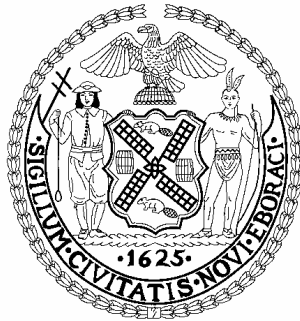


# **ANNUAL FINANCIAL STATEMENTS**

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

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

**For the Fiscal Year Ended June 30, 2006**

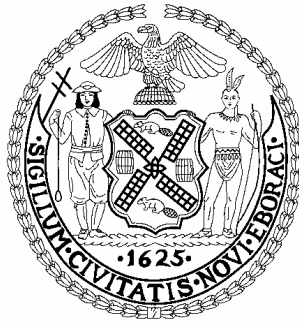


**Michael R. Bloomberg, Mayor  
Joel I. Klein, Chancellor**

# ANNUAL FINANCIAL STATEMENTS

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

For the Fiscal Year Ended June 30, 2006



**Prepared by the Division of Financial Operations**

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

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

**Department of Education of The City of New York  
Annual Financial Statements  
For the Fiscal Years Ended June 30, 2006 and 2005**

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**Department of Education of The City of New York  
Annual Financial Statements  
For the Fiscal Years Ended June 30, 2006 and 2005**

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# **ANNUAL FINANCIAL STATEMENTS**

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

**For the Fiscal Year Ended June 30, 2006**

## **I Introductory Section**

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

October 31, 2006

**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, 2006**

The Annual Financial Statements for the Department of Education of the City of New York (DOE) for the fiscal year ended June 30, 2006 are submitted herewith and include a Management's Discussion and Analysis, financial statements, Notes to the Financial Statements and supplemental schedules. We believe it is complete and accurate in all material aspects; that it is presented in accordance with accounting standards designed to set forth fairly the financial position and results of operations of the DOE as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the appropriate understanding of the DOE's financial affairs have been included. Responsibility for completeness and clarity of the report, including disclosures, rests with the Chancellor, the Deputy Chancellor for Finance and Administration, and the Executive Director of the Division of Financial Operations. The Administrator of the Office of Accounting of the Division of Financial Operations, who is responsible for the data presented herein, prepares the Annual Financial Statements.

The firm of Deloitte & Touche LLP has audited the 2006 financial statements included in this report; their opinion is expressed on page 1. The auditors' report on the basic financial statements is unqualified and states that the financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, known as Generally Accepted Accounting Principles (GAAP). The auditors' report on internal controls over financial reporting and on compliance and other matters, based on an audit of the financial statements in accordance with *Government Auditing Standards*, is also included. This report indicates that the auditors' tests disclosed no reportable instances of noncompliance with certain provisions of laws, regulations, contracts and grant agreements, and no material weaknesses related to internal controls over financial reporting. In addition, the Management's Discussion and Analysis is included as supplementary information required by GAAP. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, no opinion is expressed on it. The Supplemental Financial Schedules of the General Fund are presented for purposes of additional analysis and are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

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

DOE has two basic sources of funding:

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


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


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

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

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

Respectfully submitted by,

  
Kathleen Grimm  
Deputy Chancellor  
Finance & Administration

  
John Wall  
Chief Administrator  
Division of Financial Operations

  
Vincent A. Giordano  
Executive Director  
Division of Financial Operations

# ANNUAL FINANCIAL STATEMENTS

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

**For the Fiscal Year Ended June 30, 2006**

## **II Financial Section**

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## INDEPENDENT AUDITORS' REPORT

The Department of Education  
Of The City of New York

We have audited the accompanying financial statements of the governmental activities of the Department of Education of The City of New York (the "DOE") as of and for the years ended June 30, 2006 and 2005. We have also audited the financial statements of the DOE's fiduciary funds as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the DOE management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in the Note 1A to the financial statements, the financial statements of the DOE are intended to present the financial position, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of The City of New York (The City) that is attributable to the transactions of the DOE. They do not purport to, and do not present fairly, the financial position of The City as of June 30, 2006 and 2005, and the changes in its financial position, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the DOE, as of June 30, 2006 and 2005, and the respective changes in financial position, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary funds of the DOE, as of June 30, 2006 and 2005, and the respective changes in financial position, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4.C to the financial statements, in 2006, the DOE adopted Governmental Accounting Standards Board Statement (GASB) No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*; GASB Statement No.47, *Accounting for Termination Benefits*; GASB Technical Bulletin (TB) No. 2004-2, *Recognition of Pension and Other Post Retirement Benefit Expenditures and/Expense and Liabilities by Cost Sharing Employers*; and, GASB TB No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D*.

The Management's Discussion and Analysis on pages 4 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the DOE's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2006, on our consideration of the DOE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*Deloitte + Touche LLP*

October 26, 2006



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

This section of the DOE's Annual Financial Statements discusses and analyzes DOE's financial performance during the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the transmittal letter at the front of these financial statements and the DOE's financial statements, which immediately follow this section.

### **Financial Highlights**

- Net deficit at year-end was \$6.51 billion, a decrease in net assets of \$16.25 billion over that of the previous year due to the initial year of accounting for over \$17 billion of Other Postemployment Benefits obligations, pursuant to GASB 45.
- Total assets and liabilities reported in the governmental funds at year-end were \$2.6 billion, an increase of about \$284 million from that of the previous fiscal year.
- General Fund total revenues available and spent during the fiscal year were \$14.9 billion, an increase of 7.9 percent over that of the previous fiscal year.
- A net surplus of \$155.7 million was returned to The City, as part of DOE's dependent relationship, to supplement revenues received from federal, state and private sources.

### **Overview of Financial Statements**

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

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

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

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

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

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

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

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

### Department-wide Financial Statements

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

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

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

### Fund Financial Statements

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

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

DOE has two kinds of funds:

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

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

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

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

At the close of Fiscal Year 2006, total liabilities of DOE exceeded total assets by \$6.5 billion, a reduction in net assets of \$16.25 billion from that at the close of Fiscal Year 2005. Net assets (deficit), as of June 30, 2006 and June 30, 2005, are summarized below for all governmental activities.

**Figure 1**

	<b>Governmental Activities (000's Omitted)</b>	
	<b><u>FY2006</u></b>	<b><u>FY2005</u></b>
Current and Other Assets . . . . .	\$ 2,602,069	\$ 2,317,330
Capital Assets . . . . .	12,588,684	11,362,812
Total Assets . . . . .	<u>\$ 15,190,753</u>	<u>\$ 13,680,142</u>
Long-Term Liabilities . . . . .	\$ 18,653,819	\$ 1,545,430
Other Liabilities . . . . .	3,042,917	2,394,322
Total Liabilities . . . . .	<u>21,696,736</u>	<u>3,939,752</u>
 Net Assets:		
Investment in Capital Assets, net of Related Debt . . . . .	12,588,684	11,362,812
Unrestricted Deficit . . . . .	<u>(19,094,667)</u>	<u>(1,622,422)</u>
Total Net Assets (Deficit)	<u>\$ (6,505,983)</u>	<u>\$ 9,740,390</u>

Assets increased over \$1.5 billion from \$13.7 billion as of June 30, 2005 to \$15.2 billion as of June 30, 2006 primarily due to the increase of the net value of capital assets (\$1.2 billion). Capital assets were increased due to buildings transferred from the School Construction Authority (SCA) for DOE use (\$958 million) and increases in Construction in Progress (\$823 million), offset by increases in depreciation expense (\$567 million). Amounts due from The City of New York increased \$526 million as a result of increases in the accounts payable in the General Fund (\$590 million), offset by decreases in accounts payable in the Capital Projects Fund (\$64 million). In addition, although accounts receivable from federal programs decreased over \$269 million, those from State programs increased \$32 million.

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

Liabilities increased about \$17.8 billion from \$3.94 billion as of June 30, 2005 to \$21.69 billion as of June 30, 2006. The largest increase resulted from the initial year of accounting for over \$17 billion of Other Postemployment Benefits liabilities, pursuant to the adoption of Governmental Accounting Standards Board's (GASB) Statement number 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions." Additionally, increases in the accounts payable and accrued expenditures of almost \$484 million were offset by decreases to amounts due to The City of New York (\$84 million) and Deferred Revenue (\$114 million). In addition, Accrued Vacation and Sick Leave increased \$177 million.

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

DOE's net assets, as of June 30, 2005, were \$9.7 billion; however, with the adoption of GASB 45 in Fiscal Year 2006, the expenses exceeded revenues by \$18 billion and resulted in a year end net deficit of \$6.5 billion. The key elements of this change are as follows:

**Figure 2**

	<b>Governmental Activities (000's Omitted)</b>	
	<b><u>FY 2006</u></b>	<b><u>FY 2005</u></b>
<b><u>Revenues</u></b>		
<b><u>Program Revenues:</u></b>		
Charges for Services . . . . .	\$ 69,775	\$ 57,064
Operating Grants and Contributions . . . . .	8,621,206	8,228,504
<b><u>General Revenues:</u></b>		
City Funded . . . . .	6,258,966	5,640,203
Other . . . . .	<u>13,631</u>	<u>14,048</u>
Total Revenues . . . . .	<u>14,963,578</u>	<u>13,939,819</u>
<b><u>Expenses</u></b>		
School Leadership, Instruction and Special Education Support* . . . . .	27,743,730	10,638,254
School Support Services . . . . .	2,205,578	1,948,187
Regional Administration and Instructional Support . . . . .	959,543	391,454
Central Administration and Instructional Support . . . . .	1,099,918	420,650
Non-Public Schools . . . . .	<u>989,750</u>	<u>894,804</u>
Total Expenses . . . . .	<u>32,998,519</u>	<u>14,293,349</u>
Net Revenue (Expenses) . . . . .	(18,034,941)	(353,530)
Change in Capital Assets and Inventory . . . . .	<u>1,788,568</u>	<u>838,271</u>
Change in Net Assets . . . . .	(16,246,373)	484,741
Net Assets—Beginning . . . . .	<u>9,740,390</u>	<u>9,255,649</u>
Net Assets (Deficit)—Ending . . . . .	<u>\$ (6,505,983)</u>	<u>\$ 9,740,390</u>

\*For comparative purposes this function was most nearly referred to as the combination of "Classroom/Instruction" and "Instructional Leadership and Support" in Fiscal Year 2005

In Figure 2, Federal program revenues decreased 3.5 percent from \$1.92 billion in Fiscal Year 2005 to \$1.85 billion in Fiscal Year 2006. However, State program revenues increased 7.6 percent from \$6.24 billion to \$6.72 billion.

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

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

The adoption of GASB 45 necessitated inclusion of over \$17 billion of liabilities within the programs listed under expenses for Fiscal Year 2006; Fiscal Year 2005 amounts do not contain GASB 45 liabilities, in the above Figure 2. Thus, Figure 3 displays Figure 2 expenses without the effects of GASB 45 for Fiscal Year 2006. Figure 3 is for comparative purposes only:

**Figure 3**

	<b>Governmental Activities (000's Omitted)</b>	
	<b><u>FY 2006</u></b>	<b><u>FY 2005</u></b>
<b><u>Revenues</u></b>		
<b><u>Program Revenues:</u></b>		
Charges for Services . . . . .	\$ 69,775	\$ 57,064
Operating Grants and Contributions . . . . .	8,621,206	8,228,504
<b><u>General Revenues:</u></b>		
City Funded . . . . .	6,258,966	5,640,203
Other . . . . .	13,631	14,048
Total Revenues . . . . .	<u>14,963,578</u>	<u>13,939,819</u>
<b><u>Expenses</u></b>		
School Leadership, Instruction and Special Education Support* . . . . .	11,643,824	10,638,253
School Support Services . . . . .	2,205,578	1,948,187
Regional Administration and Instructional Support . . . . .	402,713	391,454
Central Administration and Instructional Support . . . . .	461,627	420,650
Non-Public Schools . . . . .	989,750	894,804
Total Expenses . . . . .	<u>15,703,492</u>	<u>14,293,349</u>
Net Revenue (Expenses) . . . . .	(739,914)	(353,530)
Change in Capital Assets and Inventory . . . . .	<u>1,788,568</u>	<u>838,271</u>
Change in Net Assets . . . . .	1,048,654	484,741
Net Assets—Beginning . . . . .	<u>9,740,390</u>	<u>9,255,649</u>
Net Assets—Ending . . . . .	<u>\$ 10,789,044</u>	<u>\$ 9,740,390</u>

\*For comparative purposes this function was most nearly referred to as the combination of "Classroom/Instruction" and "Instructional Leadership and Support" in Fiscal Year 2005

For Figure 3, in Fiscal Year 2005, the full accrual expenses include \$13.9 billion of modified accrual expenses and almost \$422 million of additional expenses incurred by The City to report a full accrual expense of \$14.3 billion. In Fiscal Year 2006, the full accrual expenses include \$14.9 billion of modified accrual expenses and over \$744 million of additional expenses incurred by The City to report a full accrual expense of \$15.7 billion, an increase of 10 percent, or \$1.4 billion from Fiscal Year 2005.

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

In Fiscal Year 2006 the New York City Office of Management and Budget reorganized the appropriations provided to the DOE, thus, changing the categories reported on the Statement of Activities. For comparison purposes, the categories of Classroom/Instruction and Instructional Leadership and Support are now united within one category of School Leadership, Instruction and Special Education Support. This category increased about 9.5 percent from \$10.6 billion in Fiscal Year 2005 to \$11.6 billion in Fiscal Year 2006; this increase resulted primarily from payments to employees for newly negotiated union contracts. School Support Services (formerly Ancillary Student & Building Services) increased 13 percent or \$257 million due to costs of energy and newly negotiated school bus contracts, and the implementation of the UFT agreement to add instruction time for certain students, which required increased frequency of some bus routes in the afternoon. Central Administration & Instructional Support increased 9.8 percent, or \$41 million due to increases to liabilities incurred by The City on behalf of the DOE (primarily depreciation expense), collective bargaining increases, and increases to fringe benefits. Non-Public Schools had increases of \$95 million resulting from increases in charter school expenditures, in tuition for pre-K and school age special education, and in Pre-K transportation.

The increase in net assets in each fiscal year was primarily the result of the transfer of completed capital assets from SCA to DOE of \$831 million in Fiscal Year 2005 and \$958 million in Fiscal Year 2006.

**Financial Analysis of the Government Funds**

Total assets and liabilities increased \$284 million (12.3 percent) for the year ended June 30, 2006 compared to the prior year, as follows:

**Figure 4**

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

	<b>Governmental Activities</b>		<b>Amount Change</b>	<b>Percentage Change 2005-2006</b>
	<b><u>June 30, 2006</u></b>	<b><u>June 30, 2005</u></b>		
<b>Assets</b>				
General Fund. . . . .	\$ 2,585	\$ 2,236	\$ 349	15.6%
Capital Projects Fund . . . . .	<u>4</u>	<u>69</u>	<u>(65)</u>	(94.2%)
<b>Total Assets</b>	<b><u>\$ 2,589</u></b>	<b><u>\$ 2,305</u></b>	<b><u>\$ 284</u></b>	<b>12.3%</b>
<b>Liabilities</b>				
General Fund. . . . .	\$ 2,585	\$ 2,236	\$ 349	15.6%
Capital Projects Fund . . . . .	<u>4</u>	<u>69</u>	<u>(65)</u>	(94.2%)
<b>Total Liabilities</b>	<b><u>\$ 2,589</u></b>	<b><u>\$ 2,305</u></b>	<b><u>\$ 284</u></b>	<b>12.3%</b>

Changes in Total Assets: Increases in total governmental fund assets resulted mainly from two offsetting factors: First, there was a net increase of \$526 million of amounts due from The City of New York to pay for outstanding liabilities in the General and Capital Projects Funds. Also, there were increases in the balance of cash on hand at year end of \$5.3 million and accounts receivable from state sources of \$32 million. However, there were decreases in accounts receivable from federal sources of \$269 million and non-governmental sources of \$9.7 million.

Changes in Total Liabilities: Governmental fund liabilities increased \$284 million because of offsetting factors: An increase of \$548 million in the accounts payable in the General Fund was offset by decreases of over \$114 million in the balance of the deferred revenue account and \$84 million in the amounts due to The City for the

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

General Fund. Also, the balances in the Capital Projects Fund decreased \$64 million due to decreases in accounts payable.

Total revenues and expenditures under modified accrual accounting increased \$1.1 billion (7.9 percent) for the year ended June 30, 2006 compared to the prior year, as follows:

**Figure 5**

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

	<u>General Funds</u>		<u>Percentage Change 2005-2006</u>
	<u>FY2006</u>	<u>FY2005</u>	
<b><u>Revenues</u></b>			
Federal Aid. . . . .	\$ 1,852.1	\$ 1,920.2	(3.5%)
State Aid. . . . .	6,717.5	6,240.6	7.6%
Funding by The City . . . . .	6,254.7	5,571.6	12.3%
Other. . . . .	<u>121.4</u>	<u>124.7</u>	(2.6%)
<b>Total Revenues</b>	<b>\$ <u>14,945.7</u></b>	<b>\$ <u>13,857.1</u></b>	<b>7.9%</b>
<b><u>Expenditures</u></b>			
School Leadership, Instruction & Special Education Support*. . . . .	\$ 10,937.4	\$ 10,232.0	6.9%
School Support Services. . . . .	2,205.6	1,948.2	13.2%
Regional Administration & Instructional Supp. Central Administration & Instructional Supp. .	378.8	377.0	0.5%
Non-Public Schools . . . . .	434.2	405.1	7.2%
	<u>989.7</u>	<u>894.8</u>	10.6%
<b>Total Expenditures</b>	<b>\$ <u>14,945.7</u></b>	<b>\$ <u>13,857.1</u></b>	<b>7.9%</b>

\*For comparative purposes this function was most nearly referred to as the combination of "Classroom/Instruction" and "Instructional Leadership and Support" in Fiscal Year 2005

Although DOE does not maintain a fund balance at the end of each fiscal year, strong financial performance is exhibited in its ability to secure additional revenues from State and City sources to provide additional personnel, programs or facilities to the school system. Although Federal program revenues decreased 3.5 percent from \$1.92 billion in Fiscal Year 2005 to \$1.85 billion in Fiscal Year 2006, State program revenues increased 7.6 percent from \$6.24 billion to \$6.72 billion, and City revenues increased 12.3 percent from \$5.57 billion to \$6.25 billion.

Major programs that benefited from increased revenues included: Federal Aid increases of \$68 million for Education of Disadvantaged Children; and \$13 million for Title III LEP and Immigration Students. State Aid revenues that increased included: Public Excess Cost Aid (\$62 million); Building Aid-SCA (\$53 million); High Cost Aid (\$43 million); Net Support (\$37 million); Family Court Pre-K (\$34 million); Chapter 721 (20 million); Transportation Aid (\$20 million); and Handicapped Pupils Summer School (\$13 million). In addition, a new State grant was established for Sound Basic Education (\$196 million). Revenue from other services, Rentals, increased over \$13 million.

Total expenditures, under modified accrual accounting, increased 7.9 percent, or \$1.1 billion. Expenditures in the area of School Leadership, Instruction and Special Education Support increased \$705 million (6.9 percent) mainly for personal services costs (salaries) for teachers in the classroom, and the respective fringe costs for these salaries. School Support Services increased mainly due to costs of energy and newly negotiated school bus contracts, and the implementation of the UFT agreement to add instruction time for certain students, which

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

required increased frequency of some bus routes in the afternoon. Expenditures in the area of Regional Administration and Instruction Support increased less than \$2 million (0.5 percent). Central Administration & Instructional Support increased \$29 million (7.2 percent) due to collective bargaining increases and increased fringe benefits. Also, Non-Public Schools expenditures increased \$95 million (10.6 percent) resulting from increases in charter school expenditures, in tuition for pre-K and school age special education, and in Pre-K transportation.

Capital expenditures, which are fully funded by The City, decreased \$64.4 million from Fiscal Years 2005 to 2006.

**General Fund Budgetary Highlights**

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

- Executive and Adopted Budget Actions, which increased \$205.9 million to Tax Levy budgets and decreased \$38.8 million to the Reimbursable program budgets. In addition, the Executive Budget Action included District and High School Tax Levy surplus rolls from Fiscal Year 2006 to Fiscal Year 2007 of \$11.6 million
- November and January Plan Actions, which increased \$531.6 million to Tax Levy budgets, of which \$518.1 million is associated with UFT collective bargaining, and \$92.8 million to the Reimbursable program budgets. In addition, the January Plan included District and High School Tax Levy surplus rolls from Fiscal Year 2006 to Fiscal Year 2007 of \$40 million.
- School Food programs were decreased by \$0.2 million to Tax Levy budgets.
- Other adjustments including an increase of \$5.8 million to Reimbursable program budgets, associated with Intra-city programs; decreases to Tax Levy budgets of \$0.3 million, associated with City Council actions.
- Final Fiscal Year Close Actions, which increased \$38.1 million to Tax Levy budgets and \$36.9 million to Reimbursable program budgets. These actions included collective bargaining adjustments of \$25.6 million to Tax Levy budgets and \$2.6 million to Reimbursable program budgets.

As a result of the above, DOE made net modifications to the adopted budget of over \$814 million.

**Capital Assets**

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

**Figure 6**

**Governmental Activities  
(000's Omitted)**

	<u>FY2006</u>	<u>FY2005</u>
Land. . . . .	\$ 446,881	\$ 448,576
Buildings. . . . .	11,006,507	10,622,447
Equipment. . . . .	56,055	36,021
Construction in Progress. . . . .	<u>1,079,241</u>	<u>255,768</u>
Total	<u>\$ 12,588,684</u>	<u>\$ 11,362,812</u>

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

In Fiscal Year 2006, capital assets, net of accumulated depreciation, increased from the previous fiscal year by \$1.2 billion, primarily due to capital assets (completed new construction and equipment) that were transferred to DOE from the SCA in the amount of \$958 million. In Fiscal Year 2005, capital assets, net of accumulated depreciation, increased from the previous fiscal year by \$473 million, primarily due to capital assets that were transferred to DOE from the SCA in the amount of \$831 million.

### **Factors Bearing on the Department's Future**

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

- In June 2005 a federal agency issued an audit report recommending a substantial claim for Medicaid to be disallowed to the State based on insufficient documentation of services at the DOE. The State is contesting the audit. However, the State, ultimately, may seek remedy for this disallowance from the DOE.
- DC-37 union contract was ratified and scheduled to be paid in October 2006 and February 2007, along with managerial and original jurisdictional employees increases.

### **Contacting the Department's Financial Management**

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

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

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash	\$ 26,778
Accounts Receivable	
Federal	751,923
State	1,178,503
Non-Governmental	37,489
Due from The City of New York	594,736
Inventories	12,640
Capital Assets (Net of Accumulated Depreciation)	
Land	446,881
Buildings	11,006,507
Equipment	56,055
Construction in Progress	1,079,241
	<b>\$ 15,190,753</b>
 <b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenditures	\$ 2,546,488
Deferred Revenue	42,941
Other Postemployment Benefit Obligations	
Due within one year	324,900
Due in more than one year	16,970,127
Accrued Vacation and Sick Leave	
Due within one year	52,757
Due in more than one year	1,342,995
Capital Lease Obligations	
Due within one year	7,810
Due in more than one year	143,204
Accrued Judgments and Claims	
Due within one year	68,021
Due in more than one year	197,493
	<b>21,696,736</b>
 <b>NET ASSETS:</b>	
Investment in Capital Assets, net of Related Debt	12,588,684
Unrestricted Deficit	(19,094,667)
	<b>\$ (6,505,983)</b>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Net Assets**  
**As of June 30, 2005**  
(\$000 Omitted)

	<b>Governmental Activities</b>
<b>ASSETS:</b>	
Cash	\$ 21,448
Accounts Receivable	
Federal	1,021,031
State	1,146,210
Non-Governmental	47,233
Due from The City of New York	68,635
Inventories	12,773
Capital Assets (Net of Accumulated Depreciation)	
Land	448,576
Buildings	10,622,447
Equipment	36,021
Construction in Progress	255,768
	<u>13,680,142</u>
<b>TOTAL ASSETS</b>	<b>\$ 13,680,142</b>
<b>LIABILITIES:</b>	
Accounts Payable and Accrued Expenditures	\$ 2,062,411
Deferred Revenue	157,577
Due to The City of New York	84,569
Accrued Vacation and Sick Leave	
Due within one year	69,625
Due in more than one year	1,148,635
Capital Lease Obligations	
Due within one year	13,898
Due in more than one year	132,804
Accrued Judgments and Claims	
Due within one year	67,639
Due in more than one year	202,594
	<u>3,939,752</u>
<b>TOTAL LIABILITIES</b>	<b>3,939,752</b>
<b>NET ASSETS:</b>	
Investment in Capital Assets, net of Related Debt	11,362,812
Unrestricted Deficit	(1,622,422)
<b>TOTAL NET ASSETS</b>	<b>\$ 9,740,390</b>

See accompanying notes to the financial statements.

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

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

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Activities**  
**For the Year Ended June 30, 2005**  
(\$000 Omitted)

<b>Function/Programs</b>	<b>Program Revenue</b>			<b>Net (Expenses)</b>
<b>Expenses</b>	<b>Charges for</b>	<b>Operating Grants</b>	<b>Revenue</b>	
<b>Program</b>	<b>Services</b>	<b>and Contributions</b>	<b>Revenue</b>	
Classroom/Instruction	\$ 9,263,936	\$ 18,369	\$ 6,168,585	\$ (3,076,982)
Instructional Leadership and Support	1,374,318	-	496,698	(877,620)
Ancillary Student & Building Services	1,948,187	36,629	1,178,317	(733,241)
District Level Instruction & Administration	391,454	-	-	(391,454)
Central Administration Services	420,650	-	-	(420,650)
Non-Public Schools	894,804	2,066	384,904	(507,834)
Total Department Activities	\$ 14,293,349	\$ 57,064	\$ 8,228,504	(6,007,781)
<b>General Revenues</b>				
City Funded				5,640,203
Intra-city Sales				14,048
<b>Other Adjustments</b>				
Net Changes in Capital Assets, Inventory and Capital Leases				838,271
<b>CHANGE IN NET ASSETS</b>				484,741
Net Assets - Beginning				9,255,649
Net Assets - Ending				\$ 9,740,390

See accompanying notes to the financial statements.

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

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

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

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Balance Sheet**  
**As of June 30, 2005**  
(\$000 Omitted)

	<u>Governmental Fund Types</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
<b>ASSETS:</b>			
Cash	\$ 21,448	\$ -	\$ 21,448
Accounts Receivable			
Federal	1,021,031	-	1,021,031
State	1,146,210	-	1,146,210
Non-Governmental	47,233	-	47,233
Due from The City of New York	-	68,635	68,635
<b>Total Assets</b>	<u>\$ 2,235,922</u>	<u>\$ 68,635</u>	<u>\$ 2,304,557</u>
<b>LIABILITIES:</b>			
Accounts Payable and Accrued Expenditures	\$ 1,993,776	\$ 68,635	\$ 2,062,411
Deferred Revenue	157,577	-	157,577
Due to The City of New York	84,569	-	84,569
<b>Total Liabilities</b>	<u>2,235,922</u>	<u>68,635</u>	<u>2,304,557</u>
<b>FUND EQUITY:</b>			
Total Fund Equity	-	-	-
<b>Total Liabilities and Fund Equity</b>	<u>\$ 2,235,922</u>	<u>\$ 68,635</u>	<u>\$ 2,304,557</u>

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

See accompanying notes to the financial statements.

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

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

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

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**To The Statement of Net Assets**  
**As of June 30, 2005**  
**(\$000 Omitted)**

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

Total Fund Balance - Governmental Funds	\$	-
Inventories used in governmental activities are not financial resources and therefore, are not reported in governmental funds		12,773
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds		11,362,812
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the governmental funds. These are:		
Accrued vacation and sick leave		(1,218,260)
Capital Lease Obligations		(146,702)
Accrued Judgements and Claims		<u>(270,233)</u>
 Net assets of governmental activities	 \$	 <u><u>9,740,390</u></u>

See accompanying notes to the financial statements.

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

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

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

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Fund Types**  
**For the Year Ended June 30, 2005**  
**(\$'000 Omitted)**

	<u>Government Fund Types</u>		<b>Total Governmental Funds</b>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
<b>REVENUES</b>			
Federal Aid	\$ 1,920,180	\$ -	\$ 1,920,180
State Aid	6,240,642	-	6,240,642
Universal Services Fund	12,000	-	12,000
Other Assistance	41,775	-	41,775
Charges for Services:			
School Construction Authority	17,677	-	17,677
Student Lunches	20,000	-	20,000
Rentals	16,629	-	16,629
Other	16,665	-	16,665
Subtotal	<u>8,285,568</u>	<u>-</u>	<u>8,285,568</u>
Net Change in Estimate of Prior Receivables	<u>(78,566)</u>	<u>-</u>	<u>(78,566)</u>
Subtotal	<u>8,207,002</u>	<u>-</u>	<u>8,207,002</u>
Funding Provided by The City of New York	<u>5,650,133</u>	<u>68,635</u>	<u>5,718,768</u>
Total Revenues and Other Financing Sources	<u>13,857,135</u>	<u>68,635</u>	<u>13,925,770</u>
<b>EXPENDITURES</b>			
Central Administration	343,939	-	343,939
District Institutional Support	3,145,126	-	3,145,126
District Special Education Services	442,805	-	442,805
High School Instructional Support	1,564,330	-	1,564,330
High School Special Ed. Services	85,304	-	85,304
High School Operations	214,643	-	214,643
Special Ed. City-Wide Instruction	552,716	-	552,716
Special Ed. Instructional Support	252,542	-	252,542
Special Ed. Administration	2,011	-	2,011
Special Ed. Operations	5,702	-	5,702
Division of School Facilities	515,178	-	515,178
Division of Pupil Transportation	690,000	-	690,000
Division of School Food Services	317,892	-	317,892
Division of School Safety	146,703	-	146,703
Energy and Leases	278,413	-	278,413
Fringe Benefits	1,665,977	-	1,665,977
Non-Public Schools	894,804	-	894,804
Capital Outlay	-	68,635	68,635
Subtotal	<u>11,118,085</u>	<u>68,635</u>	<u>11,186,720</u>
Reimbursable:			
Categorical Programs	2,753,098	-	2,753,098
Intracity Sales	<u>(14,048)</u>	<u>-</u>	<u>(14,048)</u>
Subtotal	<u>13,857,135</u>	<u>68,635</u>	<u>13,925,770</u>
Net Change in Estimate of Prior Payables	<u>(81,117)</u>	<u>-</u>	<u>(81,117)</u>
Total Expenditures	<u>13,776,018</u>	<u>68,635</u>	<u>13,844,653</u>
Other Financing Uses - Transfer to The City of New York	<u>81,117</u>	<u>-</u>	<u>81,117</u>
Total Expenditures and Other Uses	<u>13,857,135</u>	<u>68,635</u>	<u>13,925,770</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

See accompanying notes to the financial statements.

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

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

Total Fund Balance - Governmental Funds	\$	-
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives.		4,260
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		(567,089)
Other Postemployment Benefit Obligations not due and payable in current period and accordingly are not reported in the governmental funds		(17,295,027)
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 Sick Leave and Vacation Liability	\$ (177,492)	
Change in Capital Lease Obligations	(4,312)	
Change in Judgments and Claims Liability	<u>4,719</u>	(177,085)
Net changes in capital assets and inventory where no revenue nor expense are incurred by the Department, net of Department costs.		<u>1,788,568</u>
Change in Net Assets - governmental activities	\$	<u><u>(16,246,373)</u></u>

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balance to the Statement of Activities**  
**For the Year Ended June 30, 2005**  
(\$000 Omitted)

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

Total Fund Balance - Governmental Funds	\$		-
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives.			68,635
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			(445,314)
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 Sick Leave and Vacation Liability	\$	48,665	
Change in Capital Lease Obligations		(9,639)	
Change in Judgments and Claims Liability		<u>(15,877)</u>	23,149
Net changes in capital assets, inventory and capital leases where neither revenues nor expenses are incurred by the Department, net of Department costs.			<u>838,271</u>
Change in Net Assets - governmental activities	\$		<u><u>484,741</u></u>

See accompanying notes to the financial statements.

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

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

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**For the Year Ended June 30, 2005**  
**(\$'000 Omitted)**

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Favorable / (Unfavorable)</u>
<b>REVENUES</b>				
Federal Aid	\$ 1,733,386	\$ 1,920,180	\$ 1,920,180	\$ -
State Aid	5,870,895	6,240,642	6,240,642	-
Universal Services Fund	-	12,000	12,000	-
Other Assistance	15,318	41,775	41,775	-
Charges for Services:				
School Construction Authority	8,000	17,677	17,677	-
Student Lunches	20,074	20,074	20,000	(74)
Rentals	15,000	15,000	16,629	1,629
Other	9,800	9,924	16,665	6,741
Subtotal	<u>7,672,473</u>	<u>8,277,272</u>	<u>8,285,568</u>	<u>8,296</u>
Net Change in Estimate of Prior Receivables	-	-	(78,566)	(78,566)
Subtotal	<u>7,672,473</u>	<u>8,277,272</u>	<u>8,207,002</u>	<u>(70,270)</u>
Funding Provided by The City of New York	<u>5,369,368</u>	<u>5,526,071</u>	<u>5,650,133</u>	<u>124,062</u>
Total Revenues and Other Financing Sources	<u>13,041,841</u>	<u>13,803,343</u>	<u>13,857,135</u>	<u>53,792</u>
<b>EXPENDITURES</b>				
Central Administration	314,624	347,633	343,939	3,694
District Institutional Support	3,229,868	3,051,696	3,145,126	(93,430)
District Special Education Services	333,000	509,495	442,805	66,690
High School Instructional Support	1,419,341	1,564,330	1,564,330	-
High School Special Ed. Services	60,062	111,793	85,304	26,489
High School Operations	181,040	215,301	214,643	658
Special Ed. City-Wide Instruction	514,386	554,162	552,716	1,446
Special Ed. Instructional Support	247,887	252,161	252,542	(381)
Special Ed. Administration	6,000	2,228	2,011	217
Special Ed. Operations	18,159	4,909	5,702	(793)
Division of School Facilities	446,807	515,178	515,178	-
Division of Pupil Transportation	695,980	690,000	690,000	-
Division of School Food Services	305,522	317,892	317,892	-
Division of School Safety	147,772	147,772	146,703	1,069
Energy and Leases	261,227	278,413	278,413	-
Fringe Benefits	1,617,257	1,661,375	1,665,977	(4,602)
Non-Public Schools	759,340	852,790	894,804	(42,014)
Subtotal	<u>10,558,272</u>	<u>11,077,128</u>	<u>11,118,085</u>	<u>(40,957)</u>
Reimbursable:				
Categorical Programs	2,490,110	2,740,307	2,753,098	(12,791)
Intracity Sales	(6,541)	(14,092)	(14,048)	(44)
Subtotal	<u>13,041,841</u>	<u>13,803,343</u>	<u>13,857,135</u>	<u>(53,792)</u>
Net Change in Estimate of Prior Payables	-	-	(81,117)	81,117
Total Expenditures	<u>13,041,841</u>	<u>13,803,343</u>	<u>13,776,018</u>	<u>27,325</u>
Other Financing Uses - Transfer to The City of New York	-	-	81,117	(81,117)
Total Expenditures and Other Uses	<u>13,041,841</u>	<u>13,803,343</u>	<u>13,857,135</u>	<u>(53,792)</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 Fiduciary Net Assets**  
**As of June 30, 2006**  
**(\$000 Omitted)**

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

See accompanying notes to the financial statements.

**Department of Education of The City of New York**  
**Statement of Fiduciary Net Assets**  
**As of June 30, 2005**  
**(\$000 Omitted)**

	<u>Agency Funds</u>
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ <u>29,719</u>
Total Assets	\$ <u><u>29,719</u></u>
<b>LIABILITIES:</b>	
Due To Students	\$ 20,357
Due to Tax Agents	<u>9,362</u>
Total Liabilities	\$ <u><u>29,719</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, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

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

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

In Fiscal Year 2006, DOE adopted three new statements and two Technical Bulletins of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* was issued in April 2004. The Statement prescribes uniform financial reporting standards for Other Postemployment Benefits (OPEB) plans of all state and local governments. OPEB refers to postemployment benefits other than pension benefits and includes: (i) postemployment healthcare benefits and (ii) other types of postemployment benefits (e.g., life insurance) if provided separately from a pension plan. 'Plans' refer to trust or other funds through which assets are accumulated to finance OPEB, and benefits are paid as they become due. The Statement provides standards for measurement, recognition and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The requirements of Statement No. 43 apply whether an OPEB plan is reported as a trust or agency fund or a fiduciary component unit of a participating employer or plan sponsor, or the plan is separately reported by a public employee retirement system or other entity that administers the plan.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* was issued in June 2004. The Statement establishes standards for measurement, recognition, and display of Other Postemployment Benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes postemployment healthcare, as well as,

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2006**

other forms of postemployment benefits (e.g., life insurance) when provided separately from a pension plan. The approach followed in the Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 45 improves the relevance and usefulness of financial reporting by: (i) recognizing the cost of benefits in periods when the related services are received by the employers; (ii) providing information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded; and (iii) providing information useful in assessing potential demands on the employer's future cash flows.

GASB Statement No. 47, *Accounting for Termination Benefits* was issued in June 2005. The Statement provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, including voluntary termination benefits (e.g., early-retirement incentives), without limitation as to the period of time during which the benefits are offered, and involuntary termination benefits (e.g., severance benefits). Statement No. 47 excludes post employment benefits (pensions and other post employment benefits [OPEB]) which are part of the compensation that is offered in exchange for services received because they differ in nature from termination benefits. Accounting and reporting requirements for pensions and OPEB are addressed in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, respectively. The Statement requires DOE to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which DOE becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefits liabilities. There was no impact on DOE's financial statements as a result of implementation of Statement No. 47 for termination benefits provided through an existing defined benefit OPEB plan. For all other termination benefits, Statement No. 47 was implemented in Fiscal Year 2005.

GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers* was issued in December 2004. The Technical Bulletin clarifies the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for recognition of pension and other postemployment benefit (OPEB) expenditures/expense and liabilities by DOE. This Technical Bulletin requires DOE to recognize OPEB expenditures/expense equal to their contractually required contribution for the financial reporting period and a liability to the plan for contributions due and unpaid at the end of that period.

GASB Technical Bulletin No. 2006-1, *Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D* was issued June 2006. The Technical Bulletin clarifies: (i) How an employer should account for and report Medicare Part D retiree drug subsidy payments from the Federal government employer; (ii) How such payments to an employer affect the accounting for the transactions and financial reporting by a defined benefit OPEB plan; (iii) How an employer should account for and report such payments to the plan; and (iv) How a defined benefit OPEB plan should account for and report such payments to the plan. There was no impact on the DOE's financial statements as a result of the implementation of Technical Bulletin No. 2006-1.

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2006**

Subsequent to June 30, 2006, a new GASB pronouncement was issued:

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

**B. Basis of Presentation**

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

Upon substantial completion of capital assets, the School Construction Authority (SCA) transfers such assets to DOE. In Fiscal Years 2006 and 2005, SCA transferred \$958 million and \$831 million, respectively, in completed assets to DOE.

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

- **School Leadership, Instruction and Special Education Support** — which includes district, high school, special education instructional support and special education services expenditures, such as, salary costs of teachers, principals, paraprofessionals and other costs directly and indirectly associated with the classroom. Prior to Fiscal Year 2006, this function was divided into **Classroom / Instruction** and **Instructional Leadership and Support**.
- **School Support Services** — which includes the costs of school facilities, pupil transportation, food, school safety, energy and leases.
- **Regional Administration and Instructional Support** — which includes operations of regional offices.
- **Central Administration and Instructional Support** — which includes central office support services for system-wide maintenance, and for development of agency-wide budgeting, purchasing, accounting and student demographic information applications.
- **Non-Public Schools** — which represents the amount of funding passing through DOE to independent non-public schools.

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2006**

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

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

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

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

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

**Reclassifications** — Reclassifications of certain prior year amounts have been made to conform with the current year presentation.

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

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

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

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

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2006**

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

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

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

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

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

**Accounts Payable** — Accounts Payable includes all payments of bills and payrolls since June 30, 2006 and accruals for payments to be made in the future, which apply to liabilities incurred as of June 30, 2006. Further, included in accounts payable are all payments that were processed through the DOE's accounting system, but not yet cleared The City's accounting system. In addition, included are all prior year accruals which have not been liquidated through The City's accounting system.

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

**Donated Commodities** — DOE participates in various federal and state aided food programs. Many of these programs provide for commodities to be supplied to DOE in lieu of, or in addition to, cash. The value of these donated commodities received and used during the year was approximately \$17.9 million. The value of these donated commodities received and still on hand, as of June 30, 2006, and 2005 was \$2.6 million and \$1.7 million, respectively.

**Materials and Supplies** — Inventories on hand at June 30, 2006, amounting to approximately \$10.0 million based on the moving average cost method. Inventories are recorded as expenditures in governmental funds at the time of purchase and, accordingly, have not been reported on the governmental funds balance sheet. As of June 30, 2005 this value was \$11.1 million.

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

**Deferred Revenue** — Deferred revenue represents cash advances of \$42.9 million received by DOE against which qualifying expenditures have not yet been incurred, as of June 30, 2006. As of June 30, 2005 cash advances amounted to \$158 million.

**Salaries** — Most instructional personnel are employed under annual employment contracts covering the period from September through the following August. Since all services required under the annual contracts generally are performed prior to June 30, salaries which are disbursed for the months of July and August are accrued at June 30. The value of these services paid in July and August 2006 was \$1.26 billion. As of June 30, 2005 the value of these services was \$1.13 billion.

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**Vacation and Sick Leave and Cumulative Annual Reserve** — Earned vacation and sick leave and Cumulative Annual Reserve (CAR) is recorded as an expenditure 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 vacation and sick leave and CAR to be paid upon termination or retirement, is payable from future resources. Under the terms of various labor contracts, DOE employees are granted vacation and sick leave and CAR in varying amounts.

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

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

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

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

**School Activity Funds** — General school funds are established by individual schools to account for monies received from students and organizations for programs independent of DOE. These monies are raised primarily through school or student extra-classroom activities to finance approved activities. Since the community school districts and the individual schools function solely as an agent in the collection and disbursement of these monies, the monies are reported as Fiduciary Funds in the accompanying statements. The cash in the agency fund includes the balances of approximately 1,191 separate school activity funds. These bank accounts are maintained by the schools under the responsibility of the respective principals.

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

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**Figure 1**

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

The total program expenses included in the Statement of Activities for the year ended June 30, 2005 (\$14.3 billion) differs from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balances (\$13.9 billion) because of adjustments necessary to convert expenditures from the modified accrual basis of accounting to the full accrual basis (as outlined in the Management’s Discussion and Analysis section). The following schedule reconciles these two accounting basis:

**Figure 2**

	<b>Amount</b> <b><u>(\$000 Omitted)</u></b>
Total Expenditures and Other Uses (from the Statement of Revenues, Expenditures and Changes in Fund Balance) . . . . .	\$ 13,857,136
Add back Intra-City Sales (which are included in the General Revenue in Statement of Activities) . . .	14,048
Depreciation Expense . . . . .	445,314
Long-term liabilities per full accrual basis	
Sick Leave and Vacation Balances. . . . .	(48,665)
Capital Leases . . . . .	9,639
Judgments and Claims. . . . .	<u>15,877</u>
Total Program Expenses (from the Statement of Activities) . . . . .	<u>\$ 14,293,349</u>

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Data**

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

The budget of DOE is categorized into Units of Appropriation. Each Unit of Appropriation represents an area

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of instructional costs, a service program or a division within DOE. The City Council through the Adopted Budget of The City appropriates funds to these Units of Appropriation.

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

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

**B. Appropriations Modifications**

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

**Figure 3**

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

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

**Figure 4**

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

The following schedule summarizes budget modifications for the year ended June 30, 2005 (\$000 omitted):

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**Figure 5**

	<b>Originally Adopted Budget</b>	<b>Net Modifications</b>	<b>Modified Budget</b>
Tax Levy Programs . . . . .	\$ 10,558,272	\$ 518,856	\$11,077,128
Reimbursable Programs. . . . .	2,490,110	250,197	2,740,307
Sub Total . . . . .	13,048,382	769,053	13,817,435
Less: Intracity Sales. . . . .	(6,541)	(7,551)	(14,092)
Total. . . . .	<u>\$ 13,041,841</u>	<u>\$ 761,502</u>	<u>\$ 13,803,343</u>

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

**Figure 6**

	<b>Tax Levy</b>	<b>Reimbursable</b>
Intra-city Purchases . . . . .	\$ 307	\$ 7,244
City Council Actions . . . . .	2,342	-
Executive & Adoption . . . . .	(23,008)	42,144
Oct. & Jan. Plan Actions . . . . .	500,388	202,865
School Food Programs . . . . .	(7,758)	(1,394)
Year-end Closing Actions. . . . .	45,733	(1,215)
Collective Bargaining Actions	1,079	326
Transfers to Reimbursable . . . . .	(227)	227
Total Net Modifications . . . . .	<u>\$ 518,856</u>	<u>\$ 250,197</u>

**3. DETAILED NOTES ON ALL FUNDS**

**A. Cash**

Bank balances are maintained with banks that are members of the Federal Deposit Insurance Corporation (FDIC). The FDIC insures bank balances up to a maximum of \$100,000 in the aggregate by the FDIC for each bank for all funds. As DOE's general fund cash balance is part of The City's cash management system, which is considered one depositor for FDIC purposes and as the Agency Funds include over 1,191 accounts maintained at the school level, DOE cannot determine the amounts that are insured or collateralized. The City has reported that approximately 0.4 and 22.2 percent of The City's June 30, 2006 and June 30, 2005 General Fund bank balances, which includes DOE's General Fund bank deposits, were uninsured and uncollateralized with securities held by The City's agent in The City's name.

**B. Investments**

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

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

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**C. Lease Commitments**

DOE leases various types of property and equipment. Total lease expenditures for the year ended June 30, 2006 and June 30, 2005 were approximately \$98 million and \$90 million, respectively. As of June 30, 2006, DOE has future minimum rental obligations on leases with a remaining term in excess of one year as follows (\$000 omitted):

**Figure 7**

Year(s) Ending June 30,	<u>Total Amount</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2007 .....	\$ 72,747	\$ 14,989	\$ 57,758
2008 .....	70,218	15,224	54,994
2009 .....	68,403	15,494	52,909
2010 .....	61,548	15,216	46,332
2011 .....	51,596	13,873	37,723
2012-2016 .....	197,194	58,404	138,790
2017-2021 .....	111,943	36,880	75,063
2022-2026 .....	51,994	29,597	22,397
2027-2031 .....	33,326	21,939	11,387
2032-2036 .....	13,838	11,092	2,746
2037-2045 .....	135	-	135
Total minimum lease payments .....	<u>\$ 732,942</u>	<u>232,708</u>	<u>\$ 500,234</u>
Less imputed interest .....		(81,694)	
Present value of net minimum lease payments .....		<u>\$ 151,014</u>	

**D. Long-Term Liabilities**

The long-term liabilities include capital leases entered into by DOE as well as DOE's portion of various other long-term liabilities, payment for which The City is responsible. Funding for these allocated liabilities will be provided through future appropriations of The City. Payments for certain amounts of these liabilities are due in fiscal years 2006 and 2005 and funds have been appropriated for such payments.

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

**Figure 8**

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Accrued Vacation and Sick Leave ..	\$ 1,218,260	\$ 230,249	\$ (52,757)	\$ 1,395,752	\$ 52,757
Capital Lease Obligations .....	146,702	12,122	(7,810)	151,014	7,810
Accrued Judgments and Claims. ...	270,233	55,598	(60,317)	265,514	68,021
OPEB Obligations	-	17,295,027	-	17,295,027	324,900
TOTALS .....	<u>\$ 1,635,195</u>	<u>\$17,592,996</u>	<u>\$ (120,884)</u>	<u>\$ 19,107,307</u>	<u>\$ 453,488</u>

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Changes in the various components of the long-term liabilities for fiscal year 2005 are as follows (\$000 omitted):

**Figure 9**

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Accrued Vacation and Sick Leave. . .	\$ 1,266,925	\$ 40,437	\$ (89,102)	\$ 1,218,260	\$ 69,625
Capital Lease Obligations . . . . .	137,063	29,751	(20,112)	146,702	13,898
Accrued Judgments and Claims. . . .	254,356	78,140	(62,263)	270,233	67,639
<b>TOTALS. . . . .</b>	<b><u>\$ 1,658,344</u></b>	<b><u>\$ 148,328</u></b>	<b><u>\$(171,477)</u></b>	<b><u>\$ 1,635,195</u></b>	<b><u>\$ 151,162</u></b>

**E. Capital Assets**

DOE receives funding for assets from various sources, some of which are combined for the same fixed asset. In addition, many fixed assets are donated or sold to DOE from private sources. Further, the reception of these assets could be at any of the many central DOE offices or at one of the over 1,400 school locations. Therefore, a fixed assets schedule by source, location, or use is not presented in this report. However, the overall changes in the various classes of Capital Assets occurring during fiscal year 2006 can be reported, as follows (\$000's omitted):

**Figure 10**

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

The overall changes substantial in the various classes of Capital Assets occurring during fiscal year 2005 can be reported, as follows (\$000's omitted):

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**Figure 11**

<b>CAPITAL ASSETS</b>					
	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital Assets Not Being Depreciated:					
Land & Site Improvement . . . . .	\$ 448,576	\$ —	\$ —	\$ —	\$ 448,576
Construction In Progress. . . . .	141,446	945,617	(831,295)	—	255,768
Total Capital Assets					
Not Being Depreciated . . . . .	<u>590,022</u>	<u>945,617</u>	<u>(831,295)</u>	<u>—</u>	<u>704,344</u>
Capital Assets Being Depreciated:					
Building & Additions . . . . .	16,080,878	—	831,295	—	16,912,173
Equipment . . . . .	<u>220,615</u>	<u>5,512</u>	<u>—</u>	<u>(32,596)</u>	<u>193,531</u>
Gross Balance Capital Assets . . . . .	<u>16,301,493</u>	<u>5,512</u>	<u>831,295</u>	<u>(32,596)</u>	<u>17,105,704</u>
Less Accumulated Depreciation:					
Building & Additions . . . . .	5,829,982	459,744	—	—	6,289,726
Equipment . . . . .	171,940	15,670	—	(30,100)	157,510
Total Accumulated Depreciation. . .	<u>6,001,922</u>	<u>475,414</u>	<u>—</u>	<u>(30,100)</u>	<u>6,447,236</u>
Net Capital Assets Being Depreciated . . . . .	<u>10,299,571</u>	<u>(469,902)</u>	<u>831,295</u>	<u>(2,496)</u>	<u>10,658,468</u>
Total All Capital Assets . . . . .	<u>\$ 10,889,593</u>	<u>\$ 475,715</u>	<u>\$ —</u>	<u>\$ (2,496)</u>	<u>\$ 11,362,812</u>

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

Capital Expenditures made on behalf of the DOE amounted to \$1.8 billion and \$945 million in fiscal years 2006 and 2005, respectively. Such expenditures were incurred by the SCA and the New York City Department of Design and Construction (DDC).

Upon substantial completion of capital assets, the SCA transfers such assets to DOE. In Fiscal Years 2006 and 2005, SCA transferred \$958 million and \$831million, respectively, in completed assets to DOE.

Included in land and buildings at June 30, 2006 are certain leased properties aggregating approximately \$265 million (of which \$12.1 million were new additions). Included in equipment are expenditures made from various units of appropriation in the General Fund. Included in Accumulated Depreciations - Buildings & Additions at June 30, 2006 was accumulated depreciation for leases of \$74 million.

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

For Fiscal Year 2006, the New York City Comprehensive Annual Financial Report reports capital expenditures for education as \$1.781 billion. This amount includes capital expenditures vouchered by SCA and DDC on behalf of DOE in the amount of \$1.769 billion and capital lease expenditures of \$12.1 million.

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**4. OTHER INFORMATION**

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

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

FIT receives, through appropriations provided by the City, a grant from DOE to partially subsidize its operations. The amounts paid to FIT in Fiscal Year 2006 and 2005 were approximately \$31.1 million and \$28.9 million, respectively.

**B. Pensions**

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

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

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

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

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

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

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

The City contributes to the above pension systems on behalf of all City-funded personnel positions. The total City actual statutory pension contribution, for the fiscal year ended June 30, 2006, for all City pension

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systems was \$4.0 billion; \$1.4 billion for the two major DOE systems. The pension costs are not allocated to DOE or reflected in its financial statements, except that contributions for positions funded through federal and state programs aggregating approximately \$136 million were allocated to DOE and charged to reimbursable program expenditures.

The total pension costs, including those computed by the Actuary, for the actuarial pension systems and costs related to certain entity's other than DOE (i.e., SCA and the City University) whose employees participate in the pension systems, for the fiscal years ended June 30, 2006, June 30, 2005 and June 30, 2004 were, as follows:

**Figure 12**

	<b>City Pension Costs</b>		
	(in millions)		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
TRS .....	\$ 1,316.6	\$ 1,304.0	\$ 1,015.3
BERS .....	90.8	106.4	95.0
Total Pension Costs .....	<u>\$ 1,407.4</u>	<u>\$ 1,410.4</u>	<u>\$ 1,110.3</u>

**C. Other Post-Employment Benefits**

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

The City's annual OPEB cost (expenses) is calculated based on the annual required contribution of the employer, an amount that was actuarially determined. For Fiscal Year 2006, the annual OPEB cost (expense) for The City was determined to be \$55.7 billion of which the City contributed \$2.2 billion to the RHBT. The net amount of OPEB cost, after City contributions, was the increase in Net OPEB Obligation (\$53.5 billion). For the DOE, the allocated Net OPEB Obligations for Fiscal Year 2006 was \$17.3 billion. This amount was allocated to Programs/Activities' expenses in presenting full accrual accounting within the Statement of Activities. This number was also included as a long term liability in the Statement of Net Assets.

**D. Contingencies**

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

**Department of Education of The City of New York**  
**Notes to the Financial Statements**  
**June 30, 2006**

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

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

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

\* \* \* \* \*

**Department of Education of The City of New York**  
**Supplemental Financial Schedules of the General Fund**  
**June 30, 2006**

The General Fund is the general operating fund of DOE that is used to account for all of the financial resources, except those required to be accounted for in another fund. The Schedule of Aged Receivables includes Federal, State and Non-Governmental Grants and other aid from Fiscal Year 2001 through Fiscal Year 2006, as of June 30, 2006. 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, 2006**  
**With Comparative Totals to June 30, 2005**  
**(\$000 Omitted)**

	<b>Federal Grants <u>Categorical</u></b>	<b>State Aid and Categorical <u>Grants</u></b>	<b>Non- Governmental <u>Grants</u></b>	<b>Total Receivables <u>As of June 30, 2006</u></b>	<b>Comparative Total, as of <u>June 30, 2005</u></b>
<b>Fiscal Year 2006:</b>	\$ 624,960	\$ 958,275	\$ 5,870	\$ 1,589,105	\$ -
<b>Fiscal Year 2005:</b>	85,002	165,475	26,876	277,353	1,810,466
<b>Fiscal Year 2004:</b>	24,670	20,954	4,743	50,367	289,698
<b>Fiscal Year 2003:</b>	17,291	31,502	-	48,793	100,344
<b>Fiscal Year 2002:</b>	-	192	-	192	5,452
<b>Fiscal Year 2001:</b>	-	2,105	-	2,105	8,514
<b>Total Receivables:</b>	<u>\$ 751,923</u>	<u>\$ 1,178,503</u>	<u>\$ 37,489</u>	<u>\$ 1,967,915</u>	<u>\$ 2,214,474</u>

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

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b><u>GENERAL EDUCATION INSTRUCTION &amp; SCHOOL LEADERSHIP</u></b>			
401 Salaries	\$ 4,372,678,750	\$ 4,366,449,891	\$ 6,228,859
402 Supplies	129,605,391	129,605,391	-
402 Furniture and Equipment	69,646,488	69,646,488	-
402 Textbooks	107,789,824	107,789,824	-
402 Contractual Services	163,800,238	163,800,238	-
TOTAL	4,843,520,691	4,837,291,832	6,228,859
<b><u>SPECIAL EDUCATION INSTRUCTION &amp; SCHOOL LEADERSHIP</u></b>			
403 Salaries	856,166,098	856,166,098	-
404 Supplies	3,200,604	946,057	2,254,547
404 Furniture and Equipment	2,433,279	719,246	1,714,033
404 Textbooks	1,465,564	433,202	1,032,362
404 Contractual Services	2,149,557	635,382	1,514,175
TOTAL	865,415,102	858,899,985	6,515,116
<b><u>REGIONAL &amp; CITYWIDE INSTRUCTIONAL &amp; OPERATIONAL ADMINISTRATION</u></b>			
415 Salaries	206,881,637	206,881,636	1
416 Supplies	5,907,484	5,907,483	1
416 Furniture and Equipment	2,063,546	2,063,546	-
416 Textbooks	58,311	58,311	-
416 Contractual Services	15,306,572	15,306,572	-
TOTAL	230,217,550	230,217,548	2
<b><u>CITYWIDE EDUCATION INSTRUCTION &amp; SCHOOL LEADERSHIP</u></b>			
421 Salaries	600,647,496	600,647,496	-
422 Supplies	8,403,662	7,130,258	1,273,404
422 Furniture and Equipment	9,761,836	8,282,630	1,479,206
422 Textbooks	3,342,846	2,836,306	506,540
422 Contractual Services	6,417,286	5,444,878	972,408
TOTAL	628,573,126	624,341,568	4,231,558
<b><u>SPECIAL EDUCATION INSTRUCTIONAL SUPPORT</u></b>			
423 Salaries	171,531,535	175,250,462	(3,718,927)
424 Supplies	254,383	315,223	(60,840)
424 Furniture and Equipment	98,873	122,520	(23,647)
424 Textbooks	4,786	5,931	(1,145)
424 Contractual Services	109,923,575	136,213,173	(26,289,598)
TOTAL	281,813,153	311,907,309	(30,094,156)
<b><u>SCHOOL FACILITIES</u></b>			
435 Salaries	396,581,979	396,581,979	-
436 Supplies	17,223,024	17,223,024	-
436 Furniture and Equipment	350,812	350,812	-
436 Contractual Services	124,553,432	124,553,431	1
TOTAL	538,709,247	538,709,246	1

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

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b><u>PUPIL TRANSPORTATION</u></b>			
438 Supplies	\$ 426,846	\$ 426,846	\$ -
438 Contractual Services	75,913,766	75,913,766	-
438 Pupil Transportation	<u>772,329,852</u>	<u>772,329,852</u>	<u>-</u>
	848,670,464	848,670,464	-
<b><u>SCHOOL FOOD SERVICES</u></b>			
439 Salaries	183,485,551	183,485,551	-
440 Supplies	16,954,631	16,954,630	1
440 Food Purchases	114,864,430	114,864,430	-
440 Furniture and Equipment	4,421,093	4,421,093	-
440 Contractual Services	<u>20,141,296</u>	<u>20,141,296</u>	<u>-</u>
TOTAL	339,867,001	339,867,000	1
442 <b>SCHOOL SAFETY</b>	157,787,629	157,787,629	-
444 <b>ENERGY AND LEASES</b>	324,380,224	320,544,282	3,835,942
<b><u>CENTRAL ADMINISTRATION</u></b>			
453 Salaries	165,047,188	165,047,188	-
454 Supplies	29,995,823	27,853,541	2,142,282
454 Furniture and Equipment	10,880,174	10,103,119	777,055
454 Contractual Services	176,221,072	163,635,480	12,585,592
454 Fixed Charges	<u>249,978</u>	<u>232,125</u>	<u>17,853</u>
TOTAL	382,394,235	366,871,453	15,522,782
461 <b>FRINGE BENEFITS</b>	1,823,301,170	1,823,301,170	-
470 <b>SE PRE-KINDERGARTEN CONTRACTS</b>	533,248,236	533,248,227	9
472 <b>CHARTER/CONTRACT SCHOOLS &amp; FOSTER CARE</b>	404,793,366	404,793,351	15
474 <b>NON-PUBLIC SCHOOLS &amp; FIT PAYMENTS</b>	51,708,420	51,708,418	2
491 <b>COLLECTIVE BARGAINING</b>	<u>23,951,849</u>	<u>23,951,849</u>	<u>-</u>
<b>TOTAL TAX LEVY</b>	<u>\$ 12,278,351,463</u>	<u>\$ 12,272,111,332</u>	<u>\$ 6,240,131</u>
<b><u>CATEGORICAL PROGRAMS</u></b>			
481 Salaries	\$ 1,800,568,462	\$ 1,800,568,462	\$ -
482 Supplies	150,096,724	150,351,936	(255,212)
482 Furniture and Equipment	47,411,540	47,492,154	(80,614)
482 Pension	135,776,232	136,007,094	(230,862)
482 Contractual Services	<u>551,848,529</u>	<u>552,786,843</u>	<u>(938,314)</u>
<b>TOTAL CATEGORICAL PROGRAMS</b>	2,685,701,487	2,687,206,489	(1,505,002)

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

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

**Department of Education of The City of New York**  
**General Fund**  
**Schedule of Budgeted and Actual Expenditures**  
**For the Year Ended June 30, 2005**

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b><u>CENTRAL ADMINISTRATION</u></b>			
Salaries	\$ 148,316,151	\$ 147,793,213	\$ 522,938
Supplies	32,029,603	31,520,103	509,500
Furniture and Equipment	9,790,197	9,634,463	155,734
Contractual Services	156,967,920	154,471,006	2,496,914
Other - Fixed Charges	528,719	520,309	8,410
TOTAL	<u>347,632,590</u>	<u>343,939,094</u>	<u>3,693,496</u>
<b><u>DISTRICT - INSTRUCTIONAL</u></b>			
Salaries	2,773,645,287	2,877,265,462	(103,620,175)
Supplies	82,816,040	79,781,040	3,035,000
Furniture and Equipment	38,466,709	37,057,001	1,409,708
Contractual Services	78,592,711	75,712,485	2,880,226
Other - Textbook purchases	78,174,982	75,310,066	2,864,916
TOTAL	<u>3,051,695,729</u>	<u>3,145,126,054</u>	<u>(93,430,325)</u>
<b><u>DISTRICTS - SPEC. ED.</u></b>			
Salaries	509,094,384	442,615,550	66,478,834
Supplies	234,689	110,675	124,014
Furniture and Equipment	48,122	22,693	25,429
Contractual Services	103	49	54
Other - Textbook purchases	117,989	55,642	62,347
TOTAL	<u>509,495,287</u>	<u>442,804,609</u>	<u>66,690,678</u>
<b><u>HIGH SCHOOL INSTRUCTIONAL</u></b>			
Salaries	1,390,292,026	1,390,292,026	-
Supplies	36,695,823	36,695,822	1
Furniture and Equipment	26,015,233	26,015,233	-
Contractual Services	33,142,198	33,142,198	-
Other - Textbook purchases	78,184,310	78,184,310	-
TOTAL	<u>1,564,329,590</u>	<u>1,564,329,589</u>	<u>1</u>
<b><u>HIGH SCHOOL SPECIAL ED.</u></b>			
Salaries	109,346,775	83,865,862	25,480,913
Supplies	618,332	363,398	254,934
Furniture and Equipment	899,987	528,929	371,058
Contractual Services	214,170	125,869	88,301
Other - Textbook purchases	713,842	419,530	294,312
TOTAL	<u>111,793,106</u>	<u>85,303,588</u>	<u>26,489,518</u>

**Department of Education of The City of New York**  
**General Fund**  
**Schedule of Budgeted and Actual Expenditures**  
**For the Year Ended June 30, 2005**

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b><u>HIGH SCHOOL OPERATIONS</u></b>			
Salaries	\$ 193,779,909	\$ 194,063,479	\$ (283,570)
Supplies	9,441,811	9,028,826	412,985
Furniture and Equipment	2,820,979	2,697,589	123,390
Contractual Services	242,366	231,765	10,601
Other - Textbook purchases	9,015,604	8,621,261	394,343
TOTAL	<u>215,300,669</u>	<u>214,642,920</u>	<u>657,749</u>
<b><u>SPECIAL ED. - CITYWIDE INSTRUCTION</u></b>			
Salaries	531,625,350	531,598,693	26,657
Supplies	5,872,258	5,502,579	369,679
Furniture and Equipment	7,960,826	7,459,665	501,161
Contractual Services	2,355,364	2,207,085	148,279
Other - Textbook purchases	6,347,943	5,948,318	399,625
TOTAL	<u>554,161,741</u>	<u>552,716,340</u>	<u>1,445,401</u>
<b><u>DIVISION OF SPECIAL ED. INSTRUCTION</u></b>			
Salaries	147,039,459	147,420,443	(380,984)
Supplies	302,671	302,671	-
Furniture and Equipment	65,098	65,098	-
Contractual Services	852	852	-
Other - Textbook purchases	104,753,147	104,753,146	1
TOTAL	<u>252,161,227</u>	<u>252,542,210</u>	<u>(380,983)</u>
<b><u>DIV. OF SPEC. ED. ADMINIST.</u></b>			
Salaries	2,028,427	2,011,580	16,847
Other Than Personal Service	200,119	-	200,119
TOTAL	<u>2,228,546</u>	<u>2,011,580</u>	<u>216,966</u>
<b><u>SPECIAL ED. OPER./DISTRICTS</u></b>			
Salaries	4,335,416	5,219,393	(883,977)
Supplies	177,013	148,914	28,099
Furniture and Equipment	222,943	187,552	35,391
Contractual Services	173,914	146,306	27,608
TOTAL	<u>4,909,286</u>	<u>5,702,165</u>	<u>(792,879)</u>

**Department of Education of The City of New York**  
**General Fund**  
**Schedule of Budgeted and Actual Expenditures**  
**For the Year Ended June 30, 2005**

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b><u>SCHOOL FACILITIES</u></b>			
Salaries	\$ 378,862,766	\$ 378,862,765	\$ 1
Supplies	20,626,979	20,626,979	-
Furniture and Equipment	292,461	292,461	-
Contractual Services	115,396,009	115,396,008	1
<b>TOTAL</b>	<b>515,178,215</b>	<b>515,178,213</b>	<b>2</b>
<b><u>PUPIL TRANSPORTATION</u></b>			
Supplies	3,044,567	3,044,567	-
Contractual Services	618,492,285	618,492,285	-
Other-Pupil Transportation	68,463,030	68,463,030	-
<b>TOTAL</b>	<b>689,999,882</b>	<b>689,999,882</b>	<b>-</b>
<b><u>SCHOOL FOOD SERVICES</u></b>			
Salaries	177,333,618	177,333,618	-
Supplies	13,030,212	13,030,212	-
Furniture and Equipment	105,045,810	105,045,810	-
Contractual Services	4,614,458	4,614,458	-
Other - Food Purchases	17,868,019	17,868,019	-
<b>TOTAL</b>	<b>317,892,117</b>	<b>317,892,117</b>	<b>-</b>
<b><u>SCHOOL SAFETY</u></b>			
Contractual Services	147,771,899	146,703,534	1,068,365
<b><u>ENERGY &amp; LEASES</u></b>			
	278,413,014	278,413,014	-
<b><u>FRINGE BENEFITS</u></b>			
	1,661,374,564	1,665,977,503	(4,602,939)
<b><u>NON-PUBLIC SCHOOLS</u></b>			
	\$ 852,790,356	\$ 894,803,748	\$ (42,013,392)
<b><u>TOTAL TAX LEVY</u></b>			
	<b>\$ 11,077,127,818</b>	<b>\$ 11,118,086,160</b>	<b>\$ (40,958,342)</b>
<b><u>CATEGORICAL PROGRAMS</u></b>			
Salaries	1,847,052,333	1,875,750,410	(28,698,077)
Supplies	125,781,703	123,541,684	2,240,019
Furniture and Equipment	80,524,265	79,090,226	1,434,039
Pension	138,471,299	136,005,294	2,466,005
Contractual Services	548,477,693	538,709,975	9,767,718
<b>TOTAL CATEGORICAL PROGRAMS</b>	<b>2,740,307,293</b>	<b>2,753,097,589</b>	<b>(12,790,296)</b>

**Department of Education of The City of New York**  
**General Fund**  
**Schedule of Budgeted and Actual Expenditures**  
**For the Year Ended June 30, 2005**

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<b>TOTAL APPROPRIATIONS EXPENDED</b>	\$ 13,817,435,111	\$ 13,871,183,749	\$ (53,748,638)
<b>Intra-City Sales</b>	(14,092,050)	(14,047,923)	(44,127)
<b>Sub-Total</b>	<u>13,803,343,061</u>	<u>13,857,135,826</u>	<u>(53,792,765)</u>
<b>Net Change in Prior Payables</b>	<u>-</u>	<u>(81,117,441)</u>	<u>81,117,441</u>
<b>Total Expenditures</b>	<u>13,803,343,061</u>	<u>13,776,018,385</u>	<u>27,324,676</u>
<b>Other Financing Uses -</b>			
<b>Transfer to The City of New York</b>	<u>-</u>	<u>81,117,441</u>	<u>(81,117,441)</u>
<b>TOTAL EXPENDITURES AND OTHER USES</b>	<u>\$ 13,803,343,061</u>	<u>\$ 13,857,135,826</u>	<u>\$ (53,792,765)</u>

Department of Education of The City of New York  
Annual Financial Statements  
For the Fiscal Years Ended June 30, 2006 and 2005

**GLOSSARY**

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

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