

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, 2013 and 2012



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

ANNUAL FINANCIAL STATEMENTS

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

For the Fiscal Year Ended June 30, 2013 and 2012



Prepared by the Division of Financial Operations

George Vasiliou, *Executive Director*
Division of Financial Operations

John Wall, *Chief Administrator*
Division of Financial Operations

**Department of Education of The City of New York
Annual Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012**

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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 Year Ended June 30, 2013 and 2012

I Introductory Section

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DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK

Dennis M. Walcott, Chancellor

OFFICE OF THE CHANCELLOR

52 Chambers Street, New York, New York 10007

October 29, 2013

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, 2013**

The Annual Financial Statements for the Department of Education of The City of New York (the "DOE") for the fiscal year ended June 30, 2013 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 2013 financial statements included in this report; their opinion is expressed on page 1. The auditors' 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 auditors' report on internal controls over financial reporting and on compliance and other matters, based on an audit of the financial statements performed in accordance with *Government Auditing Standards*, is also included. This report indicates that the auditors' tests did not identify any deficiencies in internal control over financial reporting that are considered to be material weaknesses nor did their tests disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the Management's Discussion and Analysis is included as supplementary information required by GAAP. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, no audit opinion is expressed on it. The Supplemental Financial Schedules of the General Fund are presented for purposes of additional analysis and are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

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

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

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

The DOE has two basic sources of funding:

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

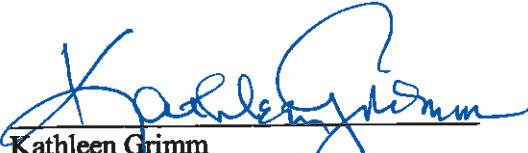
The DOE maintains, for its reporting purposes, a computerized accounting system to interface with The City's Financial Management System ("FMS"). The DOE Financial Accounting Management Information System ("FAMIS") provides a relational database technology allowing the DOE to take advantage of current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


George Vasiliou
Executive Director
Division of Financial Operations

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ANNUAL FINANCIAL STATEMENTS

Department of Education of The City of New York

For the Fiscal Year Ended June 30, 2013 and 2012

II 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, 2013 and 2012, 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, 2013 and 2012, 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 2013, the DOE adopted Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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, 2013 and 2012, 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 5 through 14 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, 2013, 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.

Deloitte : Touche LLP

October 29, 2013

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

The Department of Education
of The City of New York

We have audited, 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, 2013, 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, 2013, which contains an explanatory paragraph regarding the adopting of Governmental Accounting Standards Board ("GASB") Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. 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, 2013, 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, 2013.

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.

Deloitte : Toure LLP

October 29, 2013

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

This section of the DOE's Annual Financial Statements discusses and analyzes the DOE's financial performance for the fiscal years ended June 30, 2013 and 2012. 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, 2013 was \$10.6 billion, a change in net position of \$0.9 billion over that of fiscal year 2012.

Net deficit at June 30, 2012 was \$9.8 billion, a decrease in net position of \$1.1 billion over that of fiscal year 2011.

- Total assets, liabilities and Deferred Inflows of Resources reported in the governmental funds at June 30, 2013 were \$4.5 billion, an increase of \$0.4 billion from fiscal year 2012.

Total assets, liabilities and Deferred Inflows of Resources reported in the governmental funds at June 30, 2012 were \$4.1 billion, an increase of about \$354 million from fiscal year 2011.

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

General Fund total revenues available and spent during fiscal year 2012 were \$19.2 billion, an increase of 1.8 percent over that of fiscal year 2011.

- In fiscal year 2013 a net surplus of \$.3 million 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).

In fiscal year 2012 a net surplus of \$39 million was returned to The City due to a write down of prior year payables (\$112.3 million) and a write down of prior year receivables (\$73.3 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.

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

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

	Department-wide Statements	Fund Financial Statements Governmental Funds	Fiduciary Funds
Scope	Entire DOE (except fiduciary funds)	The activities of the DOE that are not fiduciary, such as special education and building maintenance	Instances in which the DOE administers resources on behalf of someone else, such as student activities monies
Required financial information	Statement of Net 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/out flow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Department-wide Financial Statements

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

The Statement of Net 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.

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

The DOE has two kinds of funds:

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

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

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

Financial Analysis of the Department-wide Financial Statements

At the close of fiscal year 2013, total liabilities and Deferred Inflows of Resources of the DOE exceeded total assets by (\$10.6 billion), a change in net position of (\$0.9 billion) from that at the close of fiscal year 2012. Net positions, as of June 30, 2013, June 30, 2012 and June 30, 2011 are summarized below for all governmental activities.

At the close of fiscal year 2012, total liabilities and Deferred Inflows of Resources of the DOE exceeded total assets by (\$9.8 billion), a change in net position of (\$1.1 billion) from that at the close of fiscal year 2011.

Figure 1

	Governmental Activities (000's)		
	<u>FY2013</u>	<u>FY2012</u>	<u>FY2011</u>
Current and Other Assets.....	\$ 4,482,801	\$ 4,077,955	\$ 3,724,661
Capital Assets.....	22,438,324	21,857,207	21,417,586
Total Assets.....	<u>26,921,125</u>	<u>25,935,162</u>	<u>25,142,247</u>
Long-Term Liabilities.....	32,724,581	31,302,095	29,788,094
Other Liabilities.....	4,799,987	4,363,122	4,065,197
Total Liabilities.....	<u>37,524,568</u>	<u>35,665,217</u>	<u>33,853,291</u>
Deferred Inflows of Resources.....	10,364	30,243	-
Net Position:			
Investment in Capital Assets.....	22,438,324	21,857,207	21,417,586
Unrestricted Deficit.....	<u>(33,052,131)</u>	<u>(31,617,505)</u>	<u>(30,128,630)</u>
Total Net Position.....	<u>\$ (10,613,807)</u>	<u>\$ (9,760,298)</u>	<u>\$ (8,711,044)</u>

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

In fiscal year 2013, assets increased \$1.0 billion from \$25.9 billion as of June 30, 2012 to \$26.9 billion as of June 30, 2013 primarily due to capital expenditures of \$2.1 billion offset by depreciation expenses of \$1.2 billion resulting in an increase of the net value of capital assets of \$581 million. Capital assets were increased due to buildings transferred from the School Construction Authority ("SCA") for the DOE's use, \$2.1 billion and offset by increases in net depreciation expense of \$220 million. The amounts due from The City increased by \$133 million. This account is affected primarily by changes in accounts payable and accounts receivables because of The DOE's dependent fiscal relationship with The City.

In Fiscal Year 2012, assets increased almost \$0.8 billion from \$25.1 billion as of June 30, 2011 to \$25.9 billion as of June 30, 2012 primarily due to capital expenditures of \$1.7 billion offset by net depreciation expenses of \$996 million and decrease in construction in progress expense of \$263 million resulting in an increase of the net value of capital assets by \$440 million. The amounts due from The City increased by \$614 million. This account is affected primarily by changes in accounts payable and accounts receivables because of The DOE's dependent fiscal relationship with The City. The total accounts receivables decreased by \$262 million.

In fiscal year 2013, liabilities and Deferred Inflow of Resources increased about \$1.9 billion from \$35.7 billion as of June 30, 2012 to \$37.5 billion as of June 30, 2013, primarily due to 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 decrease in Grant Advances of \$20 million. Additionally, there were changes in Capital Lease Obligations \$7 million, Accrued Judgments and Claims \$3 million and Pollution Remediation of \$25 million.

In fiscal year 2012, liabilities and Deferred Inflow of Resources increased about \$1.8 billion from \$33.8 billion as of June 30, 2011 to \$35.7 billion as of June 30, 2012, primarily due to increases in the estimate of OPEB liabilities of \$1.4 billion. Additionally, there were changes in the Accounts Payable and Accrued Expenditures of \$333 million, Capital Lease Obligations \$10 million and Accrued Judgments and Claims \$37 million.

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

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

In fiscal year 2013, The DOE's net deficit increased by \$0.9 billion from July 1, 2012 to June 30, 2013 and in fiscal 2012, The DOE's net deficit increased by \$1.1 billion from July 1, 2011 to June 30, 2012. The key elements of these changes are as follows:

Condensed Statement of Activities

Figure 2

	Governmental Activities (000's Omitted)		
	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>
<u>Revenues</u>			
<u>Program Revenues:</u>			
Charges for Services.....	\$ 76,430	\$ 75,795	\$ 74,868
Operating Grants and Contributions.....	10,095,408	10,140,210	11,147,054
<u>General Revenues:</u>			
City Funded.....	9,030,429	9,025,409	7,685,936
Other.....	<u>30,149</u>	<u>41,842</u>	<u>31,040</u>
Total Revenues.....	<u>19,232,416</u>	<u>19,283,256</u>	<u>18,938,898</u>
<u>Expenses</u>			
School Leadership, Instruction and Special Education Support... ..	15,278,978	15,220,176	16,712,462
School Support Services.....	3,493,861	3,391,669	3,510,339
School Support Organization.....	264,370	274,827	267,866
Central Administration.....	356,745	379,498	456,718
Non-Public Schools.....	<u>2,489,433</u>	<u>2,501,201</u>	<u>2,174,310</u>
Total Expenses.....	<u>21,883,387</u>	<u>21,767,371</u>	<u>23,121,695</u>
Net Revenue (Expenses).....	(2,650,971)	(2,484,115)	(4,182,797)
Net Change in Capital Assets and Inventory.....	<u>1,797,462</u>	<u>1,434,861</u>	<u>1,997,814</u>
Change in Net Position.....	(853,509)	(1,049,254)	(2,184,983)
Net Position—Beginning.....	(9,760,298)	(8,711,044)	(6,526,061)
Net Position—Ending.....	<u>\$ (10,613,807)</u>	<u>\$ (9,760,298)</u>	<u>\$ (8,711,044)</u>

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

In fiscal year 2013, the DOE received \$125.2 million as a result of The American Recovery and Reinvestment Act ("ARRA") of 2009. Federal program revenues decreased (1.34 percent) from \$1.91 billion in fiscal year 2012 to \$1.88 billion in fiscal year 2013 and the State program revenues funding remained at \$8.0 billion for 2013 and 2012 respectively.

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; and (6) change in Pollution Remediation Obligations.

In fiscal year 2013, the full accrual expenses include \$19.2 billion of modified accrual expenses and over \$2.7 billion of additional expenses incurred by The City to report a full accrual expense of \$21.9 billion, an increase of 0.5 percent, from fiscal year 2012.

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

In fiscal year 2013, the category of School Leadership, Instruction and Special Education Support increased about 0.4 percent from \$15.2 billion in fiscal year 2012 to \$15.3 billion in fiscal year 2013 due to the increase in the change of the cost allocation of the long term liabilities; School Support Services increased from \$3.4 billion to \$3.5 billion as a result of the increase in the 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 \$264 million due to an aligning of support personnel to school leadership. Central Administration decreased by (6.0 percent) or (\$23 million) due to decreases made against their Other Than Personal Services budgets. 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.

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

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

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

Financial Analysis of The Governmental Funds

Total assets, liabilities and Deferred Inflow of Resources increased \$405 million, 9.9 percent, for fiscal year 2013 compared to fiscal year 2012 where assets and liabilities increased \$354 million, 9.5 percent, as follows:

Figure 3

Condensed Balance Sheet (in millions of dollars)

	Governmental Activities			Amount Change		Percentage Change	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>2012-2013</u>	<u>2011- 2012</u>	<u>2012-2013</u>	<u>2011-2012</u>
Assets							
General Fund.	\$ 4,476	\$ 4,071	\$ 3,717	\$ 405	\$ 354	9.9%	9.5%
Total Assets	<u>\$ 4,476</u>	<u>\$ 4,071</u>	<u>\$ 3,717</u>	<u>\$ 405</u>	<u>\$ 354</u>	9.9%	9.5%
Liabilities and Deferred Inflows of Resources							
General Fund.	\$ 4,466	\$ 4,041	\$ 3,717	\$ 425	\$ 324	10.5%	8.7%
Deferred Inflows of Resources	10	30	-	(20)	30	(66.7%)	100%
Total Liabilities and Deferred Inflows of Resources	<u>\$ 4,476</u>	<u>\$ 4,071</u>	<u>\$ 3,717</u>	<u>\$ 405</u>	<u>\$ 354</u>	9.9%	9.5%

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

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

Changes in Total Liabilities and Deferred Inflows of Resources for fiscal year 2013: Governmental fund liabilities increased \$405 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 a decrease of (\$20 million) in the Deferred Inflow of Resources.

Changes in Total Liabilities and Deferred Inflows of Resources for fiscal year 2012: Governmental fund liabilities increased \$354 million due to increases of almost \$333 million in accounts payable in the General Fund. Also, there was an increase of \$21 million in the balance of the other liabilities and Deferred Inflows of Resources in the General Fund.

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

In fiscal year 2013 total revenues and expenditures decreased (\$51 million), (0.3) percent, compared to June 30, 2012. Total revenues and expenditures increased \$345 million, 1.8 percent, for the year ended June 30, 2012 compared to June 30, 2011.

Figure 4

Changes in Revenue and Expenditures (in millions of dollars)

	<u>General Funds</u>			<u>Percentage</u>	<u>Percentage</u>
	<u>FY2013</u>	<u>FY2012</u>	<u>FY2011</u>	<u>Change</u>	<u>Change</u>
				<u>2012-2013</u>	<u>2011-2012</u>
Revenues					
Federal Aid.	\$ 1,884.5	\$ 1,910.1	\$ 2,780.4	(1.34%)	(31.3%)
State Aid.	7,984.1	8,035.2	8,135.2	(0.64%)	(1.2%)
Funding by The City	9,060.6	9,067.3	7,717.0	(0.07%)	17.5%
Other.	303.2	270.7	306.2	12.0%	(11.6%)
Total Revenues	\$ 19,232.4	\$ 19,283.3	\$ 18,938.8	(0.3%)	1.8%
Expenditures					
School Leadership, Instruction and Special Education Support	\$ 13,028.9	\$ 13,092.8	\$ 13,088.6	(0.49%)	.93%
School Support Services.	3,176.5	3,115.6	3,088.3	1.95%	0.9%
School Support Organization	224.9	235.9	209.3	(4.67%)	12.7%
Central Administration.	312.7	337.8	378.3	(7.43%)	(10.7%)
Non-Public Schools	2,489.4	2,501.2	2,174.3	(0.47%)	15.0%
Total Expenditures	\$ 19,232.4	\$ 19,283.3	\$ 18,938.8	(0.3%)	1.8%

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 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 2012, the overall Federal program revenues decreased (31.3 percent) from \$2.8 billion in fiscal year 2011 to \$1.9 billion in fiscal year 2012, State program revenues remained at \$8.1 billion in 2012 and 2011, and City revenues increased 17.7 percent from \$7.72 billion in 2011 to \$9.08 billion in 2012.

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

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

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.

In fiscal year 2012, total expenditures, under modified accrual accounting, increased 1.8 percent or \$345 million. Expenditures in the area of School Leadership, Instruction and Special Education Support increased \$4.1 million, less than 1 percent, due to increased spending in supplies, equipment, special education teachers, special and education related service expenses. School Support Services increased \$27.3 million, less than 1 percent mainly for Pupil Transportation and in the areas of energy and leases. Expenditures in the area of School Support Organization increased about \$26.6 million, 12.7 percent due to CFN network support being directly aligned to school leadership. Central Administration decreased overall by (\$40.5 million), (10.7 percent). Non-Public Schools expenditures increased \$327 million, 15.0 percent due to increased costs of both in-state contract schools and Carter case expenditures in addition to the rise in Pre-K transportation, itinerant services and tuition obligations.

General Fund Budgetary Highlights

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

- Intra-city adjustments of \$2 million to Tax-Levy budgets and \$13.8 million to Reimbursable program budgets.
- Executive and Adopted Budget Actions which increased Tax-Levy budgets by \$6.5 million and decreased Reimbursable Program Budgets by (\$17.7 million).
- Tax-Levy surpluses of \$17 million were rolled from FY2013 to FY2014 as part of the Deferred Program Planning Initiative (DPPI).
- November and January Plan Actions, which decreased Tax-levy Budgets by (\$506.2) million and decreased Reimbursable Program Budgets by (\$53.4) million.
- Final fiscal year Close Actions, which decreased Tax-levy budgets by (\$141.1) million and increased Reimbursable Program Budgets by \$32.5 million.
- Additional fiscal year Close Actions, which includes an increase to Tax-Levy budgets of \$101.9 million, are attributable to the effects of GASB Statement No. 49 requirements.

As a result of the above, the DOE made net modifications to the adopted budget of over (\$501.7) million.

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

Capital Assets

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

Figure 5

	Governmental Activities (000's Omitted)		
	<u>FY2013</u>	<u>FY2012</u>	<u>FY2011</u>
Land	\$ 448,956	\$ 446,993	\$ 446,997
Buildings	19,692,817	18,788,175	18,079,169
Equipment	54,653	59,571	65,703
Construction in Progress	<u>2,241,898</u>	<u>2,562,468</u>	<u>2,825,717</u>
Total	<u>\$ 22,438,324</u>	<u>\$ 21,857,207</u>	<u>\$ 21,417,586</u>

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. In fiscal year 2012, capital assets, net of accumulated depreciation, increased from fiscal year 2011 by \$440 million, primarily due to capital assets that were transferred to the DOE from the SCA in the amount of \$1.7 billion.

Factors Bearing on the Department's Future

In 1996, a class action was brought against The City and the State under Title VII of the Civil Rights Act of 1964 alleging that the use by The City Board of Education of two teacher certification examinations mandated by the State had a disparate impact on minority candidates. The lower court dismissed the case. Plaintiffs appealed, and in 2006, the United States Court of Appeals for the Second Circuit reversed the lower court's ruling, 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, approximately 4,900 plaintiffs have recently 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.

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, 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	1,704,596
Inventories	6,694
Capital Assets (Net of Accumulated Depreciation)	
Land	448,956
Buildings	19,692,817
Equipment (Including Software)	54,653
Construction in Progress	2,241,898
	\$ 26,921,125
 LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 4,404,107
Other Liabilities	61,636
Other Postemployment Benefit Obligations	29,938,531
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	645,632
	\$ 37,524,568
 DEFERRED INFLOWS OF RESOURCES:	
Grant Advances	\$ 10,364
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 10,364
 NET POSITION:	
Net Investment in Capital Assets	22,438,324
Unrestricted Deficit	(33,052,131)
TOTAL NET POSITION (DEFICIT)	\$ (10,613,807)

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, 2012
(\$000 Omitted)

	Governmental Activities
ASSETS:	
Cash	\$ 22,346
Accounts Receivable	
Federal	534,130
State	1,916,208
Non-Governmental	27,427
Due from The City of New York	1,571,314
Inventories	6,530
Capital Assets (Net of Accumulated Depreciation)	
Land	446,993
Buildings	18,788,175
Equipment (Including Software)	59,571
Construction in Progress	2,562,468
	\$ 25,935,162
 LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 4,006,274
Other Liabilities	34,908
Other Postemployment Benefit Obligations	28,531,676
Pollution Remediation Obligations	
Due within one year	66,750
Due in more than one year	7,417
Accrued Vacation and Sick Leave	
Due within one year	51,416
Due in more than one year	1,854,170
Capital Lease Obligations	
Due within one year	18,848
Due in more than one year	277,793
Accrued Judgments and Claims	
Due within one year	184,926
Due in more than one year	631,039
	\$ 35,665,217
 DEFERRED INFLOWS OF RESOURCES:	
Grant Advances	\$ 30,243
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 30,243
 NET POSITION:	
Net Investment in Capital Assets	21,857,207
Unrestricted Deficit	(31,617,505)
TOTAL NET POSITION (DEFICIT)	\$ (9,760,298)

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)

<u>Function/Programs</u>	<u>Program Expenses</u>	<u>Program Revenue</u>		<u>Net (Expenses) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
School Leadership, Instruction and Special Education Support	\$ 15,278,978	\$ 6,933	\$ 7,698,669	\$ (7,573,376)
School Support Services	3,493,861	41,632	1,688,229	(1,764,000)
School Support Organization	264,370	-	-	(264,370)
Central Administration	356,745	-	-	(356,745)
Non-Public Schools	2,489,433	27,865	708,510	(1,753,058)
Total Department Activities	<u>\$ 21,883,387</u>	<u>\$ 76,430</u>	<u>\$ 10,095,408</u>	<u>(11,711,549)</u>
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				(853,509)
Net Position (Deficit) - Beginning				<u>(9,760,298)</u>
Net Position (Deficit) - Ending				<u>\$ (10,613,807)</u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Activities
For the Year Ended June 30, 2012
(\$000 Omitted)

<u>Function/Programs</u>	<u>Program Revenue</u>			<u>Net (Expenses) Revenue</u>
	<u>Program Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
School Leadership, Instruction and Special Education Support	\$ 15,220,176	\$ 7,701	\$ 7,816,546	\$ (7,395,929)
School Support Services	3,391,669	57,244	1,579,545	(1,754,880)
School Support Organization	274,827	-	-	(274,827)
Central Administration	379,498	-	-	(379,498)
Non-Public Schools	2,501,201	10,850	744,119	(1,746,232)
Total Department Activities	<u>\$ 21,767,371</u>	<u>\$ 75,795</u>	<u>\$ 10,140,210</u>	<u>(11,551,366)</u>
General Revenues				
City Funded				9,025,409
Intra-city Sales				41,842
Other Adjustments				
Net Change in Capital Assets and Inventory				<u>1,434,861</u>
CHANGE IN NET POSITION				(1,049,254)
Net Position (Deficit) - Beginning				<u>(8,711,044)</u>
Net Position (Deficit) - Ending				<u>\$ (9,760,298)</u>

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	1,704,596
 Total Assets	 \$ 4,476,107
 LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 4,404,107
Other Liabilities	61,636
 Total Liabilities	 4,465,743
 DEFERRED INFLOWS OF RESOURCES:	
Grant Advances	10,364
Total Deferred Inflows Of Resources	10,364
 FUND BALANCE:	
Total Fund Balance	-
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 \$ 4,476,107

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, 2012
(\$000 Omitted)

	Governmental Fund Type
	General Fund
ASSETS:	
Cash	\$ 22,346
Accounts Receivable	
Federal	534,130
State	1,916,208
Non-Governmental	27,427
Due from The City of New York	1,571,314
 Total Assets	 \$ 4,071,425
 LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 4,006,274
Other Liabilities	34,908
 Total Liabilities	 4,041,182
 DEFERRED INFLOWS OF RESOURCES:	
Grant Advances	30,243
Total Deferred Inflows of Resources	30,243
 FUND BALANCE:	
Total Fund Balance	-
 Total Liabilities, Deferred Inflows of Resources and Fund Balance	 \$ 4,071,425

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, 2013**

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)
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>(10,613,807)</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, 2012**

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.		6,530
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds.		21,857,207
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the governmental funds. These are:		
Other Postemployment Benefit Obligations		(28,531,676)
Accrued Vacation and Sick Leave		(1,905,586)
Pollution Remediation Obligations		(74,167)
Capital Lease Obligations		(296,641)
Accrued Judgments and Claims		<u>(815,965)</u>
 Net position (deficit) of governmental activities	 \$	 <u><u>(9,760,298)</u></u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Revenues, Expenditures and Changes in Fund Balance
All Governmental Fund 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	27,865
Subtotal	10,171,838
Net Change in Estimate of Prior Receivables	(73,153)
Subtotal	10,098,685
Funding Provided by The City of New York	9,103,582
Total Revenues and Other Financing Sources	19,202,267
 EXPENDITURES	
General Education Instruction and School Leadership	6,033,389
Special Education Instruction and School Leadership	1,212,200
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
Charter and Contract Schools and Foster Care Payments	1,478,010
Non-Public Schools	69,677
Subtotal	17,269,190
Reimbursable:	
Categorical Programs	1,963,226
Intracity Sales	(30,149)
Subtotal	19,202,267
Net Change in Estimate of Prior Payables	(73,532)
Total Expenditures	19,128,735
Other Financing Uses - Transfer to The City of New York	73,532
Total Expenditures and Other Uses	19,202,267
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-
FUND BALANCE	\$ -

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, 2012
(\$000 Omitted)

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

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, 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.		
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:		
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>	(1,434,790)
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><u>(853,509)</u></u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2012
(\$000 Omitted)

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

Total Fund Balance - Governmental Funds	\$	-
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful lives.		-
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.		(995,944)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in Other Postemployment Benefit Obligations	(1,380,479)	
Change in Sick Leave and Vacation Liability	(94,373)	
Change in Pollution Remediation Obligations	33,098	
Change in Capital Lease Obligations	(9,897)	
Change in Judgments and Claims Liability	<u>(36,520)</u>	(1,488,171)
Net changes in capital assets and inventory where neither revenues nor expenses are incurred by the Department, net of Department costs.		<u>1,434,861</u>
Change in Net Position - governmental activities	\$	<u><u>(1,049,254)</u></u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 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	<u>10,520,152</u>	<u>10,154,214</u>	<u>10,171,838</u>	<u>17,624</u>
Net Change in Estimate of Prior Receivables	-	-	(73,153)	(73,153)
Subtotal	<u>10,520,152</u>	<u>10,154,214</u>	<u>10,098,685</u>	<u>(55,529)</u>
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	<u>19,706,569</u>	<u>19,204,775</u>	<u>19,202,267</u>	<u>(2,508)</u>
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)
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
Charter and Contract Schools and Foster Care Payments	1,600,295	1,504,315	1,478,010	26,305
Non-Public Schools	71,146	71,147	69,677	1,470
Subtotal	<u>17,734,569</u>	<u>17,273,408</u>	<u>17,269,190</u>	<u>4,218</u>
Reimbursable:				
Categorical Programs	1,986,344	1,961,516	1,963,226	(1,710)
Intracity Sales	(14,344)	(30,149)	(30,149)	-
Subtotal	<u>19,706,569</u>	<u>19,204,775</u>	<u>19,202,267</u>	<u>2,508</u>
Net Change in Estimate of Prior Payables	-	-	(73,532)	73,532
Total Expenditures	<u>19,706,569</u>	<u>19,204,775</u>	<u>19,128,735</u>	<u>76,040</u>
Other Financing Uses - Transfer to The City of New York	-	-	73,532	(73,532)
Total Expenditures and Other Uses	<u>19,706,569</u>	<u>19,204,775</u>	<u>19,202,267</u>	<u>2,508</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2012
(\$'000 Omitted)

	Adopted Budget	Modified Budget	Actual	Favorable / (Unfavorable)
REVENUES				
Federal Aid	\$ 1,915,158	\$ 1,910,094	\$ 1,910,094	\$ -
State Aid	8,116,463	8,035,181	8,035,181	-
Universal Services Fund	-	-	-	-
Other Assistance	74,804	180,921	180,921	-
Charges for Services:				
School Construction Authority	8,000	21,713	21,713	-
Student Lunches	20,075	18,498	19,063	565
Rentals	35,000	35,000	38,183	3,183
Other	9,800	9,800	10,850	1,050
Subtotal	10,179,300	10,211,207	10,216,005	4,798
Net Change in Estimate of Prior Receivables	-	-	(73,300)	(73,300)
Subtotal	10,179,300	10,211,207	10,142,705	(68,502)
Funding Provided by The City of New York	9,227,821	9,037,599	9,098,709	61,110
Total Revenues and Other Financing Sources	19,407,121	19,248,806	19,241,414	(7,392)
EXPENDITURES				
General Education Instruction and School Leadership	6,119,247	6,015,861	6,015,861	-
Special Education Instruction and School Leadership	1,057,784	1,144,876	1,181,260	(36,384)
School Support Organization	144,514	144,514	153,773	(9,259)
Citywide Education Instruction and School Leadership	794,905	796,770	759,593	37,177
Special Education Instructional Support	598,198	544,929	526,260	18,669
School Facilities	602,619	734,885	734,885	-
Pupil Transportation	1,079,761	1,073,697	1,073,697	-
School Food Services	426,730	389,561	389,455	106
School Safety	302,021	302,021	298,111	3,910
Energy and Leases	512,151	465,684	456,961	8,723
Central Administration	308,158	303,169	298,690	4,479
Fringe Benefits	2,740,127	2,701,352	2,701,352	-
Pre-Kindergarten Contracts	1,129,313	1,039,465	1,008,570	30,895
Charter and Contract Schools and Foster Care Payments	1,496,986	1,436,920	1,421,509	15,411
Non-Public Schools	71,146	71,124	71,124	-
Subtotal	17,383,660	17,164,828	17,091,101	73,727
Reimbursable:				
Categorical Programs	2,039,659	2,125,935	2,192,155	(66,220)
Intracity Sales	(16,198)	(41,957)	(41,842)	(115)
Subtotal	19,407,121	19,248,806	19,241,414	7,392
Net Change in Estimate of Prior Payables	-	-	(112,329)	112,329
Total Expenditures	19,407,121	19,248,806	19,129,085	119,721
Other Financing Uses - Transfer to The City of New York	-	-	112,329	(112,329)
Total Expenditures and Other Uses	19,407,121	19,248,806	19,241,414	7,392
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, 2013
(\$000 Omitted)

	<u>Agency Funds</u>
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
Statement of Fiduciary Net Position
As of June 30, 2012
(\$000 Omitted)

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

See accompanying notes to the financial statements.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 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 and pension costs for tax levy funded employees. Thus, the revenues and expenditures, and related budget data included in the accompanying financial statements are not indicative of the level of appropriations, as if the DOE were an independent school system.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2013

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 2013 and 2012, the SCA transferred \$2.1 billion and \$1.7 billion, respectively, in completed assets to the DOE.

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

- **School Leadership, Instruction and Special Education Support** — which includes district, high school, special education instructional support and special education services expenditures, such as, salary costs of teachers, principals, paraprofessionals and other costs directly and indirectly associated with the classroom.
- **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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2013

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 2013, the DOE adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*

Statement No. 60, establishes recognition, measurement and disclosure requirements for Service Concession Arrangements for both transferors and governmental operators. A Service Concession Arrangement is an arrangement between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and the operator collects and is compensated by fees from third parties.

A transferor reports the facility subject to a Service Concession Arrangement as its Capital Asset. New Capital Assets constructed or acquired by the operator or improvements to existing Capital Assets made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenues are recognized by the transferor on a systematic and rational manner over the term of the arrangement. A governmental operator reports an intangible asset at cost for its right to access the facility and collect third-party fees and amortizes the intangible asset over the term of the arrangement. For revenue sharing arrangements, operators must report all revenues and expenses and transferors must report their portion of the shared revenues.

There was no impact on the DOE's Financial Statements as a result of the implementation of Statement No. 60.

In June of 2011, GASB issued **Statement No. 63**, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement provides financial reporting guidance for deferred outflows of resources, which are consumptions of net position by the government that is applicable to a future reporting period and deferred inflows of resources which are acquisitions of net position by the government that is applicable to a future reporting period.

Statement No. 63 amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The adoption of Statement No. 63 resulted in a change in the presentation of the *Statement of Net Assets* to what is now referred to as the *Statement of Net Position* and the term "net assets" is changed to "net position" throughout the financial statements. GASB No. 63 also amends the reporting of the "net investment in capital assets" component of net position. This component consists of capital assets, net of accumulated depreciation,

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2013

reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position.

In March of 2012, GASB issued **Statement No. 65, *Items Previously Reported as Assets and Liabilities***. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

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

Government-mandated nonexchange transaction (Grant Advances)- Resources received before the time requirements are met, but after all other eligibility requirements have been met, should be reported as a deferred inflow of resources by the recipient. For the fiscal year ended 2012, the DOE reclassified \$30 million as a deferred inflow of resources. These resources were previously reported as deferred revenues.

In March of 2012, GASB issued **Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62***. The objective of this Statement is to resolve conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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

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

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2013

48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

There was no impact on the DOE's Financial Statements as a result of the implementation of Statement No. 66.

C. Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements.

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

Governmental fund financial statements use the current financial resources measurement focus. This focus is on the determination of, and changes in financial position. These funds use the modified accrual basis of accounting, whereby revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Revenues from categorical and other grants are generally considered available if received within one year after the fiscal year end, except those indicated below in Note 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, 2013 and accruals for payments to be made in the future, which applies to liabilities incurred as of June 30, 2013. 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.

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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 \$30.3 million.

The value of these donated commodities received and still on hand, as of June 30, 2013 and 2012 was \$0.7 and \$0.3 million respectively.

Materials and Supplies — Inventories on hand at June 30, 2013, amounted to approximately \$6.7 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, 2012, this value was \$6.5 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 2013 was \$1.9 billion. As of June 30, 2012, 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

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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 1,299 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, 2013 \$21.9 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:

Figure 1

	Amount (\$000 Omitted)
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
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.....	2,649
Total Program Expenses (from the Statement of Activities).....	\$ 21,883,387

The total program expenses included in the Statement of Activities for the year ended June 30, 2012 \$21.8 billion differs from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balance by \$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:

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Figure 2

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

Pronouncements Issued But Not Yet Effective

In June of 2012, GASB issued **Statement No. 67, *Financial Reporting for Pension Plans***. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements in which:

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

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

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

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

In June of 2012, GASB issued **Statement No. 68**, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This Statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements in which:

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

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

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed.

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

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

In January of 2013, GASB issued **Statement 69**, *Government Combinations and Disposals of Government Operations*. This statement 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

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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.

The requirements of **Statement No. 69** are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013 and should be applied on a prospective basis. Earlier application is encouraged. The DOE has not completed the process of evaluating the impact of statement No. 69 on its financial statements.

In April of 2013, GASB issued **Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees***. The objective of this Statement is 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 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.

The provisions of Statement No. 70 are effective for reporting periods beginning after December 15, 2013. Earlier application is encouraged. The DOE has not completed the process of evaluating the impact of Statement No. 70 on its financial statements.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

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

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

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

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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, 2013 (\$000 omitted):

Figure 3

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

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

Figure 4

	Tax Levy	Reimbursable
Intra-city Purchases.....	\$ 1,974	\$ 13,830
Executive & Adoption	6,477	(17,670)
November & 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.....	101,870	-
Total Net Modifications.....	<u>\$ (461,161)</u>	<u>\$ 24,828</u>

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

Figure 5

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

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

Figure 6

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

3. DETAILED NOTES ON ACCOUNTS

A. Cash

Bank balances are maintained with banks that are members of the Federal Deposit Insurance Corporation (FDIC). The FDIC insures bank balances up to a maximum of \$250,000 in the aggregate by the FDIC for each bank for all funds. As the DOE’s general fund cash balance is part of The City’s cash management system, which is considered one depositor for FDIC purposes, and as the Agency Funds include over 1,299 accounts maintained at the school level, the DOE cannot determine the amounts that are insured or collateralized. The City’s June 30, 2013 and June 30, 2012 General Fund bank balances, which includes the DOE’s General Fund bank deposits, were uninsured and uncollateralized with securities held by The City’s agent in The City’s name.

B. Investments

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

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

C. Lease Commitments

The DOE leases various types of property and equipment. Total lease expenditures for the year ended June 30, 2013 and June 30, 2012, were approximately \$165 million and \$164 million, respectively. As of June 30, 2013, the DOE has future minimum rental obligations on leases with a remaining term in excess of one year as follows (\$000 omitted):

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Figure 7

Year(s) Ending June 30,	Total Amount	Capital Leases	Operating Leases
2014.....	\$ 128,686	\$ 34,952	\$ 93,734
2015.....	127,355	34,958	92,397
2016.....	123,935	35,072	88,863
2017.....	120,916	32,059	88,857
2018.....	115,547	29,544	86,003
2019-2023.....	438,633	133,560	305,073
2024-2028.....	269,091	67,658	201,433
2029-2033.....	136,306	41,292	95,014
2034-2038.....	71,654	13,324	58,330
2039-2043.....	34,773	7,118	27,655
2044-2050.....	16,156	-	16,156
Total minimum lease payments.....	<u>\$ 1,583,052</u>	<u>\$ 429,537</u>	<u>\$ 1,153,515</u>
Less imputed interest.....		<u>(125,680)</u>	
Present value of net minimum lease payments		<u>\$ 303,857</u>	

D. Long-Term Liabilities

The long-term liabilities include capital leases entered into by the DOE as well as the DOE's portion of various other long-term liabilities, payment for which The City is responsible. Funding for these allocated liabilities will be provided through future appropriations of The City. Payments for certain amounts of these liabilities are due in fiscal years 2013 and 2012 and funds have been appropriated for such payments.

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

Figure 9

	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
OPEB Obligations.....	28,531,676	1,877,287	(470,432)	29,938,531	-
TOTALS	<u>\$ 31,624,035</u>	<u>\$ 2,211,441</u>	<u>\$ (776,651)</u>	<u>\$ 33,058,825</u>	<u>\$ 334,244</u>

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

Figure 8

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

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

E. Pollution Remediation Obligations

The Pollution Remediation Obligations (“PRO”) at June 30, 2013 and June 30, 2012, summarized by obligating event and pollution type, respectively, are as follows:

Obligating Event

	<u>Fiscal Year 2013</u>		<u>Fiscal Year 2012</u>	
	<u>Amount</u> (000's)	<u>Percentage</u>	<u>Amount</u> (000's)	<u>Percentage</u>
Imminent endangerment	\$ 29,897	30.0%	\$ -	0.0%
Violation of pollution prevention-related permit or license	2,990	3.0%	-	0.0%
Named by regulator as a potentially responsible party	997	1.0%	-	0.0%
Voluntary commencement	<u>65,774</u>	<u>66.0%</u>	<u>74,167</u>	<u>100.0%</u>
Total	<u>\$ 99,658</u>	<u>100.0%</u>	<u>\$ 74,167</u>	<u>100.0%</u>

	<u>Amount</u>		<u>Amount</u>	
	<u>(000's)</u>	<u>Percentage</u>	<u>(000's)</u>	<u>Percentage</u>
Asbestos removal	\$ 94,993	95.3%	\$ 71,545	96.5%
Lead paint removal	558	0.6%	174	0.2%
Soil remediation	<u>4,107</u>	<u>4.1 %</u>	<u>2,448</u>	<u>3.3%</u>
Total	<u>\$ 99,658</u>	<u>100.0%</u>	<u>\$ 74,167</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 24 cases involving hazardous substances, including spills from above and underground storage tanks, and other condemnation on, or caused by facilities on City-owned property. There are also four cases involving environmental review and land use, and one case involving polychlorinated biphenyls caulk in the public schools. Due to the uncertainty of the legal proceedings The City cannot estimate a future liability.

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F. Capital Assets

The DOE receives funding for assets from various sources, some of which are combined for the same fixed asset. In addition, many fixed assets are donated or sold to the DOE from private sources. Further, the 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 2013 can be reported, as follows (\$000's omitted):

Figure 10

	CAPITAL ASSETS				
	Balance				Balance
	June 30, 2012	Additions	Transfers	Deletions	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	3,009,461	1,805,398	(2,124,005)	-	2,690,854
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	30,385,101	35,284	2,124,005	(43,384)	32,501,006
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	11,537,355	1,228,776	-	(12,595)	12,753,536
Net Capital Assets Being Depreciated	18,847,746	(1,193,492)	2,124,005	(30,789)	19,747,470
Total All Capital Assets	\$ 21,857,207	\$ 611,906	\$ -	\$ (30,789)	\$ 22,438,324

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The overall changes substantial in the various classes of Capital Assets occurring during fiscal year 2012 can be reported, as follows (\$000's omitted):

Figure 11

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

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 \$11.89 billion.

Capital Expenditures made on behalf of the DOE amounted to \$1.8 billion and \$1.4 billion in fiscal year 2013 and 2012 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 2013 and 2012, the SCA transferred \$ 2.1 billion and \$1.7 billion, respectively, in completed assets to the DOE. The SCA capital assets are an integral part of the DOE capital assets.

Included in land and buildings at June 30, 2013, are certain leased properties aggregating approximately \$427 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, 2013, was accumulated depreciation for leases of \$123 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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2013

For fiscal year 2013, The City's Comprehensive Annual Financial Report identifies capital expenditures for education amounting to \$1.8 billion. The capital expenditures incurred by the SCA on behalf of the DOE totaled \$2.0 billion offset by GASB Statement No. 49 expenditures of \$102 million and the liability to SCA in the amount of \$201 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 2013 and 2012 were approximately \$45.3 million and \$45.4 million, respectively.

B. Pensions

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

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

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

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

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

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

Member contributions are established by law and vary by Plan. In general Tier I and Tier II member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tiers III and IV members make basic contributions of 3 percent of their salary regardless of age at

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2013

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 percent of their salary in accordance with Chapter 10 of the Laws of 2000. Certain members of NYCERS, BERS and TRS also make additional member contributions. Tier VI members who join between April 1, 2012 and March 31, 2013 contribute 3% of salary until a new contribution structure takes effect on April 1, 2013. Beginning April 1, 2013, Tier VI members contribute between 3.0% and 6.0% of salary, depending on salary level.

The City contributes to the above pension systems on behalf of all City-funded personnel positions. The total City actual statutory pension contribution, for the fiscal year ended June 30, 2013, for all City pension systems was \$8.2 billion; \$3.0 billion for the two major DOE systems. The pension costs are not allocated to the DOE or reflected in its financial statements, except that contributions for positions funded through federal and state programs aggregating approximately \$124 million were allocated to the DOE and charged to reimbursable program expenditures.

The annual pension costs for Fiscal Years ended June 30, 2013, 2012 and 2011 were as follows:

Figure 12

Annual Pension Costs
(In millions)

	2013	2012	2011
TRS	\$ 2,856	\$ 2,673	\$ 2,469
BERS.....	196	214	180
Total Pension Costs	<u>\$ 3,052</u>	<u>\$ 2,887</u>	<u>\$ 2,649</u>

C. Other Post-Employment Benefits

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

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

Annual OPEB Cost and Net OPEB Obligations: The City's annual OPEB cost (expenses) is calculated based on the annual required contribution of the employer, an amount that was actuarially determined by using the Frozen Entry Age Actuarial Cost Method. For fiscal year 2013, the annual OPEB required contribution for The City was determined to be \$93.7 billion of which the City contributed \$1.2 billion to the PLAN. The Net OPEB Obligation, after City Contributions, was \$92.5 billion. For the DOE, the allocated Net OPEB obligation for Fiscal Year 2013 was \$1.4 billion. This amount was allocated to Programs Activities' expenses in presenting full accrual accounting within the Statement of Activities. This amount, when added to the allocated amount for last year (\$28.5 billion), was also included as a long term liability in the Statement of Net Assets (\$29.9 billion).

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2013

D. Superstorm Sandy

Government Assistance

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. As of June 30, 2013 approximately \$1.7 billion, including \$305 million for capital needs and \$1.4 billion for cleanup, relief and repair following the storm had been spent.

In addition to the FEMA PA, the City has been awarded more than \$1.77 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 a impact on the DOE’s Capital Assets including buildings, equipment and infrastructure. 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 \$37 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.

E. 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 could be certified as a class during a remedies phase. The District Court found that the class survived as

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2013

to plaintiffs' claims for classwide declaratory and injunctive relief and decided that the 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 version of which is currently used by the State. 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 mitigation. On January 28, 2013, the District Court granted the City's motion for leave to file interlocutory appeal of 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.

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. If plaintiffs were to ultimately prevail, the City could be subject to substantial liability.

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

* * * * *

Department of Education of The City of New York
Supplemental Financial Schedules of the General Fund
June 30, 2013

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 2008 through Fiscal Year 2013, as of June 30, 2013. 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, 2013
With Comparative Totals to June 30, 2012
(\$000 Omitted)

	<u>Federal Grants Categorical</u>	<u>State Aid and Categorical Grants</u>	<u>Non- Governmental Grants</u>	<u>Total Receivables As of June 30, 2013</u>	<u>Comparative Total, as of June 30, 2012</u>
Fiscal Year 2013	\$ 753,974	\$ 1,252,443	\$ 59,803	\$ 2,066,220	\$ -
Fiscal Year 2012	11,262	175,834	1,757	188,853	1,797,085
Fiscal Year 2011	2,038	218,720	-	220,758	305,152
Fiscal Year 2010	-	155,270	-	155,270	172,005
Fiscal Year 2009	-	81,647	-	81,647	114,604
Fiscal Year 2008	-	42,356	-	42,356	88,919
Total Receivables:	<u>\$ 767,274</u>	<u>\$ 1,926,270</u>	<u>\$ 61,560</u>	<u>\$ 2,755,104</u>	<u>\$ 2,477,765</u>

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2013

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<u>GENERAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
401 Salaries	\$ 5,476,766,851	\$ 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>
<u>SPECIAL EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
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>
<u>SCHOOL SUPPORT ORGANIZATION</u>			
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>
<u>CITYWIDE EDUCATION INSTRUCTION AND SCHOOL LEADERSHIP</u>			
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>
<u>SPECIAL EDUCATION INSTRUCTIONAL SUPPORT</u>			
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	252,168,598	239,376,609	12,791,989
TOTAL	<u>508,569,376</u>	<u>497,447,049</u>	<u>11,122,327</u>
<u>SCHOOL FACILITIES</u>			
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	216,779,412	225,972,672	(9,193,260)
TOTAL	<u>757,035,322</u>	<u>741,108,286</u>	<u>15,927,036</u>

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2013

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<u>PUPIL TRANSPORTATION</u>			
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	1,073,236,094	1,054,539,118	18,696,976
TOTAL	<u>1,088,008,461</u>	<u>1,086,957,515</u>	<u>21,050,946</u>
<u>SCHOOL FOOD SERVICES</u>			
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	34,247,298	24,664,079	9,583,219
TOTAL	<u>417,682,496</u>	<u>412,611,781</u>	<u>5,070,715</u>
442 SCHOOL SAFETY	306,129,909	306,129,908	1
444 ENERGY AND LEASES	490,393,356	482,229,775	8,163,581
<u>CENTRAL ADMINISTRATION</u>			
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	2,860,118,656	2,814,367,904	45,750,752
470 PRE-KINDERGARTEN CONTRACTS	941,786,103	941,746,042	40,061
472 CHARTER/CONTRACT SCHOOLS AND FOSTER CARE	1,504,313,989	1,478,010,111	26,303,878
474 NON-PUBLIC SCHOOLS AND FIT PAYMENTS	71,146,315	69,676,996	1,469,319
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>
<u>CATEGORICAL PROGRAMS</u>			
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>

**Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2013**

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
TOTAL APPROPRIATIONS EXPENDED	\$ 19,234,924,280	\$ 19,232,415,123	\$ 2,509,157
Intra-City Sales	(30,148,516)	(30,148,516)	-
Sub-Total	19,204,775,764	19,202,266,607	2,509,157
Net Change in Prior Payables		(73,532,443)	73,532,443
Total Expenditures	19,204,775,764	19,128,734,164	76,041,600
Other Financing Uses -			
Transfer to The City of New York		73,532,443	(73,532,443)
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 19,204,775,764</u>	<u>\$ 19,202,266,607</u>	<u>\$ 2,509,157</u>

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

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

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

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

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

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

**Department of Education of The City of New York
Annual Financial Statements
For the Fiscal Years Ended June 30, 2013 and 2012**

GLOSSARY

ARRA	American Recovery and Reinvestment Act
BERS	Board of Education Retirement System
CFN.....	Children First Network
CMS	Centers of Medical and Medicaid services
DDC	New York City Department of Design and Construction
DOE	Department of Education of the City of New York
FAMIS	Financial Accounting Management Information System
FDIC	Federal Deposit Insurance Corporation
Federal.....	One of the agencies of the United States of America
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