799,987</u>	<u>4,363,122</u>
Total liabilities	<u>\$ 53,667,436</u>	<u>\$ 61,579,472</u>	<u>\$ 35,665,217</u>
Deferred inflows of resources	<u>\$ 7,590,310</u>	<u>\$ 2,790,658</u>	<u>\$ 30,243</u>
Net position:			
Net investment in capital assets	\$ 23,433,231	\$ 22,438,324	\$ 21,857,207
Unrestricted deficit	<u>(50,159,809)</u>	<u>(57,107,035)</u>	<u>(31,617,505)</u>
Total net position	<u>\$ (26,726,578)</u>	<u>\$ (34,668,711)</u>	<u>\$ (9,760,298)</u>

In fiscal year 2014, assets increased \$4.8 billion from \$29.7 billion as of June 30, 2013 to \$34.5 billion as of June 30, 2014 primarily due to adoption of Governmental Accounting Standards Board (“GASB”) statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which resulted in an increase in Due from The City of New York of approximately, \$4.6 billion. Capital assets increased by \$995 million due to transfer from SCA.

In fiscal year 2013, assets increased \$3.8 billion from \$25.9 billion as of June 30, 2012 to \$29.7 billion as of June 30, 2013 primarily due to adoption of GASB 68 which resulted in an increase in Due from The City of New York of approximately, \$2.9 billion. Capital assets increased by \$581 million due to transfer from SCA.

In fiscal year 2014, liabilities and deferred inflow of resources decreased by approximately (\$3.1 billion) from \$64.4 billion as of June 30, 2013 to \$61.3 billion as of June 30, 2014, which was primarily due to a decrease in pension liability of (\$6.0 billion) and decreases in the estimate of other postemployment benefits (OPEB) liabilities of (\$983 million), accounts payable and accrued expenditures of (\$943 million), other liabilities of (\$22 million), which were offset by increases in grant advances and deferred inflow from pension of \$4.8 billion. Additionally, there were changes in capital lease obligations \$16.7 million, accrued judgments and claims \$23.9 million and pollution remediation of \$12.1 million.

In fiscal year 2013, liabilities and deferred inflow of resources increased by approximately \$28.7 billion from \$35.7 billion as of June 30, 2012 to \$64.4 billion as of June 30, 2013, primarily due to the adoption of GASB

68, which required a pension liabilities of \$24.1 billion be recorded , as well as increases in the estimate of other postemployment Benefits (OPEB) liabilities of \$1.4 billion, accounts payable and accrued expenditures of \$398 million, other liabilities of \$26.7 million, and an increase in grant advances and deferred inflow from pension of \$2.8 billion. Additionally, there were changes in capital lease obligations \$7 million, accrued judgments and claims \$2.6 million and pollution remediation of \$25 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 and employer pension obligation.

In fiscal year 2014, The DOE's net deficit decreased by \$7.9 billion from July 1, 2013 to June 30, 2014 and in fiscal 2013, The DOE's net deficit increased by (\$24.9 billion) from July 1, 2012 to June 30, 2013 due to a retro-spective restatement of the beginning net position as required by GASB 68. The key elements of these changes are as follows:

Figure 2 Condensed Statement of Activities	Governmental Activities (000's Omitted)		
	2014	2013	2012
Revenues:			
Program revenues:			
Charges for services	\$ 95,808	\$ 76,430	\$ 75,795
Operating grants and contributions	10,483,729	10,095,408	10,140,210
General revenues:			
City funded	9,470,275	9,030,429	9,025,409
Other	35,474	30,149	41,842
Total revenues	<u>20,085,286</u>	<u>19,232,416</u>	<u>19,283,256</u>
Expenses:			
School leadership, instruction and special education support	8,171,310	13,096,958	15,220,176
School support services	3,110,493	3,351,110	3,391,669
School support organization	136,386	225,334	274,827
Central administration	295,767	321,189	379,498
Non-public schools	2,571,773	2,489,433	2,501,201
Total expenses	<u>14,285,729</u>	<u>19,484,024</u>	<u>21,767,371</u>
Net revenue (expenses)	5,799,557	(251,608)	(2,484,115)
Net change in capital assets and inventory	<u>2,142,576</u>	<u>1,797,462</u>	<u>1,434,861</u>
Change in net position	7,942,133	1,545,854	(1,049,254)
Net position (deficit) — beginning	(34,668,711)	(9,760,298)	(8,711,044)
Restatement of beginning net position (deficit) (NOTE 1B)	<u>-</u>	<u>(26,454,267)</u>	<u>-</u>
Net position (deficit)— ending	<u>\$ (26,726,578)</u>	<u>\$ (34,668,711)</u>	<u>\$ (9,760,298)</u>

In fiscal year 2014, the DOE received \$96.8 million as a result of The American Recovery and Reinvestment Act (“ARRA”) of 2009. Federal program revenues decreased (9.3 %) from \$1.9 billion in fiscal year 2013 to \$1.7 billion in fiscal year 2014 and the State program revenues funding increased 6.2% from \$8.0 billion in fiscal year 2013 to \$8.5 billion in fiscal year 2014.

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 Benefit Obligations; (6) change in Pollution Remediation Obligations; and (7) Employer Pension Obligation.

In fiscal year 2014, the full accrual expenses include \$20.0 billion of modified accrual expenses reduced by (\$5.8 billion) of expenses incurred by The City to report a full accrual expense of \$14.3 billion, a decrease of (26.7%), from fiscal year 2013, mainly due to recognizing the change in pension liability (\$6.0 billion).

In fiscal year 2013, the full accrual expenses include \$19.2 billion of modified accrual expenses and over \$282 million of additional expenses incurred by The City to report a full accrual expense of \$19.5 billion, an decrease of 10.5%, from fiscal year 2012 mainly due to decrease in employer pension cost.

In fiscal year 2014, due to the decrease in the changes of the cost allocation of long term liabilities, the category of School Leadership, Instruction and Special Education Support decreased about (37.4%) from \$13.1 billion in fiscal year 2013 to \$8.2 billion in fiscal year 2014; School Support Services decreased about (\$241 million) from \$3.4 billion in fiscal year 2013 to \$3.1 billion in fiscal year 2014; School Support Organization decreased from \$225 million to \$136 million, and Central Administration decreased by (\$25.4 million). Non-Public Schools had increases of \$82 million due to charter school increases.

In fiscal year 2013, the category of School Leadership, Instruction and Special Education Support decreased about 13.8 % from \$15.2 billion in fiscal year 2012 to \$13.1 billion in fiscal year 2013 due to adoption of GASB 68 pension liabilities and decrease in the change of the cost allocation of the long term liabilities; School Support Services decreased \$40 million as a result of the decrease in the pension expense and also change of the cost allocation in OPEB, Capital Leases and Judgment and claims from fiscal year 2012 to fiscal year 2013 respectively. School Support Organization decreased from \$275 million to \$225 million due to GASB 68 allocations. Central Administration decreased by \$58.3 million, due to decrease in pension costs. Non-Public Schools had decreases of (\$12 million) due to a revised cost estimate of in-state contract schools, Carter case expenditures, Pre-K transportation, itinerant services and tuition obligations.

Financial Analysis of the Governmental Funds

Total assets, liabilities and deferred inflow of resources decreased \$951 million, 21.24%, for fiscal year 2014 compared to fiscal year 2013 where assets and liabilities increased \$405 million, 9.94%, as follows:

Figure 3:
Condensed Balance Sheet (in millions of dollars)

	Governmental Activities			Amount Change		Percentage Change	
	2014	2013	2012	2013-2014	2012-2013	2013-2014	2012-2013
Assets:							
General fund	\$ 3,525	\$4,476	\$4,071	\$ (951)	\$ 405	(21.24)%	9.94 %
Total assets	\$ 3,525	\$4,476	\$4,071	\$ (951)	\$ 405	(21.24)%	9.94 %
Liabilities and deferred inflows of resources:							
General fund	\$ 3,501	\$4,466	\$4,041	\$ (965)	\$ 425	(21.60)%	10.51 %
Deferred inflows of resources	24	10	30	14	(20)	140.00 %	(66.67)%
Total liabilities and deferred inflows of resources	\$ 3,525	\$4,476	\$4,071	\$ (951)	\$ 405	(21.24)%	9.94 %

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

Changes in total assets for fiscal year 2014: First, there was a net decrease of \$158 million of amounts due from The City to pay for outstanding liabilities in the General Fund. At year end there were also decreases in the accounts receivable from federal sources of (\$210 million), state sources of (\$601 million) and an increase in non-governmental sources of \$20 million. At year end there were decreases in the balances of cash of (\$1.2 million).

Changes in total assets for fiscal year 2013: First, there was a net increase of \$133 million of amounts due from The City to pay for outstanding liabilities in the General Fund. At year end there were also increases in the accounts receivable from federal sources of \$233 million, in state of \$10 million and an increase in non-governmental sources of \$34 million. At year end there were decreases in the balances of cash of (\$5.9 million).

Changes in total liabilities and deferred inflows of resources for fiscal year 2014: Governmental Fund liabilities decreased (\$965 million) due to decreases of almost (\$943 million) in accounts payable in the General Fund. Also, there was a decrease of (\$22 million) in the balance of the other liabilities in the General Fund and an increase of \$14 million in the deferred inflow of resources.

Changes in total liabilities and deferred inflows of resources for fiscal year 2013: Governmental Fund liabilities increased \$425 million due to increases of almost \$398 million in accounts payable in the General Fund. Also, there was an increase of \$26.7 million in the balance of the other liabilities in the General Fund and an decrease of \$20 million in the deferred inflow of resources.

In fiscal year 2014, total revenues and expenditures increased \$853 million, 4.4%, compared to June 30, 2013. Total revenues and expenditures decreased \$51 million, (0.3%), for the year ended June 30, 2013 compared to June 30, 2012.

Figure 4

Changes in Revenue and Expenditures (in millions of dollars)	General Funds			Percentage	Percentage
	2014	2013	2012	Change	Change
				2013–2014	2012–2013
Revenues:					
Federal aid	\$ 1,709.0	\$ 1,884.5	\$ 1,910.1	(9.3)%	(1.34)%
State aid	8,482.0	7,984.1	8,035.2	6.2 %	(0.64)%
Funding by the city	9,505.8	9,060.6	9,067.3	4.9 %	(0.07)%
Other	388.4	303.2	270.7	28.1 %	12.0 %
Total revenues	<u>\$20,085.2</u>	<u>\$19,232.4</u>	<u>\$19,283.3</u>	4.4 %	(0.3)%
Expenditures:					
School leadership, instruction and special education support	\$ 13,614.6	\$ 13,028.9	\$ 13,092.8	4.5 %	(0.49)%
School support services	3,290.3	3,176.5	3,115.6	3.6 %	1.95 %
School support organization	236.2	224.9	235.9	5.0 %	(4.67)%
Central administration	372.3	312.7	337.8	19.0 %	(7.43)%
Non-public schools	<u>2,571.8</u>	<u>2,489.4</u>	<u>2,501.2</u>	3.3 %	(0.47)%
Total expenditures	<u>\$20,085.2</u>	<u>\$19,232.4</u>	<u>\$19,283.3</u>	4.4 %	(0.3)%

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 2014, the overall Federal program revenues decreased (9.3%) from \$1.88 billion in fiscal year 2013 to \$1.7 billion in fiscal year 2014, State program revenues increased 6.2% from \$8.0 billion in fiscal year 2013 to \$8.5 billion in fiscal year 2014, and City revenues increased 4.9 % from \$9.06 billion in 2013 to \$9.50 billion in 2014.

In fiscal year 2013, the overall Federal program revenues decreased (1.34 percent) from \$1.91 billion in fiscal year 2012 to \$1.88 billion in fiscal year 2013, State program revenues remained at approximately \$8 billion in 2013 and 2012, and City revenues decreased (0.07) percent from \$9.07 billion in 2012 to \$9.06 billion in 2013.

In fiscal year 2014, major programs that decreased individual revenues included: Race to the Top, which is a multi-year \$256 million grant in which \$81 million was utilized in fiscal year 2014, (\$21 million) lower than the \$102 million of fiscal year 2013. In addition, there were additional Federal revenue decreases in Title 1 and Individuals with Disabilities Act (IDEA) of (\$133 million). There were also Federal revenue decreases in FEMA funds related to Hurricane Sandy of (\$39 million) and a net decrease of (\$17 million) in other miscellaneous grants. These decreases were offset by increases to Federally Reimbursed school food revenue of \$6 million, Teacher Incentive funds of \$5 million and Title 1 School Improvement grants of \$23 million. In addition there were State Aid increases of \$140 million in baseline Foundation Aid coupled with a \$183 million decrease in the State's Gap Elimination Adjustment (GEA) and the \$312 million APPR penalty assessed in 2013 due to lack of a teacher's evaluation agreement was not imposed in 2014. These increases were offset by decreases of (\$45 million) in Transportation Aid and (\$92 million) in state rate driven and categorical aids.

In fiscal year 2013, major programs that benefited from increased individual revenues included: Race to the Top, which is a multi-year \$256 million grant in which \$102.3 million was utilized in fiscal year 2013, \$40 million higher than the \$62.3 million of fiscal year 2012. In addition, there were additional Federal revenue increases in Individuals with Disabilities Education Act (IDEA) of \$18.9 million, Federal School Lunch of \$15.9 million and \$44.2 million in FEMA as a result of Hurricane Sandy, up from \$1.8 million (Hurricane Irene revenue in fiscal year 2012) to \$46.0 million in fiscal year 2013. These increases were offset by decreases to Title I of (\$45.7 million), Medicaid of (\$22.4 million), non-ARRA Title I School Improvement grants of (\$20.6 million), ARRA of (\$34.9 million), Title IIA Professional Development of

(\$5.0 million) and Vocational Education of (\$3.8 million). In addition there were State Aid decreases such as Pre-K Handicapped revenue of (\$37 million) and approximately (\$250 million) due to the Annual Professional Performance Review.

In fiscal year 2014, total expenditures, under modified accrual accounting, increased 4.4% or \$853 million. Expenditures in the area of School Leadership, Instruction and Special Education Support increased \$586 million, more than 4.5% mainly due to increases in collective bargaining and contractual services. School Support Services increased \$114 million, 3.6% mainly for the increased costs of pollution remediation, transportation and other liabilities. Expenditures in the area of School Support Organization increased about \$11 million, 5.0% due to increases of contractual services and an increase in reimbursable funding allocated. Central Administration increased overall by \$60 million, 19.0% due to increases of supplies, equipment and contractual services. Non-Public Schools expenditures increased \$82.0 million, 3.3% due to charter school.

In fiscal year 2013, total expenditures, under modified accrual accounting, decreased (0.3 percent) or (\$51 million). Expenditures in the area of School Leadership, Instruction and Special Education Support decreased (\$63.9 million), less than (0.49 percent) mainly due to decreases in contractual services. School Support Services increased \$60.9 million, 1.95 percent mainly for the increased cost of school food purchases. Expenditures in the area of School Support Organization decreased about (\$11 million), (4.67 percent) due to decreases of contractual services and a decrease in reimbursable funding allocated. Central Administration decreased overall by (\$25.1 million), (7.43 percent) due to decreases of supplies, equipment and contractual services. Non-Public Schools expenditures decreased (\$12 million), (0.47 percent) due to changes made to estimated cost projections of in-state contract schools, Carter case expenditures, Pre-K transportation, tuition obligations and itinerant services.

General Fund Budgetary Highlights

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

- Intra-city adjustments of \$ 8.6 million to Tax-Levy budgets and \$16.3 million to Reimbursable program budgets.
- Executive and Adopted Budget Actions which increased Tax-Levy budgets by \$270.7 million and Reimbursable Program Budgets by \$9.5 million.
- Tax-Levy surpluses of \$45 million were rolled from FY2014 to FY2015 as part of the Deferred Program Planning Initiative (DPPI).
- November and February Plan Actions, which decreased Tax-Levy Budgets by (\$171.9) million and decreased Reimbursable Program Budgets by (\$7.0 million).
- Final fiscal year Close Actions, which decreased Tax-Levy budgets by (\$176.1) million and increased Reimbursable Program Budgets by \$91.7 million.
- Additional fiscal year Close Actions, which includes an increase to Tax-Levy budgets of \$145.5 million, are attributable to the effects of GASB Statement No. 49 requirements.

As a result of the above, the DOE made net modifications to the adopted budget of over \$195.2 million.

Capital Assets

The DOE's net 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)		
	2014	2013	2012
Land	\$ 448,956	\$ 448,956	\$ 446,993
Buildings	20,920,299	19,692,817	18,788,175
Equipment	47,107	54,653	59,571
Construction in progress	<u>2,016,869</u>	<u>2,241,898</u>	<u>2,562,468</u>
Total	<u>\$23,433,231</u>	<u>\$22,438,324</u>	<u>\$21,857,207</u>

In fiscal year 2014, capital assets, net of accumulated depreciation, increased from fiscal year 2013 by \$995 million, primarily due to capital assets (completed new construction and equipment) that were transferred to the DOE from the SCA in the amount of \$2.3 billion. In fiscal year 2013, capital assets, net of accumulated depreciation, increased from fiscal year 2012 by \$581 million, primarily due to capital assets (completed new construction and equipment) that were transferred to the DOE from the SCA in the amount of \$2.1 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 District court dismissed the case following a bench trial. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the District court's ruling, dismissed the claims against the State, and remanded the matter for further proceedings. (See Note 4E)

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

A lawsuit against the DOE and other school districts throughout the State alleging that claims by the districts seeking Medicaid reimbursement for their respective Targeted Case Management programs violated the federal False Claims Act was unsealed in July 2012 and served on the City in October 2012. The Targeted Case Management program is a program that coordinates services for children with disabilities. The relators (plaintiffs) allege that the districts submitted false and fraudulent claims for reimbursement. The federal government is not participating in this action. The relators seek treble damages as well as civil penalties. If the relators were to ultimately prevail, the City could be subject to substantial damages.

Contacting the Department's Financial Management

These financial statements are designed to provide The City's citizens, taxpayers, customers, investors and creditors with a general overview of the DOE's finances and to demonstrate the DOE's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director of the Division of Financial Operations, 65 Court Street, Room 1803A, Brooklyn, New York 11201.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

**STATEMENT OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2014
(\$000 Omitted)**

	Governmental Activities
ASSETS:	
Cash	\$ 15,249
Accounts receivable	
Federal	556,899
State	1,324,943
Non-governmental	81,187
Due from The City of New York	9,112,828
Inventories	6,831
Capital assets (net of accumulated depreciation)	
Land	448,956
Buildings	20,920,299
Equipment (including software)	47,107
Construction in progress	<u>2,016,869</u>
TOTAL ASSETS	<u>\$ 34,531,168</u>
LIABILITIES:	
Accounts payable and accrued expenditures	\$ 3,461,274
Other liabilities	39,522
Other postemployment benefit obligations	28,955,610
Employer pension obligations	18,036,835
Pollution remediation obligations	
Due within one year	100,585
Due in more than one year	11,176
Accrued vacation and sick leave	
Due within one year	55,668
Due in more than one year	1,843,664
Capital lease obligations	
Due within one year	21,082
Due in more than one year	299,462
Accrued judgments and claims	
Due within one year	179,945
Due in more than one year	<u>662,613</u>
TOTAL LIABILITIES	<u>\$ 53,667,436</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred Inflows from pension	\$ 7,566,530
Grant advances	<u>23,780</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 7,590,310</u>
NET POSITION:	
Net investment in capital assets	\$ 23,433,231
Unrestricted deficit	<u>(50,159,809)</u>
TOTAL NET POSITION (DEFICIT)	<u>\$ (26,726,578)</u>

See accompanying notes to the financial statements.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

**STATEMENT OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2013
(\$000 Omitted)**

	Governmental Activities
ASSETS:	
Cash	\$ 16,407
Accounts receivable	
Federal	767,274
State	1,926,270
Non-governmental	61,560
Due from The City of New York	4,484,890
Inventories	6,694
Capital assets (net of accumulated depreciation)	
Land	448,956
Buildings	19,692,817
Equipment (including software)	54,653
Construction in progress	<u>2,241,898</u>
TOTAL ASSETS	<u>\$ 29,701,419</u>
LIABILITIES:	
Accounts payable and accrued expenditures	\$ 4,404,107
Other liabilities	61,636
Other postemployment benefit obligations	29,938,531
Employer pension obligations	24,054,904
Pollution remediation obligations	
Due within one year	89,692
Due in more than one year	9,966
Accrued vacation and sick leave	
Due within one year	51,903
Due in more than one year	1,846,262
Capital lease obligations	
Due within one year	19,667
Due in more than one year	284,190
Accrued judgments and claims	
Due within one year	172,982
Due in more than one year	<u>645,632</u>
TOTAL LIABILITIES	<u>\$ 61,579,472</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred inflows from pension	\$ 2,780,294
Grant advances	<u>10,364</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 2,790,658</u>
NET POSITION:	
Net investment in capital assets	\$ 22,438,324
Unrestricted deficit	<u>(57,107,035)</u>
TOTAL NET POSITION (DEFICIT)	<u>\$ (34,668,711)</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, 2014 (\$000 Omitted)

Function/Programs	Program Expenses	Program Revenue		Net (Expenses) Revenue
		Charges for Services	Operating Grants and Contributions	
SCHOOL LEADERSHIP, INSTRUCTION AND SPECIAL EDUCATION SUPPORT	\$ 8,171,310	\$ 6,998	\$ 8,153,061	\$ (11,251)
SCHOOL SUPPORT SERVICES	3,110,493	51,666	1,694,886	(1,363,941)
SCHOOL SUPPORT ORGANIZATION	136,386	-	-	(136,386)
CENTRAL ADMINISTRATION	295,767	-	-	(295,767)
NON-PUBLIC SCHOOLS	<u>2,571,773</u>	<u>37,144</u>	<u>635,782</u>	<u>(1,898,847)</u>
Total department activities	<u>\$ 14,285,729</u>	<u>\$ 95,808</u>	<u>\$ 10,483,729</u>	(3,706,192)
GENERAL REVENUES:				
City Funded				9,470,275
Intra-city Sales				35,474
OTHER ADJUSTMENTS —				
Net change in capital assets and inventory				<u>2,142,576</u>
CHANGE IN NET POSITION				
NET POSITION (DEFICIT) — Beginning				<u>(34,668,711)</u>
NET POSITION (DEFICIT) — Ending				<u>\$ (26,726,578)</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, 2013 (\$000 Omitted)

Function/Programs	Program Expenses	Program Revenue		Net (Expenses) Revenue
		Charges for Services	Operating Grants and Contributions	
SCHOOL LEADERSHIP, INSTRUCTION AND SPECIAL EDUCATION SUPPORT	\$ 13,096,958	\$ 6,933	\$ 7,698,669	\$ (5,391,356)
SCHOOL SUPPORT SERVICES	3,351,110	41,632	1,688,229	(1,621,249)
SCHOOL SUPPORT ORGANIZATION	225,334	-	-	(225,334)
CENTRAL ADMINISTRATION	321,189	-	-	(321,189)
NON-PUBLIC SCHOOLS	<u>2,489,433</u>	<u>27,865</u>	<u>708,510</u>	<u>(1,753,058)</u>
Total department activities	<u>\$ 19,484,024</u>	<u>\$ 76,430</u>	<u>\$ 10,095,408</u>	(9,312,186)
GENERAL REVENUES:				
City Funded				9,030,429
Intra-city Sales				30,149
OTHER ADJUSTMENTS —				
Net change in capital assets and inventory				<u>1,797,462</u>
CHANGE IN NET POSITION				1,545,854
NET POSITION (DEFICIT) — Beginning				(9,760,298)
Restatement of Beginning Net Position (Deficit) (Note 1B and 4)				<u>(26,454,267)</u>
NET POSITION (DEFICIT) — Ending				<u>\$ (34,668,711)</u>

See accompanying notes to the financial statements.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

BALANCE SHEET AS OF JUNE 30, 2014 (\$000 Omitted)

	Governmental Fund Type General Fund
ASSETS	
CASH	\$ 15,249
ACCOUNTS RECEIVABLE:	
Federal	556,899
State	1,324,943
Non-governmental	81,187
DUE FROM THE CITY OF NEW YORK	<u>1,546,298</u>
TOTAL ASSETS	<u>\$ 3,524,576</u>
LIABILITIES	
ACCOUNTS PAYABLE AND ACCRUED EXPENDITURES	\$ 3,461,274
OTHER LIABILITIES	<u>39,522</u>
Total liabilities	<u>3,500,796</u>
DEFERRED INFLOWS OF RESOURCES	
Grant advances	<u>23,780</u>
Total deferred inflows of resources	<u>23,780</u>
FUND BALANCE — Total fund balance	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 3,524,576</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 Position 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, 2013 (\$000 Omitted)

	Governmental Fund Type General Fund
ASSETS	
CASH	\$ 16,407
ACCOUNTS RECEIVABLE:	
Federal	767,274
State	1,926,270
Non-governmental	61,560
DUE FROM THE CITY OF NEW YORK	<u>1,704,596</u>
TOTAL ASSETS	<u>\$4,476,107</u>
LIABILITIES	
ACCOUNTS PAYABLE AND ACCRUED EXPENDITURES	\$4,404,107
OTHER LIABILITIES	<u>61,636</u>
Total liabilities	<u>4,465,743</u>
DEFERRED INFLOWS OF RESOURCES:	
Grant advances	<u>10,364</u>
Total deferred inflows of resources	<u>10,364</u>
FUND BALANCE — Total fund balance	<u>-</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$4,476,107</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 Position is presented in an accompanying schedule.

See accompanying notes to the financial statements.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION (DEFICIT) AS OF JUNE 30, 2014 (\$000 Omitted)

Amounts reported for governmental activities in the Statement of Net Position 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.		6,831
CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND THEREFORE, ARE NOT REPORTED IN THE GOVERNMENTAL FUNDS		23,433,231
LONG-TERM LIABILITIES ARE NOT DUE AND PAYABLE IN THE CURRENT PERIOD AND ACCORDINGLY ARE NOT REPORTED IN THE GOVERNMENTAL FUNDS. THESE ARE:		
Other postemployment benefit obligations		(28,955,610)
Employer pension obligations		(18,036,835)
Accrued vacation and sick leave		(1,899,332)
Pollution remediation obligations		(111,761)
Capital lease obligations		(320,544)
Accrued judgments and claims		<u>(842,558)</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	\$	<u>(26,726,578)</u>

See accompanying notes to the financial statements.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUND TO THE STATEMENT OF NET POSITION (DEFICIT) AS OF JUNE 30, 2013 (\$000 Omitted)

Amounts reported for governmental activities in the Statement of Net Position 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.	6,694
CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND THEREFORE, ARE NOT REPORTED IN THE GOVERNMENTAL FUNDS	22,438,324
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	(29,938,531)
Employer pension obligations	(24,054,904)
Accrued vacation and sick leave	(1,898,165)
Pollution remediation obligations	(99,658)
Capital lease obligations	(303,857)
Accrued judgments and claims	<u>(818,614)</u>
NET POSITION (DEFICIT) OF GOVERNMENTAL ACTIVITIES	<u>\$ (34,668,711)</u>

See accompanying notes to the financial statements.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE ALL GOVERNMENTAL FUND TYPE FOR THE YEAR ENDED JUNE 30, 2014 (\$000 Omitted)

	Government Fund Type General Fund
REVENUES:	
Federal aid	\$ 1,709,019
State aid	8,482,040
Universal services fund	7,461
Other assistance	247,718
Charges for services:	
School construction authority	44,490
Student lunches	15,687
Rentals	35,980
Other	37,144
Subtotal	10,579,539
Net change in estimate of prior receivables	<u>(612,262)</u>
Subtotal	9,967,277
Funding provided by The City of New York	<u>10,082,537</u>
Total revenues and other financing sources	<u>\$20,049,814</u>
EXPENDITURES:	
General education instruction and school leadership	\$ 6,232,307
Special education instruction and school leadership	1,264,404
Charter school	1,065,338
School support organization	158,122
Citywide education instruction and school leadership	822,370
Special education instructional support	462,080
School facilities	791,875
Pupil transportation	1,098,848
School food services	412,054
School safety	309,676
Energy and leases	514,180
Central administration	330,979
Fringe benefits	2,837,784
Pre-kindergarten contracts	824,810
Contract schools and foster care payments	611,452
Non-public schools	70,173
Collective Bargaining	246,354
Subtotal	18,052,806
Reimbursable — categorical programs	2,032,482
Intracity sales	<u>(35,474)</u>
Subtotal	20,049,814
Net change in estimate of prior payables	<u>(1,377,641)</u>
Total expenditures	18,672,173
OTHER FINANCING USES — Transfer to The City of New York	<u>1,377,641</u>
Total expenditures and other uses	20,049,814
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>-</u>
FUND BALANCE	<u>\$ -</u>

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

See accompanying notes to the financial statements.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE ALL GOVERNMENTAL FUND TYPE FOR THE YEAR ENDED JUNE 30, 2013 (\$000 Omitted)

	Government Fund Type General Fund
REVENUES:	
Federal aid	\$ 1,884,556
State aid	7,984,121
Universal services fund	24
Other assistance	170,312
Charges for services:	
School construction authority	63,328
Student lunches	12,435
Rentals	29,197
Other	<u>27,865</u>
Subtotal	10,171,838
Net change in estimate of prior receivables	<u>(73,153)</u>
Subtotal	10,098,685
Funding provided by The City of New York	<u>9,103,582</u>
Total revenues and other financing sources	<u>\$19,202,267</u>
EXPENDITURES:	
General education instruction and school leadership	\$ 6,033,389
Special education instruction and school leadership	1,212,200
Charter schools	865,306
School support organization	148,404
Citywide education instruction and school leadership	793,889
Special education instructional support	497,447
School facilities	741,108
Pupil transportation	1,066,958
School food services	412,612
School safety	306,130
Energy and leases	482,230
Central administration	271,022
Fringe benefits	2,814,368
Pre-kindergarten contracts	941,746
Contract schools and foster care payments	612,704
Non-public schools	<u>69,677</u>
Subtotal	17,269,190
Reimbursable — categorical programs	1,963,226
Intracity sales	<u>(30,149)</u>
Subtotal	19,202,267
Net change in estimate of prior payables	<u>(73,532)</u>
Total expenditures	19,128,735
OTHER FINANCING USES — Transfer to The City of New York	<u>73,532</u>
Total expenditures and other uses	19,202,267
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>-</u>
FUND BALANCE	<u>\$ -</u>

Note: The reconciliation of the fund balance of the governmental funds to the change in net position 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, 2014 (\$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 AND REPORTED AS DEPRECIATION EXPENSE.			(1,147,531)
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 employer pension obligations	6,018,070		
Change in other postemployment benefit obligations	982,921		
Change in sick leave and vacation liability	(1,167)		
Change in pollution remediation obligations	(12,103)		
Change in capital lease obligations	(16,687)		
Change in judgments and claims liability	<u>(23,944)</u>		
			6,947,088
NET CHANGES IN CAPITAL ASSETS AND INVENTORY WHERE NEITHER REVENUES NOR EXPENSES ARE INCURRED BY THE DEPARTMENT — Net of department costs			<u>2,142,576</u>
CHANGE IN NET POSITION — Governmental activities		\$	<u>7,942,133</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, 2013 (\$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 AND REPORTED AS DEPRECIATION EXPENSE.		(1,216,181)
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:		
Net Change in employer pension obligations	2,399,363	
Change in other postemployment benefit obligations	(1,406,855)	
Change in sick leave and vacation liability	7,421	
Change in pollution remediation obligations	(25,491)	
Change in capital lease obligations	(7,216)	
Change in judgments and claims liability	<u>(2,649)</u>	
		964,573
NET CHANGES IN CAPITAL ASSETS AND INVENTORY WHERE NEITHER REVENUES NOR EXPENSES ARE INCURRED BY THE DEPARTMENT — Net of department costs		<u>1,797,462</u>
CHANGE IN NET POSITION — Governmental activities	\$	<u>1,545,854</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, 2014 (\$000 Omitted)

	Adopted Budget	Modified Budget	Actual	Favorable/ (Unfavorable)
REVENUES:				
Federal aid	\$ 1,784,935	\$ 1,709,019	\$ 1,709,019	\$ -
State aid	8,663,861	8,482,039	8,482,040	1
Universal services fund	-	7,461	7,461	-
Other assistance	85,413	247,718	247,718	-
Charges for services:				
School construction authority	20,000	44,490	44,490	-
Student lunches	21,375	21,374	15,687	(5,687)
Rentals	28,000	35,000	35,980	980
Other	9,800	34,260	37,144	2,884
Subtotal	10,613,384	10,581,361	10,579,539	(1,822)
Net change in estimate of prior receivables	-	-	(612,262)	(612,262)
Subtotal	10,613,384	10,581,361	9,967,277	(614,084)
Funding provided by The City of New York	9,240,640	9,467,838	10,082,537	614,699
Total revenues and other financing sources	19,854,024	20,049,199	20,049,814	615
EXPENDITURES:				
General education instruction and school leadership	6,121,784	6,160,269	6,232,307	(72,038)
Special education instruction and school leadership	1,167,845	1,265,319	1,264,404	915
Charter Schools	1,038,408	1,065,339	1,065,338	1
School support organization	136,700	156,700	158,122	(1,422)
Citywide education instruction and school leadership	840,967	825,967	822,370	3,597
Special education instructional support	543,931	462,206	462,080	126
School facilities	606,076	791,906	791,875	31
Pupil transportation	1,144,073	1,098,848	1,098,848	-
School food services	411,312	429,111	412,054	17,057
School safety	308,440	309,676	309,676	-
Energy and leases	501,686	516,641	514,180	2,461
Central administration	235,775	310,017	330,979	(20,962)
Fringe benefits	3,043,662	2,873,339	2,837,784	35,555
Pre-kindergarten contracts	1,087,688	857,484	824,810	32,674
Contract schools and foster care payments	688,341	611,452	611,452	-
Non-public schools	71,146	71,146	70,173	973
Collective Bargaining	-	246,354	246,354	-
Subtotal	17,947,834	18,051,774	18,052,806	(1,032)
Reimbursable — categorical programs	1,916,894	2,032,940	2,032,482	458
Intracity sales	(10,704)	(35,515)	(35,474)	(41)
Subtotal	19,854,024	20,049,199	20,049,814	(615)
Net change in estimate of prior payables	-	-	(1,377,641)	1,377,641
Total expenditures	19,854,024	20,049,199	18,672,173	1,377,026
OTHER FINANCING USES — Transfer to The City of New York	-	-	1,377,641	(1,377,641)
Total expenditures and other uses	19,854,024	20,049,199	20,049,814	(615)
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	-	-	-
FUND BALANCE	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the financial statements.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL — GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2013 (\$000 Omitted)

	Adopted Budget	Modified Budget	Actual	Favorable/ (Unfavorable)
REVENUES:				
Federal aid	\$ 1,942,030	\$ 1,884,556	\$ 1,884,556	\$ -
State aid	8,435,795	7,984,120	7,984,121	1
Universal services fund		24	24	-
Other assistance	43,272	170,312	170,312	-
Charges for services:				
School construction authority	41,180	63,328	63,328	-
Student lunches	20,075	14,074	12,435	(1,639)
Rentals	28,000	28,000	29,197	1,197
Other	9,800	9,800	27,865	18,065
Subtotal	10,520,152	10,154,214	10,171,838	17,624
Net change in estimate of prior receivables	-	-	(73,153)	(73,153)
Subtotal	10,520,152	10,154,214	10,098,685	(55,529)
Funding provided by The City of New York	9,186,417	9,050,561	9,103,582	53,021
Total revenues and other financing sources	19,706,569	19,204,775	19,202,267	(2,508)
EXPENDITURES:				
General education instruction and school leadership	6,076,025	5,981,075	6,033,389	(52,314)
Special education instruction and school leadership	1,105,845	1,166,930	1,212,200	(45,270)
Charter schools	865,306	865,306	865,306	-
School support organization	140,138	137,666	148,404	(10,738)
Citywide education instruction and school leadership	838,435	794,981	793,889	1,092
Special education instructional support	606,858	508,569	497,447	11,122
School facilities	598,174	757,035	741,108	15,927
Pupil transportation	1,132,167	1,088,008	1,066,958	21,050
School food services	409,937	417,682	412,612	5,070
School safety	303,940	306,130	306,130	-
Energy and leases	508,850	490,393	482,230	8,163
Central administration	277,869	247,572	271,022	(23,450)
Fringe benefits	2,871,488	2,860,119	2,814,368	45,751
Pre-kindergarten contracts	1,193,402	941,786	941,746	40
Contract schools and foster care payments	734,989	639,009	612,704	26,305
Non-public schools	71,146	71,147	69,677	1,470
Subtotal	17,734,569	17,273,408	17,269,190	4,218
Reimbursable — categorical programs	1,986,344	1,961,516	1,963,226	(1,710)
Intracity sales	(14,344)	(30,149)	(30,149)	-
Subtotal	19,706,569	19,204,775	19,202,267	2,508
Net change in estimate of prior payables	-	-	(73,532)	73,532
Total expenditures	19,706,569	19,204,775	19,128,735	76,040
OTHER FINANCING USES — Transfer to The City of New York	-	-	73,532	(73,532)
Total expenditures and other uses	19,706,569	19,204,775	19,202,267	2,508
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	-	-	-
FUND BALANCE	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the financial statements.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

STATEMENT OF FIDUCIARY NET POSITION

AS OF JUNE 30, 2014

(\$000 Omitted)

	Agency Funds
ASSETS	
CASH AND CASH EQUIVALENTS	<u>\$ 68,374</u>
TOTAL ASSETS	<u><u>\$ 68,374</u></u>
LIABILITIES	
DUE TO STUDENTS/TEACHERS	\$ 32,104
HOLDING ACCOUNTS PAYABLE	32,718
DUE TO TAX AGENTS	<u>3,552</u>
TOTAL LIABILITIES	<u><u>\$ 68,374</u></u>

See accompanying notes to the financial statements.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

STATEMENT OF FIDUCIARY NET POSITION AS OF JUNE 30, 2013 (\$000 Omitted)

	Agency Funds
ASSETS	
CASH AND CASH EQUIVALENTS	<u>\$ 73,686</u>
TOTAL ASSETS	<u><u>\$ 73,686</u></u>
LIABILITIES	
DUE TO STUDENTS/TEACHERS	\$ 31,823
HOLDING ACCOUNTS PAYABLE	32,837
DUE TO TAX AGENTS	<u>9,026</u>
TOTAL LIABILITIES	<u><u>\$ 73,686</u></u>

See accompanying notes to the financial statements.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

B. Basis of Presentation

Department-wide Financial Statements — The Department-wide Financial Statements consist of the Statement of Net Position and the Statement of Activities. The Statement of Net Position presents the difference between the DOE’s total assets, total liabilities and deferred inflows of resources. 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 2014 and 2013, the SCA transferred \$2.3 billion and \$2.1 billion, respectively, in completed assets to the DOE.

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

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

Fund Financial Statements — The fund financial statements provide information about the DOE’s funds, including fiduciary funds. Separate financial statements are provided for governmental and fiduciary funds. 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, deferred inflows of resources, fund balance, and revenues and expenditures where applicable. Government resources are allotted to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The DOE’s funds are grouped in the financial statements in two fund categories, as follows:

Governmental Fund — Governmental fund in which most functions of the DOE are financed. The acquisition, use and balance of the expendable available financial resources and the related liabilities are accounted for through governmental funds. The following is the DOE’s governmental fund, which is considered as a major fund:

- *General Fund* — The General Fund is the general operating fund of the DOE. It is used to account for all financial resources except those required to be accounted for in another fund.
- *Fiduciary Funds* — Fiduciary Funds are used to account for assets held by the DOE in a custodial capacity. These funds are used to account for assets held by the DOE as an agent for student activities, individuals and private organizations. The DOE does not have any Fiduciary Funds, other than agency funds.

Newly Adopted Accounting Standards

In fiscal year 2014, the DOE adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*
- Statement No. 69, *Government Combinations and Disposals of Government Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an Amendment of GASB Statement No. 68*

Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and required supplementary information requirements about pensions also are addressed. For defined benefit pensions, this Statement also identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 resulted in the retrospective restatement of the DOE’s beginning net position in fiscal year 2013 financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources, for each of its qualified pension plans and the recognition of pension expense in accordance with the provisions of the Statement. Net position as of July 1, 2012 was decreased by \$26.5 billion to \$(34.6) billion reflecting the cumulative retrospective effect of adoption. An aggregate net pension liability of \$24.0 billion, and aggregate deferred inflows of resources of \$2.8 billion was reported at June 30, 2013. The DOE recognized aggregate pension expense of \$3.4 billion for the fiscal year ended June 30, 2013 and a decrease in net position as of June 30, 2013 of \$24.0 billion to

\$(34.7) billion as a result of the adoption of the Statement. Refer to Note 4B for more information regarding the DOE's pensions.

Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services.

There was no impact on the DOE's Financial Statements as a result of the implementation of Statement No. 69.

Statement No. 70 was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

There was no impact on the DOE's Financial Statements as a result of the implementation of Statement No. 70.

Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Adoption of this Statement had no effect on the DOE's financial statements as its measurement date for revenue of pensions is the same as the respective fiscal year-end.

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 and recorded on the accrual basis of accounting. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements use the current financial resources measurement focus. This focus is on the determination of, and changes in financial position. These funds use the modified accrual

basis of accounting, whereby revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Revenues from categorical and other grants are generally considered available if expected to be received within one year after the fiscal year end, except those indicated below in Note 1C - 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 position for the DOE activities as shown on the Department-wide Statement of Net Position 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 position 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, 2014 and accruals for payments to be made in the future, which applies to liabilities incurred as of June 30, 2014. 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 \$31.8 million.

The value of these donated commodities received and still on hand, as of June 30, 2014 and 2013 was \$1.1 and \$0.7 million respectively.

Materials and Supplies — Inventories on hand at June 30, 2014, amounted to approximately \$6.8 million based on the moving average cost method. Inventories are recorded as expenditures in governmental fund at the time of purchase and, accordingly, have not been reported on the governmental funds balance sheet. As of June 30, 2013, this value was \$6.7 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.

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 2014 was \$1.9 billion. As of June 30, 2013, the value of these services was \$1.9 billion.

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

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

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

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

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 1,737 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, 2014 of \$14.3 billion differ from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balance in the amount of \$20.0 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 (\$000 omitted):

	Amount
Total expenditures and other uses (from the statement of revenues, expenditures and changes in fund balance)	\$ 20,049,814
Add back intra-city sales (which are included in general revenue in statement of activities)	35,474
Depreciation expense	1,147,531
Long-term liabilities per full accrual basis:	
Net changes in employer pension obligations	(6,018,070)
Other postemployment benefit obligations	(982,921)
Sick leave and vacation balances	1,167
Pollution remediation obligations	12,103
Capital leases	16,687
Judgments and claims	<u>23,944</u>
Total program expenses (from the statement of activities)	<u>\$ 14,285,729</u>

The total program expenses included in the Statement of Activities for the year ended June 30, 2013 of \$19.5 billion differ from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balance in the amount of \$19.2 billion, because of adjustments necessary to convert expenditures from the modified accrual basis of accounting to the full accrual basis (as outlined in the Management’s Discussion and Analysis section). The following schedule reconciles these two accounting basis (\$000 omitted):

	Amount
Total expenditures and other uses (from the statement of revenues, expenditures and changes in fund balance)	\$ 19,202,267
Add back intra-city sales (which are included in general revenue in statement of activities)	30,149
Depreciation expense	1,216,181
Net changes in Employer pension obligations	(2,399,363)
Long-term liabilities per full accrual basis:	
Other postemployment benefit obligations	1,406,855
Sick leave and vacation balances	(7,421)
Pollution remediation obligations	25,491
Capital leases	7,216
Judgments and claims	<u>2,649</u>
Total program expenses (from the statement of activities)	<u>\$ 19,484,024</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.

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

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

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

B. Appropriations Modifications

The following schedule summarizes budget modifications for the year ended June 30, 2014 (\$000 omitted):

	Originally Adopted Budget	Net Modifications	Modified Budget
Tax levy programs	\$ 17,947,834	\$ 103,940	\$ 18,051,774
Reimbursable programs	<u>1,916,894</u>	<u>116,046</u>	<u>2,032,940</u>
Subtotal	19,864,728	219,986	20,084,714
Less intracity sales	<u>(10,704)</u>	<u>(24,811)</u>	<u>(35,515)</u>
Total	<u>\$ 19,854,024</u>	<u>\$ 195,175</u>	<u>\$ 20,049,199</u>

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

	Tax Levy	Reimbursable
Intracity purchases	\$ 8,559	\$ 16,253
Executive and Adoption	270,681	9,528
November and February plan actions	(171,866)	(7,022)
Hurricane Sandy	5,453	-
School food programs	21,745	5,622
Year-end closing actions	(176,108)	91,665
GASB No. 49 — Pollution remediation	<u>145,476</u>	<u>-</u>
Total net modifications	<u>\$ 103,940</u>	<u>\$ 116,046</u>

The following schedule summarizes budget modifications for the year ended June 30, 2013 (\$000 omitted):

	Adopted Budget	Net Modifications	Modified Budget
Tax levy programs	\$ 17,734,569	\$ (461,161)	\$ 17,273,408
Reimbursable programs	<u>1,986,344</u>	<u>(24,828)</u>	<u>1,961,516</u>
Subtotal	19,720,913	(485,989)	19,234,924
Less intracity sales	<u>(14,344)</u>	<u>(15,805)</u>	<u>(30,149)</u>
Total	<u>\$ 19,706,569</u>	<u>\$ (501,794)</u>	<u>\$ 19,204,775</u>

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

	Tax Levy	Reimbursable
Intracity purchases	\$ 1,974	\$ 13,830
Executive and adoption	6,477	(17,670)
November and January plan actions	(506,214)	(53,444)
Hurricane sandy	68,659	-
School food programs	7,133	-
Year-end closing actions	(141,060)	32,456
GASB No. 49 — Pollution remediation	<u>101,870</u>	<u>-</u>
Total net modifications	<u>\$ (461,161)</u>	<u>\$ (24,828)</u>

3. DETAILED NOTES ON ACCOUNTS

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 1,737 accounts maintained at the school level, the DOE cannot determine the amounts that are insured or collateralized. The City's June 30, 2014 and 2013 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.

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

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

Lease Commitments — The DOE leases various types of property and equipment. Total lease expenditures for the years ended June 30, 2014 and 2013, were approximately \$171 million and \$165 million, respectively. As of June 30, 2014, the DOE has future minimum rental obligations on leases with a remaining term in excess of one year as follows (\$000 omitted):

Year(s) Ending June 30	Total Amount	Capital Leases	Operating Leases
2015	\$ 138,783	\$ 37,612	\$ 101,170
2016	136,631	37,766	98,865
2017	133,879	34,803	99,075
2018	128,713	32,332	96,382
2019	117,861	32,002	85,859
2020–2024	471,789	140,536	331,254
2025–2029	279,950	66,652	213,298
2030–2034	158,442	44,383	114,059
2035–2039	74,415	20,482	53,933
2040–2044	32,983	12,243	22,840
2045–2051	<u>13,875</u>	<u>-</u>	<u>13,875</u>
Total minimum lease payments	<u>\$ 1,687,321</u>	458,811	<u>\$ 1,230,610</u>
Less imputed interest		<u>(138,267)</u>	
Present value of net minimum lease payments		<u>\$ 320,544</u>	

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 2014 and 2013 and funds have been appropriated for such payments.

Changes in the various components of the long-term liabilities for fiscal year 2014 are as follows (\$000 omitted):

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
Accrued vacation and sick leave	\$ 1,898,165	\$ 56,835	\$ (55,668)	\$ 1,899,332	\$ 55,668
Capital lease obligations	303,857	37,769	(21,082)	320,544	21,082
Accrued judgments and claims	818,614	172,834	(148,890)	842,558	179,945
Pollution remediation	99,658	145,424	(133,321)	111,761	11,176
Employer pension obligation	24,054,904	4,697,449	(10,715,518)	18,036,835	-
OPEB obligations *	<u>29,938,531</u>	<u>-</u>	<u>(982,921)</u>	<u>28,955,610</u>	<u>-</u>
Total	<u>\$ 57,113,729</u>	<u>\$ 5,110,311</u>	<u>\$ (12,057,400)</u>	<u>\$ 50,166,640</u>	<u>\$ 267,871</u>

* OPEB Obligations deletions are comprised of actual Retiree Health Insurance and Retiree Welfare Contributions currently expensed in addition to any actually determined adjustment.

Changes in the various components of the long-term liabilities for fiscal year 2013 are as follows (\$000 omitted):

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
Accrued vacation and sick leave	\$ 1,905,586	\$ 44,482	\$ (51,903)	\$ 1,898,165	\$ 51,903
Capital lease obligations	296,641	26,883	(19,667)	303,857	19,667
Accrued judgments and claims	815,965	135,426	(132,777)	818,614	172,982
Pollution remediation	74,167	127,363	(101,872)	99,658	89,692
Employer pension obligations	-	29,830,164	(5,775,260)	24,054,904	-
OPEB obligations	<u>28,531,676</u>	<u>1,877,287</u>	<u>(470,432)</u>	<u>29,938,531</u>	<u>-</u>
Total	<u>\$31,624,035</u>	<u>\$ 32,041,605</u>	<u>\$ (6,551,911)</u>	<u>\$57,113,729</u>	<u>\$334,244</u>

As described in Note 3F of the financial statements, SCA was created for the purpose of designing, constructing, reconstructing, improving, rehabilitating and repairing the New York City public schools. SCA has reported, and identified pollution remediation costs as asbestos removal, lead paint removal, 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.

Pollution Remediation Obligations — The Pollution Remediation Obligations (“PRO”) at June 30, 2014 and June 30, 2013, summarized by obligating event and pollution type, respectively, are as follows:

Obligating Event	Fiscal Year 2014		Fiscal Year 2013	
	Amount (000's)	Percentage	Amount (000's)	Percentage
Imminent endangerment	\$ -	%	\$29,897	30.0 %
Violation of pollution prevention-related permit or license	-	-	2,990	3.0
Named by regulator as a potentially responsible party	-	-	997	1.0
Voluntary commencement	<u>111,761</u>	<u>100</u>	<u>65,774</u>	<u>66.0</u>
Total	<u>\$ 111,761</u>	<u>100 %</u>	<u>\$99,658</u>	<u>100.0 %</u>
Pollution Type	Amount (000's)	Percentage	Amount (000's)	Percentage
Asbestos removal	\$ 107,785	96 %	\$94,993	95.3 %
Lead paint removal	1,356	1	558	0.6
Soil remediation	<u>2,620</u>	<u>3</u>	<u>4,107</u>	<u>4.1</u>
Total	<u>\$ 111,761</u>	<u>100 %</u>	<u>\$99,658</u>	<u>100.0 %</u>

There are no expected recoveries deemed not yet realized or realizable to reduce the liability. The PRO liability is derived from registered multi-year contracts which offset cumulative expenditures (liquidated/unliquidated) against original encumbered contractual amounts. The potential for changes to existing PRO estimates is recognized due to such factors as: additional remediation work arising during the remediation of an existing pollution project; remediation activities may find unanticipated site conditions resulting in necessary modifications to work plans; changes in methodology during the course of a project may cause cost estimates to change, e.g., the new ambient air quality standard for lead considered a drastic change will trigger the adoption of new/revised technologies for compliance purposes; and changes in the quantity which is paid based on actual field measured quantity for unit price items measured in cubic meters, linear meters, etc. Consequently, changes to original estimates are processed as change orders. Further, regarding pollution remediation liabilities that are not yet recognized because they are not reasonably estimable, the Law Department relates that we have approximately 22 cases involving hazardous substances, including spills from above and underground storage tanks, and other condemnation on, or caused by Facilities on City-owned property. There are also two cases involving environmental review and land use, and two cases involving polychlorinated biphenyls caulk in the public schools. Due to the uncertainty of the legal proceedings The City cannot estimate a future liability.

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 receipt of these assets could be at any of the many central offices or at one of the over 1,500 school locations. However, the overall changes in the various classes of Capital Assets occurring during fiscal year 2014 can be reported, as follows (\$000's omitted):

Capital Assets	Balance June 30, 2013	Additions	Transfers	Deletions	Balance June 30, 2014
Capital assets not being depreciated:					
Land and site improvement	\$ 448,956	\$ -	\$ -	\$ -	\$ 448,956
Construction in progress	2,241,898	2,106,875	(2,331,904)	-	2,016,869
Total capital assets not being depreciated	<u>2,690,854</u>	<u>2,106,875</u>	<u>(2,331,904)</u>	<u>-</u>	<u>2,465,825</u>
Capital assets being depreciated:					
Building and additions	32,202,070	38,411	2,331,904	(8,873)	34,563,512
Equipment (including software)	298,936	6,297	-	(270)	304,963
Gross balance capital assets	<u>32,501,006</u>	<u>44,708</u>	<u>2,331,904</u>	<u>(9,143)</u>	<u>34,868,475</u>
Less accumulated depreciation:					
Building and additions	12,509,253	1,142,710	-	(8,750)	13,643,213
Equipment	244,283	13,825	-	(252)	257,856
Total accumulated depreciation	<u>12,753,536</u>	<u>1,156,535</u>	<u>-</u>	<u>(9,002)</u>	<u>13,901,069</u>
Net capital assets being depreciated	<u>19,747,470</u>	<u>(1,111,827)</u>	<u>2,331,904</u>	<u>(141)</u>	<u>20,967,406</u>
Total all capital assets	<u>\$ 22,438,324</u>	<u>\$ 995,048</u>	<u>\$ -</u>	<u>\$ (141)</u>	<u>\$ 23,433,231</u>

The overall changes substantial in the various classes of Capital Assets occurring during fiscal year 2013 can be reported, as follows (\$000's omitted):

Capital Assets	Balance June 30, 2012	Additions	Transfers	Deletions	Balance June 30, 2013
Capital assets not being depreciated:					
Land and site improvement	\$ 446,993	\$ 1,963	\$ -	\$ -	\$ 448,956
Construction in progress	2,562,468	1,803,435	(2,124,005)	-	2,241,898
Total capital assets not being depreciated	<u>3,009,461</u>	<u>1,805,398</u>	<u>(2,124,005)</u>	<u>-</u>	<u>2,690,854</u>
Capital assets being depreciated:					
Building and additions	30,094,448	26,883	2,124,005	(43,266)	32,202,070
Equipment (including software)	290,653	8,401	-	(118)	298,936
Gross balance capital assets	<u>30,385,101</u>	<u>35,284</u>	<u>2,124,005</u>	<u>(43,384)</u>	<u>32,501,006</u>
Less accumulated depreciation:					
Building and additions	11,306,273	1,215,469	-	(12,489)	12,509,253
Equipment	231,082	13,307	-	(106)	244,283
Total accumulated depreciation	<u>11,537,355</u>	<u>1,228,776</u>	<u>-</u>	<u>(12,595)</u>	<u>12,753,536</u>
Net capital assets being depreciated	<u>18,847,746</u>	<u>(1,193,492)</u>	<u>2,124,005</u>	<u>(30,789)</u>	<u>19,747,470</u>
Total all capital assets	<u>\$21,857,207</u>	<u>\$ 611,906</u>	<u>\$ -</u>	<u>\$(30,789)</u>	<u>\$22,438,324</u>

In December 1988, the State of New York Legislation created the SCA for the purposes of designing, constructing, reconstructing, improving, rehabilitating and repairing the New York City public schools. Operations are funded by appropriations made by The City. Such appropriations are guided by Five-

Year Capital Plans, developed by the DOE. The City's appropriations for the Five-Year Capital Plan for the fiscal years 2010 through 2014 totaled \$11.24 billion.

Capital Expenditures made on behalf of the DOE amounted to \$2.1 billion and \$1.8 billion in fiscal year 2014 and 2013, respectively. Such expenditures were incurred by the SCA. Upon substantial completion of capital assets, the SCA transfers such assets to the DOE. In Fiscal Years 2014 and 2013, the SCA transferred \$2.3 billion and \$2.1 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, 2014, are certain leased properties aggregating approximately \$456 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, 2014, was accumulated depreciation for leases of \$136 million.

Accumulated depreciation is reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon the estimated useful lives of generally 25 to 50 years for new construction, 10 to 25 years for betterments and/or reconstruction, and 5 to 15 years for equipment.

For fiscal year 2014, The City's Comprehensive Annual Financial Report identifies capital expenditures for education amounting to \$2.1 billion. The capital expenditures incurred by the SCA on behalf of the DOE totaled \$2.2 billion offset by GASB Statement No. 49 expenditures of \$145 million and the liability to SCA in the amount of \$10.5 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 2014 and 2013 were approximately \$45.3 million and \$45.3 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 Teachers' Retirement System of the City of New York ("TRS") administers the TRS qualified pension plan ("QPP") and the TRS tax-deferred annuity ("TDA") Program. The TRS QPP is a cost-sharing, multiple-employer pension plan for pedagogical employees in the public schools of the City and certain Charter Schools and certain other specified school and CUNY employees. The TRS TDA Program was established and is administered pursuant to Internal Revenue Code Section 403(b) and existing State statutes and City laws. The TRS TDA Program provides a means of deferring income tax payments on members' voluntary pre-tax contributions and earnings thereon

until the periods after retirement or upon withdrawal of contributions. Members of the TRS QPP have the option to participate in the TRS TDA Program.

2. New York City Board of Education Retirement System (“BERS”) administers the BERS QPP and the BERS TDA Program. The BERS QPP is a cost-sharing, multiple-employer pension plan for non pedagogical employees of the Department of Education and certain Charter Schools and certain employees of the School Construction Authority. The BERS TDA Program was established and is administered pursuant to Internal Revenue Code Section 403(b) and existing State statutes and City laws. The BERS TDA Program provides a means of deferring income tax payments on members’ voluntary pre-tax contributions and earnings thereon until the periods after retirement or upon withdrawal of contributions. Members of the BERS QPP have the option to participate in the TRS TDA Program.

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

Funding Policy — The City’s funding policy is to contribute statutorily-required contributions (Statutory Contributions). Together with member contributions and investments income, these Statutory Contributions would ultimately be sufficient to pay benefits when due.

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

Tax-deferred annuity Programs – Benefits provided under the TRS and BERS TDA Programs are derived from members’ accumulated contributions. No benefits are provided by employer contributions. A participant may withdraw all or part of the balance of his or her account at the time of retirement or termination of employment. Beginning January 1, 1989, the tax laws restricted withdrawals of tax-deferred annuity contributions and accumulated earnings thereon for reasons other than retirement or termination. Contributions made after December 31, 1988, and investment earnings credited after December 31, 1988, may only be withdrawn upon attainment of age 59-1/2 or for reasons of hardship (as defined by Internal Revenue Service regulations). Hardship withdrawals are limited to contributions only.

Contributions to the TDA Programs are made by the members only and are voluntary. Active members of the respective QPP are required to submit a salary reduction agreement and an enrollment request to make contributions. A participant may elect to exclude an amount (within the maximum allowed by the Internal Revenue Service) of his or her compensation from current taxable income by contributing it to the TDA Programs. This maximum is determined annually by the IRS for each calendar year. Additionally, members can elect either a fixed or variable investment program for investment of their contributions. No employer contributions are made to the TDA Programs. However, the TDA Programs offer the fixed return investment option as discussed above which could increase The City’s contribution to the respective QPPs.

Qualified pension plan programs -The City’s funding policy is to contribute statutorily-required contributions (Statutory Contributions). Statutory Contributions for the TRS and BERS, determined by the Actuary in accordance with State statutes and City laws, are generally funded by the employers within the appropriate fiscal year. Effective with Fiscal Year 2006, the Statutory Contributions are determined under the One-Year Lag Methodology (“OYLM”). Under OYLM, the actuarial valuation date is used for calculating the Employer Contributions for the second following Fiscal Year. For example, the June 30, 2012 actuarial valuation was used for determining the Fiscal Year 2014 Statutory

Contributions. Statutory Contributions are determined annually to be an amount that, together with member contributions and investment income, provides for QPP assets to be sufficient to pay benefits when due. The aggregate Statutory Contributions due to each QPP from participating employers for Fiscal Years 2014 and 2013 and the amount of the City’s contribution to each QPP for such fiscal years are as follows (in millions):

Annual Pension Costs	Aggregate Statutory Contribution 2014	Aggregate Statutory Contribution 2013	Aggregate Statutory Contribution 2012
TRS	\$ 2,999	\$ 2,856	\$ 2,673
BERS	<u>215</u>	<u>196</u>	<u>214</u>
Total	<u>\$ 3,214</u>	<u>\$ 3,052</u>	<u>\$ 2,887</u>

Member contributions are established by law and vary by QPP. In general, Tier I and Tier II member contribution rates are dependent upon the employee’s age at membership and retirement plan election. In general, Tier III and Tier IV members make basic contributions of 3.0% of 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 basic 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% of salary in accordance with Chapter 10 of the Laws of 2000. Certain members of the TRS QPP and BERS QPP also make additional member contributions. Tier VI members who joined between April 1, 2012 and March 31, 2013 contribute 3% of salary, while Tier VI members who join on or after April 1, 2013 contribute between 3.0% and 6.0% of salary, depending on salary level.

Changes in Net Pension Liability—TRS and BERS QPPs

Net Changes in the DOE’s net pension liability for the TRS and BERS QPPs for the fiscal years ended June 30, 2014 and 2013, due to the adoption of GASB Statement No. 68 are as follows:

(\$ amounts are in thousands)

Annual Pension Costs	TRS - Net Pension Liability		BERS - Net Pension Liability	
	2014	2013	2014	2013
Balance at June 30,	<u>\$ 22,792,352</u>	<u>\$ 25,060,363</u>	<u>\$ 1,262,552</u>	<u>\$ 1,393,905</u>
Changes for the year:				
Service cost	1,161,704	1,127,868	136,927	132,939
Interest	4,246,997	4,024,293	276,531	260,769
Contribution - employer	(2,943,060)	(2,806,642)	(205,929)	(188,325)
Contribution - employees	(149,312)	(149,057)	(35,692)	(37,480)
Net investment income	(9,091,873)	(5,512,520)	(840,118)	(634,155)
Benefit payments		-		-
Payment of interest on TDA fixed funds	1,105,293	1,009,770	9,381	8,568
Administrative expenses	44,363	38,235	198,276	157,146
Other changes	389	42	68,054	169,185
Net Changes	<u>(5,625,499)</u>	<u>(2,268,011)</u>	<u>(392,570)</u>	<u>(131,353)</u>
Net Balance at June 30,	<u>\$ 17,166,853</u>	<u>\$ 22,792,352</u>	<u>\$ 869,982</u>	<u>\$ 1,262,552</u>

City Proportion of Net Pension Liability—TRS and BERS QPPs

The following table presents DOE's proportionate share of the net pension liability of the TRS and BERS QPPs at June 30, 2014 and 2013, and the proportion percentage of the aggregate net pension liability of each QPP allocated to the DOE:

(\$ amounts are in millions)	June 30, 2014		June 30, 2013	
	TRS	BERS	TRS	BERS
DOE's proportion of the net pension liability	<u>96.35%</u>	<u>95.96%</u>	<u>96.35%</u>	<u>95.96%</u>
DOE's proportionate share of the net pension liability	<u>\$ 17,167</u>	<u>\$ 870</u>	<u>\$ 22,792</u>	<u>\$ 1,263</u>

The DOE's proportion of the respective QPP's net pension liability was based on actual required contributions of each of the participating employers for the fiscal year.

The following table presents the City's proportionate share of net pension liability for the TRS, and BERS QPPs calculated using the discount rate of 7.0%, as well as what the City's proportionate share of the respective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	Fiscal Year 2014			Fiscal Year 2013		
	(\$ amounts are in millions)					
	1% Discount (6.0%)	Current Discount Rate (7.0%)	1 Percent increase (8.0%)	1% Discount (6.0%)	Current Discount Rate (7.0%)	1 Percent increase (8.0%)
TRS QPP	\$ 23,414	\$ 17,331	\$ 12,088	\$28,919	\$ 23,010	\$ 17,923
BERS QPP	<u>1,377</u>	<u>907</u>	<u>511</u>	<u>1,764</u>	<u>1,316</u>	<u>938</u>
Total	<u>\$ 24,791</u>	<u>\$ 18,238</u>	<u>\$ 12,599</u>	<u>\$30,683</u>	<u>\$ 24,326</u>	<u>\$ 18,861</u>

The above amounts includes all participants of TRS and BERS beside the DOE.

Deferred inflows of resources by source reported by the DOE at June 30, 2014 and 2013 for each QPP are as follow:

	June 30, 2014		June 30, 2013	
	TRS	BERS	TRS	BERS
	Deferred inflows of Resources	Deferred inflows of Resources	Deferred inflows of Resources	Deferred inflows of Resources
Net difference between projected and actual earnings on pension plan investments	<u>\$ (6,744,580)</u>	<u>\$ (821,950)</u>	<u>\$ (2,392,303)</u>	<u>\$ (387,991)</u>

Amounts reported as deferred inflows of resources related to pensions at June 30, 2014 will be recognized in pension expense as follows:

Year ended June 30:	(in thousand)	
	TRS	BERS
2015	\$ (1,835,588)	\$ (229,727)
2016	(1,835,588)	(229,727)
2017	(1,835,588)	(229,727)
2018	(1,237,816)	(132,769)
2019	-	-
Thereafter	-	-
Total	<u>\$ (6,744,580)</u>	<u>\$ (821,950)</u>

The above amounts includes all participants of TRS and BERS besides the DOE.

Pension Expense and Deferred Inflows of Resources Related to Pensions – The DOE restated its beginning net position for 2013 by \$ 26.4 billion and Net Changes in Employer Pension Obligations in the amount of \$2.4 billion and \$6.0 billion are allocated to the program expenses for 2013 and 2014, respectively. Pension expense, deferred inflows related to pensions and net pension liabilities recognized by the DOE for the fiscal years ending June 30, 2014 and 2013 related to the GASB 68 are as follows:

(\$ amounts are in thousands)

	June 30, 2014		
	<u>TRS</u>	<u>BERS</u>	<u>Total</u>
Net pension liability at June 30, 2013	\$ 22,792,352	\$ 1,262,552	\$24,054,904
Employer contribution	(2,943,060)	(205,928)	(3,148,988)
Pension expense	1,669,837	247,318	1,917,155
Deferred Inflows from pension - prior year	2,392,303	387,991	2,780,294
Deferred Inflows from pension	<u>(6,744,580)</u>	<u>(821,950)</u>	<u>(7,566,530)</u>
Net pension liability at June 30, 2014	<u>\$ 17,166,852</u>	<u>\$ 869,983</u>	<u>\$18,036,835</u>

(\$ amounts are in thousands)

	June 30, 2013		
	<u>TRS</u>	<u>BERS</u>	<u>Total</u>
Net pension liability at June 30, 2012	\$ 25,060,363	\$ 1,393,904	\$26,454,267
Employer contribution	(2,806,642)	(188,324)	(2,994,966)
Pension expense	2,930,934	444,963	3,375,897
Deferred Inflows from pension	<u>(2,392,303)</u>	<u>(387,991)</u>	<u>(2,780,294)</u>
Net pension liability at June 30, 2013	<u>\$ 22,792,352</u>	<u>\$ 1,262,552</u>	<u>\$24,054,904</u>

Other Post-Employment Benefits

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

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

Annual OPEB Cost and Net OPEB Obligations — The City's annual OPEB cost (expenses) is calculated based on the annual required contribution of the employer, an amount that was actuarially determined by using the Entry Age Actuarial Cost Method. For fiscal year 2014, the annual OPEB required contribution for The City was determined to be \$92.6 billion of which the City contributed \$3.1 billion to the PLAN. The Net OPEB Obligation, after City Contributions, was \$89.4 billion. For the DOE, the allocated Net OPEB obligation for Fiscal Year 2014 was \$28.9 billion. This amount was allocated to Programs Activities' expenses in presenting full accrual accounting within the Statement of Activities.

This amount, when added to the allocated amount for prior year (\$29.9 billion), was also included as a long term liability in the Statement of Net Assets (\$28.9 billion).

C. Superstorm Sandy

On October 29, 2012, Superstorm Sandy (“Sandy”) made landfall in The City. The storm surge and high winds caused significant damage to the City as well as to other states and cities along the U.S. eastern seaboard. The City incurred costs for emergency response and storm related damage to and destruction of city buildings and other assets. DOE and The City continue to incur costs associated with the recovery.

In response to the damages caused by Sandy, President Obama signed a major disaster declaration on October 30, 2012 authorizing the Federal Emergency Management Agency (“FEMA”) to provide Public Assistance grants (“PA”) to governmental entities for response and recovery efforts. The emergency declaration supports the reimbursement of eligible emergency work (categorized as Emergency Protective Measures and Debris Removal) and permanent work (categorized as restoration of Roads and Bridges, Water Control Facilities, Buildings and Equipment, Utilities and Parks and Recreational facilities). On June 26, 2013 the President authorized reimbursement of eligible costs at a 90% rate.

In addition to the FEMA PA, the City has been awarded more than \$4.2 billion of Community Development Block Grant Disaster Response funding through the U.S. Department of Housing and Urban Development.

Capital Asset Impairment — The damage caused by Sandy had an impact on the DOE’s Capital Assets including buildings and equipment. In accordance with GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Flood Insurance Recoveries*, the DOE recognized an impairment loss of \$31 million in fiscal year 2013. With the exception of flood insurance, the DOE is self-insured with respect to risk, including, but not limited to property damage. Generally, the cost of claims is paid out of the City’s General Fund.

D. Contingencies — As explained in Note 1A, 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 District Court dismissed the case following a bench trial. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the District Court’s ruling, dismissed the claims against the State, and remanded for further proceedings. On remand, in December 2012 the District Court decertified the class with respect to plaintiffs’ claims for monetary relief and individualized injunctive relief. The District Court, however, left open the possibility that plaintiffs’ claims for monetary relief, in the form of back pay, and individualized injunctive relief. The District court, however left open the possibility that plaintiff’s claims for monetary relief, in the form of back pay, and individualized injunctive relief could be certified

as a class during a remedies phase. The District Court found that the class survived as to plaintiffs' claims for class-wide declaratory and injunctive relief and decided that the New York City Board of Education had not violated Title VII by reducing the plaintiffs' salaries, benefits, and seniority if they failed to pass the Core Battery exam, the earlier of the two exams at issue, which was last used by the State in 1996. The court, however, found that the City had violated Title VII by requiring plaintiffs to pass the Liberal Arts and Sciences Test (LAST). A certification examination that was once, but is no longer, being utilized by the New York State Department of Education (DOE). As of spring 2014, the State has required an entirely new set of certification requirements, one of which is passage of the Academic Literacy Skills Test (ALST), a New York State certification examination aligned with the new Common Core curriculum.

On August 29, 2013, the District Court certified an individual damages class. The number of class members is not ascertainable at this time, nor at this time, is it possible to estimate possible class-wide damages given the highly individualized nature of each individual plaintiff's damages claim and of DOE's defense of mitigation. In addition, plaintiffs are seeking to add a category of plaintiffs, day-to-day substitutes, that would increase the number of individuals seeking monetary recovery. Finally, although the current class period ends on February 14, 2004, the class could be expanded to the present. Specifically, the Court has directed the appointment of a neutral expert, whose opinion the parties will have an opportunity to address, to advise the Court as to whether the LAST administered after February 14, 2004, and possibly the ALST were properly validated as job-related. If the Court, after reviewing the neutral expert's opinion, determines that they were not properly validated, the plaintiffs may seek to expand the damages class to include people who failed to pass those examinations. On January 28, 2013, the District Court granted the City's motion for leave to file an interlocutory appeal from the District Court's December 2012 decision which ruled against the City with respect to the controlling legal question of whether an employer's compliance with a facially neutral state licensing requirement that allegedly has a disparate impact on members of a protected class may subject it to liability under Title VII. On March 19, 2013, the Second Circuit granted the City's motion for an interlocutory appeal. By Summary Order, dated February 4, 2013, the Second Circuit affirmed the District Court's December 2012 decision, deciding the controlling legal question against the City.

A lawsuit has been brought against the City in the United States District Court for the Southern District of New York by School Safety Agents alleging violation of the federal Equal Pay Act, Title VII of the Civil Rights Act of 1964 and provisions of State law. Plaintiffs claim that School Safety Agents (who are predominantly female) earn less pay than Special Officers (who are predominantly male), although both jobs require substantially equal skill, effort and responsibility. The case has been certified as a class action. Although the case was commenced by three named plaintiffs in 2010, 4,900 plaintiffs subsequently opted into the lawsuit. Plaintiffs seek injunctive relief and damages. A tentative settlement has been reached in this case, subject to a fairness hearing and approval by the Court. The estimated settlement amount is \$32-35 million plus reasonable attorney's fees to be determined by the Court. If the settlement is not approved and the City does not prevail the City's liability could exceed \$35 million.

A lawsuit against the DOE and other school districts throughout the State alleging that claims by the districts seeking Medicaid reimbursement for their respective Targeted Case Management programs violated the federal False Claims Act was unsealed in July 2012 and served on the City in October 2012. The Targeted Case Management program is a program that coordinates services for children with disabilities. The relators (plaintiffs) allege that the districts submitted false and fraudulent claims for reimbursement. The federal government is not participating in this action. The relators seek treble damages as well as civil penalties. By order dated March 2, 2014, all of the relators' claims were dismissed. The relators filed a notice of appeal relating to that order on April 10, 2014. If the relators were to ultimately prevail, the City could be subject to substantial damages.

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.

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ANNUAL FINANCIAL STATEMENTS

Department of Education of The City of New York

For the Fiscal Years Ended June 30, 2014 and 2013

Required Supplementary Information

A. Schedule of the DOE's Proportionate Share of the Net Pension Liabilities of Cost-Sharing Multiple-Employer Pension Plans (Unaudited)

(\$ amounts are in millions)

	TRS		BERS	
	2014	2013	2014	2013
DOE's proportion of the net pension liability	96.35%	96.35%	95.96%	95.96%
DOE's proportionate share of the net pension liability	\$ 17,166.9	22,792.4	870.0	1,262.6
DOE's covered-employee payroll	\$ 7,687.8	7,618.1	939.4	837.8
DOE's proportionate share of the net pension liability as a percentage of its covered-employee payroll	223.3%	299.2%	92.6%	150.7%
Plan fiduciary net position as a percentage of the total pension liability	71.40%	60.90%	78.34%	66.85%

B. Schedule of DOE's Contributions for TRS and BERS Pension Plans (Unaudited)

(\$ amounts are in thousands)	2014	2013	2012 *	2011 *	2010 *	2009 *	2008 *	2007 *	2006 *	2005 *
TRS										
Contractually required contribution	\$ 2,889,355	2,783,893	2,673,078	2,468,973	2,484,074	2,223,644	1,916,520	1,600,904	1,316,611	1,304,033
Contributions in relation to the contractually required contribution	2,889,355	2,783,893	2,673,078	2,468,973	2,484,074	2,223,644	1,916,520	1,600,904	1,316,611	1,304,033
Contribution deficiency (excess)	\$ —	—	—	—	—	—	—	—	—	—
Covered-employee payroll	\$ 7,687,791	7,618,059	7,920,935	7,935,248	7,859,999	7,221,499	6,998,174	6,285,203	6,183,304	6,219,744
Contributions as a percentage of covered-employee payroll	37.58%	36.54%	33.75%	31.11%	31.60%	30.79%	27.39%	25.47%	21.29%	19.74%
BERS										
Contractually required contribution	\$ 205,928	197,609	213,651	180,191	147,349	134,225	143,100	129,820	90,839	106,359
Contributions in relation to the contractually required contribution	205,928	197,609	213,651	180,191	147,349	134,225	143,100	129,820	90,839	106,359
Contribution deficiency (excess)	\$ —	—	—	—	—	—	—	—	—	—
Covered-employee payroll	\$ 939,439	837,793	879,476	880,656	826,782	755,516	729,098	696,421	608,596	624,866
Contributions as a percentage of covered-employee payroll	21.92%	23.59%	24.29%	20.46%	17.82%	17.77%	19.63%	18.64%	14.93%	15.47%

* - The DOE Fiscal Years 2012, 2011, 2010, 2009, 2008, 2007, 2006, and 2005, reported contribution and covered payroll amounts are those of each retirement system as a whole (i.e. the sum for all participants employers) DOE- only covered payroll is not readily available for years prior to 2013, and due to methodological changes during the periods 2005 through 2012, the DOE - only employer contribution are not comparable over the ten year period.

Notes to Schedule B: (Unaudited)

With the exception of fiscal year 2005, the above actuarially determined and contractually required contributions were developed using a One-Year Lag Methodology, under which the actuarial valuation determines the employer contribution for the second following fiscal year (e.g. fiscal year 2014 contributions were determined using an actuarial valuation as of June 30, 2012). The fiscal year 2005 employer contribution was determined using an actuarial valuation as of the immediate prior fiscal year (June 30, 2004). This change in methodology caused two actuarial valuations to be performed as of June 30, 2004. The methods and assumptions used to determine the actuarially determined and contractually required contributions are as follows:

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Valuation Dates	June 30, 2012 (Lag)	June 30, 2011 (Lag)	June 30, 2010 (Lag)	June 30, 2009 (Lag)	June 30, 2008 (Lag)	June 30, 2007 (Lag)	June 30, 2006 (Lag)	June 30, 2005 (Lag)	June 30, 2004 (Lag)	June 30, 2004
Actuarial cost method	Entry Age ⁵	Entry Age ⁵	Entry Age ⁵	Frozen Initial Liability ¹	Frozen Initial Liability ¹	Frozen Initial Liability ¹	Frozen Initial Liability ¹	Frozen Initial Liability ¹	Frozen Initial Liability ¹	Frozen Initial Liability ¹
Amortization method for Unfunded Actuarial Accrued Liabilities (UAAL); Pre-2010 UAALS	NA	NA	NA	NA	NA	NA	Increasing dollar for Level dollar for UAAL attributable to, TRS and BERS 2002 ERI (Part A only). ³ All outstanding components of UAAL are being amortized over closed periods.	Increasing dollar for Level dollar for UAAL attributable to, TRS and BERS 2002 ERI (Part A only). ³ All outstanding components of UAAL are being amortized over closed periods.	Increasing dollar for Level dollar for UAAL attributable to Early Retirement Incentive (ERI), BERS, and TRS 2002 ERI (Part A only). ³ All outstanding components of UAAL are being amortized over closed periods.	Increasing dollar for Level dollar for UAAL attributable to TRS 1999 Early Retirement Incentive (ERI); BERS, and TRS 2002 ERI (Part A only). ³ All outstanding components of UAAL are being amortized over closed periods.
Initial 2010 UAAL	Increasing Dollar Payments.	Increasing Dollar Payments	Increasing Dollar Payments	NA	NA	NA	NA	NA	NA	NA
Post-2010 UAALS	Level Dollar Payments.	Level Dollar Payments.	Level Dollar Payments.	NA	NA	NA	NA	NA	NA	NA
Remaining amortization period:										
Pre-2010 UAALS	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Initial UAAL	20 Years (Closed).	21 Years (Closed).	22 years (Closed).	NA	NA	NA	NA	NA	NA	NA
2010 ERI	14 Years (Closed).	15 Years (Closed).	NA	NA	NA	NA	NA	NA	NA	NA
2011 UAAL	14 Years (Closed).	15 Years (Closed).	NA	NA	NA	NA	NA	NA	NA	NA
Actuarial Asset Valuation (AAV) Method	Modified 6-year moving average of Market Value with "Market Value Restart" as of June 30, 2011 ⁶ .	Modified 6-year moving average of Market Value with "Market Value Restart" as of June 30, 2011 ⁶ .	Modified 6-year moving average of Market Value with "Market Value Restart" as of June 30, 2011 ⁶ .	Modified 6-year moving average of Market Value with "Market Value Restart" as of June 30, 1999.	Modified 6-year moving average of Market Value with "Market Value Restart" as of June 30, 1999.	Modified 6-year moving average of Market Value with "Market Value Restart" as of June 30, 1999.	Modified 6-year moving average of Market Value with "Market Value Restart" as of June 30, 1999.	Modified 6-year moving average of Market Value with "Market Value Restart" as of June 30, 1999.	Modified 6-year moving average of Market Value with "Market Value Restart" as of June 30, 1999.	Modified 5-year moving average of Market Value with "Market Value Restart" as of June 30, 1999.
Actuarial assumptions:										
Assumed rate of return	7.0% per annum, net of expenses (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	7.0% per annum, net of expenses (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	7.0% per annum, net of expenses (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	8.0% per annum, gross of expenses (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	8.0% per annum ⁴ (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	8.0% per annum ⁴ (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	8.0% per annum ⁴ (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	8.0% per annum ⁴ (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	8.0% per annum ⁴ (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).	8.0% per annum ⁴ (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).
Post-retirement mortality	Tables adopted by Board of Trustees during Fiscal Year 2012.	Tables adopted by Board of Trustees during Fiscal Year 2012.	Tables adopted by Board of Trustees during Fiscal Year 2012.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2000.
Active service: withdrawal, death, disability, service retirement	Tables adopted by Board of Trustees during Fiscal Year 2012.	Tables adopted by Board of Trustees during Fiscal Year 2012.	Tables adopted by Board of Trustees during Fiscal Year 2012.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2006.	Tables adopted by Board of Trustees during Fiscal Year 2000.
Salary increases	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year. ⁴	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year. ⁴	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year. ⁴	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year. ⁴	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year. ⁴	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year. ⁴	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year. ⁴	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year. ⁴	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year. ⁴	In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year. ⁴

Notes to Schedule B: (Unaudited)

With the exception of fiscal year 2005, the above actuarially determined and contractually required contributions were developed using a One-Year Lag Methodology, under which the actuarial valuation determines the employer contribution for the second following fiscal year (e.g. fiscal year 2014 contributions were determined using an actuarial valuation as of June 30, 2012). The fiscal year 2005 employer contribution was determined using an actuarial valuation as of the immediate prior fiscal year (June 30, 2004). This change in methodology caused two actuarial valuations to be performed as of June 30, 2004. The methods and assumptions used to determine the actuarially determined and contractually required contributions are as follows:

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Cost-of-Living Adjustments ²	1.5% per annum for Tiers I, II, IV and certain Tier III and Tier VI retirees. 2.5% per annum for certain Tier III and Tier VI retirees.	1.5% per annum for Tiers I and II. 2.5% per annum for Tier III.	1.5% per annum for Tiers I and II. 2.5% per annum for Tier III.	1.3% per annum	1.3% per annum ⁴					

¹ Under the Frozen Initial Liability Actuarial Cost Method, the excess of the Actuarial Present Value (APV) of projected benefits of the membership as of the valuation date, over the sum of the Actuarial Value of Assets plus the UAAL, if any, and the APV of future employee contributions is allocated on a level basis over the future earnings of members who are on the payroll of the valuation date. The Initial Liability was reestablished by the Entry Age Actuarial Cost Method as of June 20, 1999 but with the UAAL not less than \$0. Actuarial gains and losses are reflected in the employer normal contribution rate.

² In conjunction with Chapter 85 of the Laws of 2000 (Chapter 85/100), there is an amortization method. However, the initial pre-2010 UAAL of NYCERS, TRS, BERS, and Police equal \$0 and no amortization periods are required.

³ Laws of established UAAL for Early Retirement Incentive Programs to be amortized on a level dollar basis over periods of 5 years.

⁴ Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.

⁵ Beginning with the June 30, 2010 (Lag) actuarial valuation under the 2012 A&M, the Entry Age Actuarial Cost Method (EAACM) of funding is utilized by the Actuary to calculate the contributions required of the Employer. Under this method, the Actuarial Present Value (APV) of Benefits (APVB) of each individual included in the actuarial valuation is allocated on a level basis over the earnings (or service) of the individual between entry age and assumed exit age(s). The employer portion of this APV allocated to a valuation year is the Normal Cost. The portion of this APV not provided for at a valuation date by the APV of Future Normal Costs or future member contributions is the Actuarial Accrued Liability (AAL). The excess, if any, of the AAL over the Actuarial Asset Value (AAV) is the Unfunded Actuarial Accrued Liability (UAAL). Under this method, actuarial gains (losses), as they occur, reduce (increase) the UAAL and are explicitly identified and amortized. Increases (decreases) in obligations due to benefit changes, actuarial assumption changes and/or actuarial method changes are also explicitly identified and amortized.

⁶ Market Value Restart as of June 30, 2011. Actuarial Asset Value ("AAV") as of June 30, 2010 defined to recognize Fiscal Year 2011 investment performance. The June 30, 2010 AAV is derived as equal to the June 30, 2011 Market Value of Assets, discounted by the Actuarial Interest Rate assumption (adjusted for cash flow) to June 30, 2010.

Note: Methods and assumptions are only required for single-employer plans. However, since the methods and assumptions are generally the same for all plans and have been reported together in the past, we presented them as if for all 5 plans here.

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

SUPPLEMENTAL FINANCIAL SCHEDULES OF THE GENERAL FUND AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

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 2009 through Fiscal Year 2014, as of June 30, 2014. 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, 2014 WITH COMPARATIVE TOTALS TO JUNE 30, 2013 (\$000 Omitted)

	Federal Grants Categorical	State Aid and Categorical Grants	Non- Governmental Grants	Total Receivables As of June 30, 2014	Comparative Total, as of As of June 30, 2013
FISCAL YEAR 2014	\$536,945	\$1,129,546	\$78,184	\$1,744,675	\$ -
FISCAL YEAR 2013	19,954	148,977	3,003	171,934	2,066,220
FISCAL YEAR 2012	-	46,420	-	46,420	188,853
FISCAL YEAR 2011	-	-	-	-	220,758
FISCAL YEAR 2010	-	-	-	-	155,270
FISCAL YEAR 2009	-	-	-	-	81,647
FISCAL YEAR 2008	-	-	-	-	42,356
TOTAL RECEIVABLES	<u>\$556,899</u>	<u>\$1,324,943</u>	<u>\$81,187</u>	<u>\$1,963,029</u>	<u>\$2,755,104</u>

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

GENERAL FUND SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2014

UOA	Modified Budget	Expenditures	Favorable (Unfavorable)
GENERAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP:			
401 Salaries	\$ 5,557,174,469	\$ 5,556,693,810	\$ 480,659
402 Supplies	171,869,793	125,424,102	46,445,691
402 Furniture and equipment	49,888,293	62,652,120	(12,763,827)
402 Textbooks	134,877,795	133,176,621	1,701,174
402 Contractual services	246,458,640	354,360,041	(107,901,401)
Total	<u>6,160,268,990</u>	<u>6,232,306,694</u>	<u>(72,037,704)</u>
SPECIAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP:			
403 Salaries	1,261,494,323	1,261,227,528	266,795
404 Supplies	1,918,925	1,246,086	672,839
404 Furniture and equipment	434,483	1,226,237	(791,754)
404 Textbooks	347,020	21,295	325,725
404 Contractual services	1,124,579	682,787	441,792
Total	<u>1,265,319,330</u>	<u>1,264,403,933</u>	<u>915,397</u>
CHARTER SCHOOLS			
406 Contractual services	<u>1,065,338,819</u>	<u>1,065,338,056</u>	<u>763</u>
Total	<u>1,065,338,819</u>	<u>1,065,338,056</u>	<u>763</u>
SCHOOL SUPPORT ORGANIZATION:			
415 Salaries	145,801,704	147,645,380	(1,843,676)
416 Supplies	5,425,186	2,934,950	2,490,236
416 Furniture and equipment	182,951	866,890	(683,939)
416 Textbooks		52,491	(52,491)
416 Contractual services	5,289,745	6,622,445	(1,332,700)
Total	<u>156,699,586</u>	<u>158,122,156</u>	<u>(1,422,570)</u>
CITYWIDE EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP:			
421 Salaries	809,552,034	807,029,766	2,522,268
422 Supplies	2,552,149	5,082,085	(2,529,936)
422 Furniture and equipment	4,975,013	3,426,237	1,548,776
422 Textbooks	557,398	1,147,036	(589,638)
422 Contractual services	8,330,530	5,684,756	2,645,774
Total	<u>825,967,124</u>	<u>822,369,880</u>	<u>3,597,244</u>

(Continued)

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

GENERAL FUND SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2014

UOA	Modified Budget	Expenditures	Favorable (Unfavorable)
SPECIAL EDUCATION			
INSTRUCTIONAL SUPPORT:			
423 Salaries	\$ 241,520,586	\$ 241,394,160	\$ 126,426
424 Supplies	616,664	5,404,201	(4,787,537)
424 Furniture and equipment	167,885	2,735,568	(2,567,683)
424 Textbooks	500		500
424 Contractual services	219,900,541	212,545,821	7,354,720
Total	<u>462,206,176</u>	<u>462,079,750</u>	<u>126,426</u>
SCHOOL FACILITIES			
435 Salaries	393,546,658	393,545,615	1,043
436 Supplies	34,492,376	23,601,893	10,890,483
436 Furniture and equipment	563,148	559,697	3,451
436 Pollution remediation	145,476,007	145,476,007	
436 Contractual services	217,828,077	228,691,857	(10,863,780)
Total	<u>791,906,266</u>	<u>791,875,069</u>	<u>31,197</u>
PUPIL TRANSPORTATION			
438 Supplies	3,322,577	3,941,000	(618,423)
438 Equipment	1,928,999	339,263	1,589,736
438 Contractual services	3,886,500	4,689,514	(803,014)
438 Pupil transportation	1,089,709,459	1,089,877,757	(168,298)
Total	<u>1,098,847,535</u>	<u>1,098,847,534</u>	<u>1</u>
SCHOOL FOOD SERVICES			
439 Salaries	205,221,682	196,304,049	8,917,633
440 Supplies	17,048,002	17,827,555	(779,553)
440 Food purchases	176,732,035	166,730,354	10,001,681
440 Furniture and equipment	6,227,357	5,740,465	486,892
440 Contractual services	23,882,016	25,451,486	(1,569,470)
Total	<u>429,111,092</u>	<u>412,053,909</u>	<u>17,057,183</u>
442 SCHOOL SAFETY	<u>309,675,656</u>	<u>309,675,656</u>	
444 ENERGY AND LEASES	<u>516,640,606</u>	<u>514,180,216</u>	<u>2,460,390</u>

(Continued)

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

**GENERAL FUND
SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014**

UOA	Modified Budget	Expenditures	Favorable (Unfavorable)
CENTRAL ADMINISTRATION:			
453 Salaries	\$ 149,911,513	\$ 149,017,161	\$ 894,352
454 Supplies	19,094,246	11,458,184	7,636,062
454 Furniture and equipment	2,029,022	3,102,608	(1,073,586)
454 Judgments and claims	98,103	32,434	65,669
454 Contractual services	138,843,907	167,194,187	(28,350,280)
454 Fixed charges	<u>39,892</u>	<u>174,123</u>	<u>(134,231)</u>
Total	<u>310,016,683</u>	<u>330,978,697</u>	<u>(20,962,014)</u>
461 FRINGE BENEFITS	<u>2,873,339,115</u>	<u>2,837,783,812</u>	<u>35,555,303</u>
470 PRE-KINDERGARTEN CONTRACTS	<u>857,484,225</u>	<u>824,810,142</u>	<u>32,674,083</u>
472 CONTRACT SCHOOLS AND FOSTER CARE	<u>611,452,454</u>	<u>611,452,155</u>	<u>299</u>
474 NON-PUBLIC SCHOOLS AND FIT PAYMENTS	<u>71,146,315</u>	<u>70,172,620</u>	<u>973,695</u>
491 COLLECTIVE BARGAINING	<u>246,353,822</u>	<u>246,353,643</u>	<u>179</u>
TOTAL TAX LEVY	<u>18,051,773,794</u>	<u>18,052,803,923</u>	<u>(1,030,129)</u>
CATEGORICAL PROGRAMS:			
481 Salaries	1,227,726,903	1,227,270,168	456,735
482 Supplies	139,110,698	148,476,556	(9,365,858)
482 Furniture and equipment	18,500,837	22,014,802	(3,513,965)
482 Pension	165,810,084	165,810,083	1
482 Contractual services	<u>481,791,733</u>	<u>468,911,908</u>	<u>12,879,825</u>
Total categorical programs	<u>2,032,940,255</u>	<u>2,032,483,517</u>	<u>456,738</u>

(Continued)

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

GENERAL FUND SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2014

	Modified Budget	Expenditures	Favorable (Unfavorable)
TOTAL APPROPRIATIONS EXPENDED	\$ 20,084,714,049	\$ 20,085,287,440	\$ (573,391)
INTRA-CITY SALES	<u>(35,515,241)</u>	<u>(35,473,656)</u>	<u>(41,585)</u>
Sub-total	20,049,198,808	20,049,813,784	(614,976)
NET CHANGE IN PRIOR PAYABLES	<u>-</u>	<u>(1,377,641,278)</u>	<u>1,377,641,278</u>
Total expenditures	20,049,198,808	18,672,172,506	1,377,026,302
OTHER FINANCING USES — Transfer to The City of New York	<u>-</u>	<u>1,377,641,278</u>	<u>(1,377,641,278)</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 20,049,198,808</u>	<u>\$ 20,049,813,784</u>	<u>\$ (614,976)</u>

(Concluded)

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

GENERAL FUND SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2013

UOA	Modified Budget	Expenditures	Favorable (Unfavorable)
GENERAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP:			
401 Salaries	\$ 5,476,766,851	\$ 5,524,987,439	\$ (48,220,588)
402 Supplies	141,539,827	114,399,883	27,139,944
402 Furniture and equipment	24,718,457	68,854,439	(44,135,982)
402 Textbooks	112,874,449	85,864,270	27,010,179
402 Contractual services	225,175,219	239,282,905	(14,107,686)
Total	<u>5,981,074,803</u>	<u>6,033,388,936</u>	<u>(52,314,133)</u>
SPECIAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP:			
403 Salaries	1,164,056,451	1,209,571,754	(45,515,303)
404 Supplies	1,420,092	1,074,287	345,805
404 Furniture and equipment	434,483	1,046,650	(612,167)
404 Textbooks	347,020	107	346,913
404 Contractual services	672,058	507,412	164,646
Total	<u>1,166,930,104</u>	<u>1,212,200,210</u>	<u>(45,270,106)</u>
CHARTER SCHOOLS			
406 Contractual services	<u>865,306,000</u>	<u>865,306,000</u>	-
Total	<u>865,306,000</u>	<u>865,306,000</u>	-
SCHOOL SUPPORT ORGANIZATION:			
415 Salaries	128,174,743	138,986,921	(10,812,178)
416 Supplies	4,030,428	2,387,656	1,642,772
416 Furniture and equipment	182,951	758,851	(575,900)
416 Textbooks		9,858	(9,858)
416 Contractual services	5,277,663	6,260,225	(982,562)
Total	<u>137,665,785</u>	<u>148,403,511</u>	<u>(10,737,726)</u>
CITYWIDE EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP:			
421 Salaries	778,642,346	779,124,229	(481,883)
422 Supplies	2,622,987	4,822,428	(2,199,441)
422 Furniture and equipment	4,975,013	3,670,802	1,304,211
422 Textbooks	557,398	1,035,395	(477,997)
422 Contractual services	8,183,577	5,236,455	2,947,122
Total	<u>794,981,321</u>	<u>793,889,309</u>	<u>1,092,012</u>

(Continued)

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

GENERAL FUND SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2013

UOA	Modified Budget	Expenditures	Favorable (Unfavorable)
SPECIAL EDUCATION			
INSTRUCTIONAL SUPPORT:			
423 Salaries	\$ 255,020,701	\$ 255,200,132	\$ (179,431)
424 Supplies	616,664	2,386,991	(1,770,327)
424 Furniture and equipment	762,913	483,317	279,596
424 Textbooks	500		500
424 Contractual services	<u>252,168,598</u>	<u>239,376,609</u>	<u>12,791,989</u>
Total	<u>508,569,376</u>	<u>497,447,049</u>	<u>11,122,327</u>
SCHOOL FACILITIES:			
435 Salaries	398,973,435	387,214,667	11,758,768
436 Supplies	38,579,461	25,734,098	12,845,363
436 Furniture and equipment	830,879	314,714	516,165
436 Pollution remediation	101,872,135	101,872,135	-
436 Contractual services	<u>216,779,412</u>	<u>225,972,672</u>	<u>(9,193,260)</u>
Total	<u>757,035,322</u>	<u>741,108,286</u>	<u>15,927,036</u>
PUPIL TRANSPORTATION:			
438 Supplies	3,322,577	5,647,156	(2,324,579)
438 Equipment	1,928,999	391,332	1,537,667
438 Contractual services	9,520,791	6,379,909	3,140,882
438 Pupil transportation	<u>1,073,236,094</u>	<u>1,054,539,118</u>	<u>18,696,976</u>
Total	<u>1,088,008,461</u>	<u>1,066,957,515</u>	<u>21,050,946</u>
SCHOOL FOOD SERVICES:			
439 Salaries	202,936,430	200,556,388	2,380,042
440 Supplies	13,389,440	17,567,839	(4,178,399)
440 Food purchases	161,616,677	164,466,598	(2,849,921)
440 Furniture and equipment	5,492,651	5,356,877	135,774
440 Contractual services	<u>34,247,298</u>	<u>24,664,079</u>	<u>9,583,219</u>
Total	<u>417,682,496</u>	<u>412,611,781</u>	<u>5,070,715</u>
442 SCHOOL SAFETY	<u>306,129,909</u>	<u>306,129,908</u>	<u>1</u>
444 ENERGY AND LEASES	<u>490,393,356</u>	<u>482,229,775</u>	<u>8,163,581</u>

(Continued)

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

GENERAL FUND SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2013

UOA	Modified Budget	Expenditures	Favorable (Unfavorable)
CENTRAL ADMINISTRATION:			
453 Salaries	\$ 134,696,841	\$ 146,402,168	\$ (11,705,327)
454 Supplies	17,453,869	11,130,240	6,323,629
454 Furniture and equipment	3,161,315	3,838,605	(677,290)
454 Judgments and claims	98,103	68,993	29,110
454 Contractual services	91,946,144	109,543,535	(17,597,391)
454 Fixed charges	216,028	38,673	177,355
Total	<u>247,572,300</u>	<u>271,022,214</u>	<u>(23,449,914)</u>
461 FRINGE BENEFITS	<u>2,860,118,656</u>	<u>2,814,367,904</u>	<u>45,750,752</u>
470 PRE-KINDERGARTEN CONTRACTS	<u>941,786,103</u>	<u>941,746,042</u>	<u>40,061</u>
472 CONTRACT SCHOOLS AND FOSTER CARE	<u>639,007,989</u>	<u>612,704,111</u>	<u>26,303,878</u>
474 NON-PUBLIC SCHOOLS AND FIT PAYMENTS	<u>71,146,315</u>	<u>69,676,996</u>	<u>1,469,319</u>
491 COLLECTIVE BARGAINING	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL TAX LEVY	<u>17,273,408,296</u>	<u>17,269,189,547</u>	<u>4,218,749</u>
CATEGORICAL PROGRAMS:			
481 Salaries	1,235,501,939	1,237,244,089	(1,742,150)
482 Supplies	104,416,569	124,441,205	(20,024,636)
482 Furniture and equipment	17,688,482	19,986,769	(2,298,287)
482 Pension	172,935,913	172,935,913	-
482 Contractual services	430,973,081	408,617,600	22,355,481
Total categorical programs	<u>1,961,515,984</u>	<u>1,963,225,576</u>	<u>(1,709,592)</u>

(Continued)

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

GENERAL FUND SCHEDULE OF BUDGETED AND ACTUAL EXPENDITURES FOR THE YEAR ENDED JUNE 30, 2013

UOA	Modified Budget	Expenditures	Favorable (Unfavorable)
TOTAL APPROPRIATIONS EXPENDED	\$ 19,234,924,280	\$ 19,232,415,123	\$ 2,509,157
INTRA-CITY SALES	<u>(30,148,516)</u>	<u>(30,148,516)</u>	<u>-</u>
Sub-total	19,204,775,764	19,202,266,607	2,509,157
NET CHANGE IN PRIOR PAYABLES	<u>-</u>	<u>(73,532,443)</u>	<u>73,532,443</u>
Total expenditures	19,204,775,764	19,128,734,164	76,041,600
OTHER FINANCING USES — Transfer to The City of New York	<u>-</u>	<u>73,532,443</u>	<u>(73,532,443)</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 19,204,775,764</u>	<u>\$ 19,202,266,607</u>	<u>\$ 2,509,157</u>

(Concluded)

DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

ANNUAL FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2014 AND 2013

GLOSSARY

ARRA	American Recovery and Reinvestment Act
BERS	Board of Education Retirement System
CFN	Children First Network
CMS	Centers of Medical and Medicaid services
DCD	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
FEMA	Federal Emergency Management Agency
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
IDEA	Individuals with Disabilities Education Act
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