

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, 2008



**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, 2008



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, 2008 and 2007**

TABLE OF CONTENTS

	<u>Page</u>
I INTRODUCTORY SECTION	
Transmittal Letter	I
II FINANCIAL SECTION	
Independent Auditors' Report	1
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	3
Management's Discussion and Analysis	4
Department-wide Financial Statements:	
Statement of Net Assets (Deficit) - As of June 30, 2008	12
Statement of Net Assets (Deficit) - As of June 30, 2007	13
Statement of Activities - For the Year Ended June 30, 2008	14
Statement of Activities - For the Year Ended June 30, 2007	15
Fund Financial Statements:	
Balance Sheet - As of June 30, 2008.....	16
Balance Sheet - As of June 30, 2007.....	17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) - As of June 30, 2008	18
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets (Deficit) - As of June 30, 2007	19
Statement of Revenues, Expenditures and Changes in Fund Balances - For the Year Ended June 30, 2008.....	20
Statement of Revenues, Expenditures and Changes in Fund Balances - For the Year Ended June 30, 2007.....	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities - For the Year Ended June 30, 2008.....	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities - For the Year Ended June 30, 2007.....	23
Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund - For the Year Ended June 30, 2008.....	24
Statement of Revenues, Expenditures and Changes in Fund Balances Budget and Actual - General Fund - For the Year Ended June 30, 2007.....	25
Statement of Fiduciary Net Assets - As of June 30, 2008.....	26
Statement of Fiduciary Net Assets - As of June 30, 2007.....	27
Notes to the Financial Statements.....	28

**Department of Education of The City of New York
Annual Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007**

TABLE OF CONTENTS

	<u>Page</u>
Supplemental Financial Schedules of the General Fund:	45
Schedule of Aged Receivables as of June 30, 2008 with Comparative Totals to June 30, 2007	46
Schedule of Budgeted and Actual Expenditures - For the Year Ended June 30, 2008.....	47
Schedule of Budgeted and Actual Expenditures - For the Year Ended June 30, 2007.....	50
Glossary	53

ANNUAL FINANCIAL STATEMENTS

Department of Education of The City of New York

For the Fiscal Year Ended June 30, 2008

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, 2008

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, 2008**

The Annual Financial Statements for the Department of Education of the City of New York (the "DOE") for the fiscal year ended June 30, 2008 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, the Chief Financial Officer 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 2008 financial statements included in this report; its 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 audit opinion is expressed on it. The Supplemental Financial Schedules of the General Fund are presented for purposes of additional analysis and are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

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

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

The DOE has two basic sources of funding:

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

The DOE maintains, for its reporting purposes, a computerized accounting system to interface with The City's Financial Management System (FMS). The DOE Financial Accounting Management Information System (FAMIS) provides a relational database technology allowing the DOE to take advantage of current technology to conduct business in the most cost-effective and user-friendly manner. All of the DOE's financial transactions are processed through FMS. Effective July 2007, the control and timing of the DOE's Other Than Personal Service (OTPS) transactions changed so that such transactions initially pass all FMS edits prior to posting in FAMIS. FMS maintains the official accounting records for The City.

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

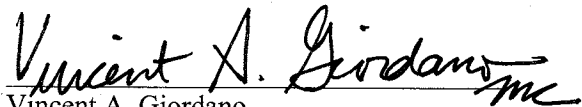
In accordance with the DOE's status as a dependent school district, revenues received for school purposes are required to be deposited into The City's Treasury, which is maintained for the General Fund. As revenues are collected, they are recorded to a series of designated revenue codes established for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

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

Respectfully submitted by,



Kathleen Grimm
Deputy Chancellor
Finance & Administration



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, 2008

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, 2008 and 2007. 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 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, and the changes in 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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, and the respective changes in financial position, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 4 through 11 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 23, 2008, 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 23, 2008

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

The Department of Education
of The City of New York

We have audited the accompanying financial statements of the Department of Education of The City of New York (the "DOE") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As described in the notes to the financial statements, the financial statements of the DOE are intended to present the financial position and changes in financial position, where applicable, of only that portion of the governmental activities, each major 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, 2008, and the changes in its financial position, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the DOE's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DOE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DOE's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

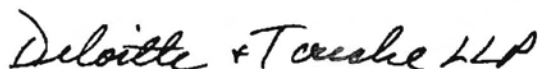
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the DOE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the DOE in a separate letter dated October 23, 2008.

This report is intended solely for the information and use of The New York City Audit Committee, management of the DOE and The City of New York, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 23, 2008

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, 2008 and 2007. Please read it in conjunction with the transmittal letter at the beginning of these financial statements and with the DOE's financial statements, which immediately follow this section.

Financial Highlights

- Net deficit at year-end was \$6.8 billion, a decrease in net assets of \$270 million over that of the previous year.
- Total assets and liabilities reported in the governmental funds at year-end were \$2.9 billion, an increase of about \$195 million from that of the previous fiscal year.
- General Fund total revenues available and spent during the fiscal year were \$17 billion, an increase of 6.9 percent over that of the previous fiscal year.
- A net surplus of \$105.6 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/out flow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Department-wide Financial Statements

The Department-wide Financial Statements report information about 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 (i.e., system-wide); the School Support Organization (i.e., superintendent, school-selected internal and external instructional support, and Integrated Service Center operational support); Central Administration; 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.

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.

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

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 2008, total liabilities of DOE exceeded total assets by \$6.8 billion, a reduction in net assets of \$270 million from that at the close of Fiscal Year 2007. Net deficits, as of June 30, 2008 and June 30, 2007, are summarized below for all governmental activities.

Figure 1

	Governmental Activities (000's Omitted)	
	<u>FY2008</u>	<u>FY2007</u>
Current and Other Assets.....	\$ 2,861,383	\$ 2,667,072
Capital Assets.....	<u>15,784,420</u>	<u>14,090,340</u>
Total Assets.....	<u>\$ 18,645,803</u>	<u>\$ 16,757,412</u>
Long-Term Liabilities.....	\$ 22,525,081	\$ 20,560,922
Other Liabilities.....	<u>2,967,664</u>	<u>2,773,536</u>
Total Liabilities.....	<u>25,492,745</u>	<u>23,334,458</u>
 Net Assets:		
Investment in Capital Assets, net of Related Debt	15,784,420	14,090,340
Unrestricted Deficit	<u>(22,631,362)</u>	<u>(20,667,386)</u>
Total Net Assets (Deficit)	<u>\$ (6,846,942)</u>	<u>\$ (6,577,046)</u>

Assets increased almost \$1.9 billion from \$16.8 billion as of June 30, 2007 to \$18.6 billion as of June 30, 2008 primarily due to the increase of the net value of capital assets (\$1.7 billion). Capital assets were increased due to buildings transferred from the School Construction Authority (SCA) for DOE use (\$1.4 billion) and net increases in Construction in Progress (\$974 million), offset by increases in depreciation expense (\$688 million). The amounts due from The City increased by \$22 million. This account is affected primarily by increases in accounts payable and decreases in accounts receivables because of DOE's dependent fiscal relationship with The City

Liabilities increased about \$2.2 billion from \$23.3 billion as of June 30, 2007 to \$25.5 billion as of June 30, 2008, primarily due to increases in the estimate of Other Postemployment Benefits (OPEB) liabilities of \$1.8 billion. Additionally, there were increases in the accounts payable and accrued expenditures (\$177 million), Deferred Revenue (\$17 million), and the liabilities for Accrued Vacation and Sick Leave (\$138 million), Capital Lease Obligations (\$29 million), and Accrued Judgments and Claims (\$7.2 million).

In total, accounts receivable increased by \$175 million due to increases in state (about \$182.5 million) and non-government receivables (about \$14.5 million) and a decrease in federal receivables (\$22 million). There were also decreases in Cash (\$2 million) and Inventories (\$100 thousand).

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

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 deficit increased by \$270 million from July 1, 2007 to June 30, 2008. The key elements of this change are as follows:

Figure 2

	Governmental Activities (000's Omitted)	
	<u>FY 2008</u>	<u>FY 2007</u>
<u>Revenues</u>		
<u>Program Revenues:</u>		
Charges for Services	\$ 74,412	\$ 66,078
Operating Grants and Contributions	9,938,824	9,126,862
<u>General Revenues:</u>		
City Funded	6,952,590	6,686,207
Other	<u>16,252</u>	<u>12,578</u>
Total Revenues	<u>16,982,078</u>	<u>15,891,725</u>
<u>Expenses</u>		
School Leadership, Instruction and Special Education Support	14,534,690	13,380,006
School Support Services	2,887,722	2,725,189
School Support Organization	375,524	373,613
Central Administration	496,918	472,541
Non-Public Schools	<u>1,333,966</u>	<u>1,122,085</u>
Total Expenses	<u>19,628,820</u>	<u>18,073,434</u>
Net Revenue (Expenses)	(2,646,742)	(2,181,709)
Change in Capital Assets and Inventory	<u>2,376,846</u>	<u>2,110,646</u>
Change in Net Assets	(269,896)	(71,063)
Net Assets (Deficit)—Beginning	<u>(6,577,046)</u>	<u>(6,505,983)</u>
Net Assets (Deficit)—Ending	<u>\$ (6,846,942)</u>	<u>\$ (6,577,046)</u>

Federal program revenues decreased 2.3 percent from \$1.83 billion in Fiscal Year 2007 to \$1.79 billion in Fiscal Year 2008. However, State program revenues increased 11.4 percent from \$7.2 billion to \$8.1 billion.

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. Figure 2 expenses include changes in amounts due for: (1) vacation and sick leave; (2) capital leases; (3) judgments and claims; (4) depreciation expense; and (5) the liability associated with Other Postemployment Benefits.

In Fiscal Year 2007, the full accrual expenses include \$15.9 billion of modified accrual expenses and over \$2.1 billion of additional expenses incurred by The City, to report a full accrual expense of \$18 billion. In Fiscal Year 2008, the full accrual expenses include \$17 billion of modified accrual expenses and over \$2.7 billion of additional expenses incurred by The City to report a full accrual expense of \$19.6 billion, an increase of 8.6 percent, or \$1.6 billion from Fiscal Year 2007.

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

In Fiscal Year 2008, the category of School Leadership, Instruction and Special Education Support increased about 8.6 percent from \$13.4 billion in Fiscal Year 2007 to \$14.5 billion in Fiscal Year 2008; this increase is a result of increases due to negotiated union contracts, bonuses to teachers, textbooks, supplies and equipment. School Support Services increased 6 percent or \$163 million in Fiscal Year 2008 due to costs of the allocation of OPEB expenses \$119 million, energy and consumer price index increases to the school bus contracts. Central Administration and Instructional Support increased by 5.2 percent, or \$24 million, primarily due to collective bargaining agreements. Non-Public Schools had increases of \$212 million resulting from increases in charter school expenditures, tuition for pre-K and school age special education, and in Pre-K transportation.

The increase in net assets in each fiscal year was primarily the result of the transfer of completed capital assets from SCA to DOE of \$1.3 billion in Fiscal Year 2007 and almost \$1.4 billion in Fiscal Year 2008.

Financial Analysis of the Governmental Funds

Total assets and liabilities increased \$195 million (7.3 percent) for the year ended June 30, 2008 compared to the prior year, as follows:

Figure 3

Condensed Balance Sheet (in millions of dollars)

	Governmental Activities		Amount <u>Change</u>	Percentage Change <u>2007-2008</u>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>		
Assets				
General Fund	\$ 2,846	\$ 2,649	\$ 197	7.4%
Capital Projects Fund.....	<u>5</u>	<u>7</u>	<u>(2)</u>	(28.5%)
Total Assets	<u>\$ 2,851</u>	<u>\$ 2,656</u>	<u>\$ 195</u>	7.3%
Liabilities				
General Fund	\$ 2,846	\$ 2,649	\$ 197	7.4 %
Capital Projects Fund.....	<u>5</u>	<u>7</u>	<u>(2)</u>	(28.5%)
Total Liabilities	<u>\$ 2,851</u>	<u>\$ 2,656</u>	<u>\$ 195</u>	7.3%

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

Changes in Total Assets: First, there was a net increase of \$22 million of amounts due from The City to pay for outstanding liabilities in the General Fund. At year end there were decreases in the balances of Cash (\$2 million) and Inventory (\$100 thousand); a decrease in the accounts receivable from federal sources (\$22 million); and increases in state (\$182 million), and non-governmental sources (\$14 million).

Changes in Total Liabilities: Governmental fund liabilities increased \$195 million because of increases of almost \$178 million in accounts payable in the General Fund (\$180 million) and the decrease in the Capital Projects Fund (\$2 million). Also, there was an increase of \$17 million in the balance of the deferred revenue in the General Fund.

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

Total revenues and expenditures increased \$1.1 billion (6.9 percent) for the year ended June 30, 2008 compared to the prior year, as follows:

Figure 4

Changes in Revenues and Expenditures (in millions of dollars)

	<u>General Funds</u>		Percentage Change <u>2007-2008</u>
	<u>FY2008</u>	<u>FY2007</u>	
<u>Revenues</u>			
Federal Aid	\$ 1,787.3	\$ 1,828.5	(2.3%)
State Aid	8,066.8	7,243.2	11.3%
Funding by The City	6,963.8	6,691.4	4.1%
Other	<u>159.1</u>	<u>121.3</u>	31.1%
Total Revenues	<u>\$ 16,977.0</u>	<u>\$ 15,884.4</u>	6.9%
<u>Expenditures</u>			
School Leadership, Instruction & Special Education Support	\$ 12,240.2	\$ 11,500.0	6.5%
School Support Services	2,646.1	2,516.6	5.2%
School Support Organization	316.3	319.8	(1.1%)
Central Administration	440.4	425.9	3.4%
Non-Public Schools	<u>1,334.0</u>	<u>1,122.1</u>	18.9%
Total Expenditures	<u>\$ 16,977.0</u>	<u>\$ 15,884.4</u>	6.9%

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 overall federal program revenues decreased 2.3 percent from \$1.83 billion in Fiscal Year 2007 to \$1.79 billion in Fiscal Year 2008, State program revenues increased 11.3 percent from \$7.24 billion to \$8.06 billion, and City revenues increased 4.1 percent from \$6.69 billion to \$6.96 billion.

Major programs that benefited from increased individual revenues included: federal aid increases of \$43 million for Universal Pre-K; \$13 million for Individual Disability Education Act (offset by Federal Aid decreases of \$39 million for Title I Disadvantaged Children; \$10 million for Reading First; and \$7 million for Title II Math & Science); and state aid increases of \$5.6 billion for Foundation Aid; \$38 million for Transportation Aid; and \$28 million for Private Excess Cost Aid.

Total expenditures, under modified accrual accounting, increased 6.9 percent or \$1.1 billion. Expenditures in the area of School Leadership, Instruction and Special Education Support increased \$740 million (6.5 percent) mainly for personal services costs (salaries) for teachers in the classroom, and the respective fringe costs for these salaries. School Support Services increased \$129.5 million (5.2 percent) mainly for: Pupil Transportation, whose school bus contracts contain an annual adjustment based on consumer price index; increases in the escort costs; and growth in the number of routes. Expenditures in the area of School Support Organization decreased about \$3.5 million (1.1 percent) due to reductions resulting from Children First Reform agenda. Also, Central Administration increased overall by \$14.5 million (3.4 percent). Non-Public Schools expenditures increased \$212 million (18.9 percent), mainly from increases in charter school expenditures, tuition for Pre-K and school age special education, and in Pre-K transportation.

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

General Fund Budgetary Highlights

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

- Intra-city adjustments of \$7.4 million to reimbursable program budgets;
- City Council adjustments of (\$200 thousand) to tax levy budgets;
- Executive and Adopted Budget Actions which decreased Tax Levy budgets by (\$60.8) million and increased reimbursable program budgets by \$200 thousand. In addition, the schools rolled Tax Levy surpluses of \$96 million from fiscal year 2008 to fiscal year 2009, of which \$56 million was reflected in the fiscal year 2009 Executive Budget and \$40 million was reflected prior to the fiscal year 2008 Adopted Budget.
- October and January Plan Actions, which increased Tax-Levy Budgets by a net \$26.6 million and reduced Reimbursable Program Budgets by (\$136.3) million; Included in the January Plan is the City's reduction program which reduced Tax-Levy budgets by (\$133.1) million. Transfers from Reimbursable Program Budgets to Tax-Levy of \$105.9 million, along with other increases relating to DC 37 collective bargaining settlements, fuel oil and fringe benefits, account for the majority of the residual increase of \$53.8 million.
- School Food programs were decreased by (\$8.4) million to Tax-Levy budgets and increased by \$2.0 million to Reimbursable program budgets.
- Final Fiscal Year Close Actions, which increased Tax-Levy budgets by \$95.2 million and Reimbursable Program Budgets by \$68.6 million.

As a result of the above, the DOE made net modifications to the adopted budget of over \$12.6 million.

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

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 5

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

	<u>FY2008</u>	<u>FY2007</u>
Land.....	\$ 446,997	\$ 446,997
Buildings.....	12,390,052	11,685,677
Equipment.....	84,453	68,897
Construction in Progress.....	<u>2,862,918</u>	<u>1,888,769</u>
Total	<u>\$ 15,784,420</u>	<u>\$ 14,090,340</u>

In Fiscal Year 2008, capital assets, net of accumulated depreciation, increased from the previous fiscal year by \$1.7 billion, primarily due to capital assets (completed new construction and equipment) that were transferred to DOE from the SCA in the amount of \$1.4 billion. In Fiscal Year 2007, capital assets, net of accumulated depreciation, increased from the previous fiscal year by \$1.5 billion, primarily due to capital assets that were transferred to DOE from the SCA in the amount of \$1.3 billion.

Factors Bearing on the Department's Future

At the time these financial statements were prepared and audited, DOE was aware of one existing circumstance 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. As a result of this audit the City has set aside reserves to address a potential Medicaid disallowance. Currently, New York State is in the process of negotiating a settlement with the Federal government, with OMB and DOE providing input as needed. At this time, there are no additional Medicaid claims being filed by the Department.

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.

Department of Education of The City of New York
Statement of Net Assets (Deficit)
As of June 30, 2008
(\$000 Omitted)

	Governmental Activities
ASSETS:	
Cash	\$ 10,559
Accounts Receivable	
Federal	565,892
State	1,332,638
Non-Governmental	41,869
Due from The City of New York	900,210
Inventories	10,215
Capital Assets (Net of Accumulated Depreciation)	
Land	446,997
Buildings	12,390,052
Equipment	84,453
Construction in Progress	2,862,918
	\$ 18,645,803
 LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 2,784,464
Deferred Revenue	66,704
Other Postemployment Benefit Obligations	20,479,527
Accrued Vacation and Sick Leave	
Due within one year	32,162
Due in more than one year	1,638,329
Capital Lease Obligations	
Due within one year	11,605
Due in more than one year	191,633
Accrued Judgments and Claims	
Due within one year	72,729
Due in more than one year	215,592
	25,492,745
 NET ASSETS:	
Investment in Capital Assets, net of Related Debt	15,784,420
Unrestricted Deficit	(22,631,362)
TOTAL NET ASSETS (DEFICIT)	\$ (6,846,942)

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Net Assets (Deficit)
As of June 30, 2007
(\$000 Omitted)

	Governmental Activities
ASSETS:	
Cash	\$ 12,851
Accounts Receivable	
Federal	587,695
State	1,150,268
Non-Governmental	27,477
Due from The City of New York	878,456
Inventories	10,325
Capital Assets (Net of Accumulated Depreciation)	
Land	446,997
Buildings	11,685,677
Equipment	68,897
Construction in Progress	1,888,769
	<u>16,757,412</u>
TOTAL ASSETS	\$ 16,757,412
LIABILITIES:	
Accounts Payable and Accrued Expenditures	\$ 2,607,232
Deferred Revenue	49,515
Other Postemployment Benefit Obligations	18,689,770
Accrued Vacation and Sick Leave	
Due within one year	41,679
Due in more than one year	1,490,909
Capital Lease Obligations	
Due within one year	9,397
Due in more than one year	164,878
Accrued Judgments and Claims	
Due within one year	65,713
Due in more than one year	215,365
	<u>23,334,458</u>
TOTAL LIABILITIES	23,334,458
NET ASSETS:	
Investment in Capital Assets, net of Related Debt	14,090,340
Unrestricted Deficit	(20,667,386)
TOTAL NET ASSETS (DEFICIT)	\$ (6,577,046)

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, 2008
(\$000 Omitted)

Function/Programs	Program Revenue			Net (Expenses)
Program Expenses	Charges for Services	Operating Grants and Contributions	Revenue	
School Leadership, Instruction and Special Education Support	\$ 14,534,690	\$ 19,470	\$ 8,020,233	\$ (6,494,987)
School Support Services	2,887,722	52,876	1,393,143	(1,441,703)
School Support Organization	375,524	-	-	(375,524)
Central Administration	496,918	-	-	(496,918)
Non-Public Schools	1,333,966	2,066	525,448	(806,452)
Total Department Activities	<u>\$ 19,628,820</u>	<u>\$ 74,412</u>	<u>\$ 9,938,824</u>	<u>(9,615,584)</u>
General Revenues				
City Funded				6,952,590
Intra-city Sales				16,252
Other Adjustments				
Net Change in Capital Assets and Inventory				2,376,846
CHANGE IN NET ASSETS				(269,896)
Net Assets (Deficit) - Beginning				(6,577,046)
Net Assets (Deficit) - Ending				\$ (6,846,942)

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, 2007
(\$000 Omitted)

Function/Programs	Program Revenue			Net (Expenses)
Program Expenses	Charges for Services	Operating Grants and Contributions	Revenue	
School Leadership, Instruction and Special Education Support	\$ 13,380,006	\$ 15,528	\$ 7,310,744	\$ (6,053,734)
School Support Services	2,725,189	48,484	1,372,022	(1,304,683)
Regional Admin. & Instructional Support	373,613	-	-	(373,613)
Central Admin. & Instructional Support	472,541	-	-	(472,541)
Non-Public Schools	1,122,085	2,066	444,096	(675,923)
Total Department Activities	<u>\$ 18,073,434</u>	<u>\$ 66,078</u>	<u>\$ 9,126,862</u>	<u>(8,880,494)</u>
General Revenues				
City Funded				6,686,207
Intra-city Sales				12,578
Other Adjustments				
Net Change in Capital Assets and Inventory				2,110,646
CHANGE IN NET ASSETS				
				(71,063)
Net Assets - Beginning				(6,505,983)
Net Assets (Deficit) - Ending				\$ (6,577,046)

See accompanying notes to the financial statements.

Department of Education of The City of New York
Balance Sheet
As of June 30, 2008
(\$000 Omitted)

	<u>Governmental Fund Types</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
ASSETS:			
Cash	\$ 10,559	\$ -	\$ 10,559
Accounts Receivable			
Federal	565,892	-	565,892
State	1,332,638	-	1,332,638
Non-Governmental	41,869	-	41,869
Due from The City of New York	895,167	5,043	900,210
Total Assets	<u><u>\$ 2,846,125</u></u>	<u><u>\$ 5,043</u></u>	<u><u>\$ 2,851,168</u></u>
LIABILITIES:			
Accounts Payable and Accrued Expenditures	\$ 2,779,421	\$ 5,043	\$ 2,784,464
Deferred Revenue	66,704	-	66,704
Total Liabilities	<u>2,846,125</u>	<u>5,043</u>	<u>2,851,168</u>
FUND EQUITY:			
Total Fund Equity	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,846,125</u></u>	<u><u>\$ 5,043</u></u>	<u><u>\$ 2,851,168</u></u>

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

See accompanying notes to the financial statements.

Department of Education of The City of New York
Balance Sheet
As of June 30, 2007
(\$000 Omitted)

	<u>Governmental Fund Types</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
ASSETS:			
Cash	\$ 12,851	\$ -	\$ 12,851
Accounts Receivable			
Federal	587,695	-	587,695
State	1,150,268	-	1,150,268
Non-Governmental	27,477	-	27,477
Due from The City of New York	871,133	7,323	878,456
Total Assets	<u><u>\$ 2,649,424</u></u>	<u><u>\$ 7,323</u></u>	<u><u>\$ 2,656,747</u></u>
LIABILITIES:			
Accounts Payable and Accrued Expenditures	\$ 2,599,909	\$ 7,323	\$ 2,607,232
Deferred Revenue	49,515	-	49,515
Total Liabilities	<u>2,649,424</u>	<u>7,323</u>	<u>2,656,747</u>
FUND EQUITY:			
Total Fund Equity	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,649,424</u></u>	<u><u>\$ 7,323</u></u>	<u><u>\$ 2,656,747</u></u>

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

See accompanying notes to the financial statements.

Department of Education of The City of New York
Reconciliation of the Balance Sheet of Governmental Funds
To The Statement of Net Assets (Deficit)
As of June 30, 2008
(\$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		10,215
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds		15,784,420
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the governmental funds. These are:		
Other Postemployment Benefit Obligations		(20,479,527)
Accrued Vacation and Sick Leave		(1,670,491)
Capital Lease Obligations		(203,238)
Accrued Judgements and Claims		<u>(288,321)</u>
 Net assets (deficit) of governmental activities	 \$	 <u><u>(6,846,942)</u></u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Reconciliation of the Balance Sheet of Governmental Funds
To The Statement of Net Assets (Deficit)
As of June 30, 2007
(\$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		10,325
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the governmental funds		14,090,340
Long-term liabilities are not due and payable in the current period and accordingly are not reported in the governmental funds. These are:		
Other Postemployment Benefit Obligations		(18,689,770)
Accrued Vacation and Sick Leave		(1,532,588)
Capital Lease Obligations		(174,275)
Accrued Judgements and Claims		<u>(281,078)</u>
 Net assets (deficit) of governmental activities	 \$	 <u><u>(6,577,046)</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, 2008
(\$000 Omitted)

	<u>Government Fund Types</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
REVENUES			
Federal Aid	\$ 1,787,343	\$ -	\$ 1,787,343
State Aid	8,066,837	-	8,066,837
Universal Services Fund	1,705	-	1,705
Other Assistance	67,353	-	67,353
Charges for Services:			
School Construction Authority	20,072	-	20,072
Student Lunches	20,222	-	20,222
Rentals	32,654	-	32,654
Other	17,049	-	17,049
Subtotal	<u>10,013,235</u>	<u>-</u>	<u>10,013,235</u>
Net Change in Estimate of Prior Receivables	(104,436)	-	(104,436)
Subtotal	<u>9,908,799</u>	<u>-</u>	<u>9,908,799</u>
Funding Provided by The City of New York	<u>7,051,983</u>	<u>5,043</u>	<u>7,057,026</u>
Total Revenues and Other Financing Sources	<u>16,960,782</u>	<u>5,043</u>	<u>16,965,825</u>
EXPENDITURES			
General Education Instruction & School Leadership	6,113,260	-	6,113,260
Special Education Instruction & School Leadership	1,045,573	-	1,045,573
School Support Organization	213,430	-	213,430
Citywide Education Instruction & School Leadership	690,991	-	690,991
Special Education Instructional Support	389,411	-	389,411
School Facilities	575,537	-	575,537
Pupil Transportation	966,878	-	966,878
School Food Services	371,097	-	371,097
School Safety	204,086	-	204,086
Energy and Leases	391,680	-	391,680
Central Administration	398,851	-	398,851
Fringe Benefits	2,216,628	-	2,216,628
Pre-Kindergarten Contracts	637,848	-	637,848
Charter & Contract Schools and Foster Care Payments	635,026	-	635,026
Non-Public Schools	61,092	-	61,092
Collective Bargaining	22,396	-	22,396
Capital Outlay	-	5,043	5,043
Subtotal	<u>14,933,784</u>	<u>5,043</u>	<u>14,938,827</u>
Reimbursable:			
Categorical Programs	2,043,250	-	2,043,250
Intracity Sales	(16,252)	-	(16,252)
Subtotal	<u>16,960,782</u>	<u>5,043</u>	<u>16,965,825</u>
Net Change in Estimate of Prior Payables	(105,657)	-	(105,657)
Total Expenditures	<u>16,855,125</u>	<u>5,043</u>	<u>16,860,168</u>
Other Financing Uses - Transfer to The City of New York	105,657	-	105,657
Total Expenditures and Other Uses	<u>16,960,782</u>	<u>5,043</u>	<u>16,965,825</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-
FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Year Ended June 30, 2007
(\$000 Omitted)

	<u>Government Fund Types</u>		Total Governmental Funds
	<u>General Fund</u>	<u>Capital Projects Fund</u>	
REVENUES			
Federal Aid	\$ 1,828,431	\$ -	\$ 1,828,431
State Aid	7,243,213	-	7,243,213
Other Assistance	43,881	-	43,881
Charges for Services:			
School Construction Authority	16,359	-	16,359
Student Lunches	20,222	-	20,222
Rentals	28,262	-	28,262
Other	12,572	-	12,572
Subtotal	9,192,940	-	9,192,940
Net Change in Estimate of Prior Receivables	(123,807)	-	(123,807)
Subtotal	9,069,133	-	9,069,133
Funding Provided by The City of New York	6,802,690	7,323	6,810,013
Total Revenues and Other Financing Sources	<u>15,871,823</u>	<u>7,323</u>	<u>15,879,146</u>
EXPENDITURES			
General Education Instruction & School Leadership	5,532,980	-	5,532,980
Special Education Instruction & School Leadership	1,134,154	-	1,134,154
Regional & Citywide Instructional & Operational Admin.	215,225	-	215,225
Citywide Education Instruction & School Leadership	652,272	-	652,272
Special Education Instructional Support	334,680	-	334,680
School Facilities	569,225	-	569,225
Pupil Transportation	937,593	-	937,593
School Food Services	364,605	-	364,605
School Safety	179,968	-	179,968
Energy and Leases	339,782	-	339,782
Central Administration	389,912	-	389,912
Fringe Benefits	1,988,926	-	1,988,926
Pre-Kindergarten Contracts	574,474	-	574,474
Charter & Contract Schools and Foster Care Payments	490,093	-	490,093
Non-Public Schools	57,518	-	57,518
Collective Bargaining	15,821	-	15,821
Capital Outlay	-	7,323	7,323
Subtotal	13,777,228	7,323	13,784,551
Reimbursable:			
Categorical Programs	2,107,173	-	2,107,173
Intracity Sales	(12,578)	-	(12,578)
Subtotal	15,871,823	7,323	15,879,146
Net Change in Estimate of Prior Payables	(123,807)	-	(123,807)
Total Expenditures	15,748,016	7,323	15,755,339
Other Financing Uses - Transfer to The City of New York	123,807	-	123,807
Total Expenditures and Other Uses	15,871,823	7,323	15,879,146
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-
FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

See accompanying notes to the financial statements.

Department of Education of The City of New York
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance to the Statement of Activities
For the Year Ended June 30, 2008
(\$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.		5,043
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.		(687,919)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in Other Postemployment Benefit Obligations	\$ (1,789,757)	
Change in Sick Leave and Vacation Liability	(137,903)	
Change in Capital Lease Obligations	(28,963)	
Change in Judgments and Claims Liability	<u>(7,243)</u>	(1,963,866)
Net changes in capital assets and inventory where neither revenues nor expenses are incurred by the Department, net of Department costs.		<u>2,376,846</u>
Change in Net Assets - governmental activities	\$	<u><u>(269,896)</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, 2007
(\$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.		7,323
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.		(618,628)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in Other Postemployment Benefits Obligations	\$ (1,394,743)	
Change in Sick Leave and Vacation Liability	(136,836)	
Change in Capital Lease Obligations	(23,261)	
Change in Judgments and Claims Liability	<u>(15,564)</u>	(1,570,404)
Net changes in capital assets, inventory and capital leases where neither revenues nor expenses are incurred by the Department, net of Department costs.		<u>2,110,646</u>
Change in Net Assets - governmental activities	\$	<u><u>(71,063)</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, 2008
(\$000 Omitted)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Favorable / (Unfavorable)</u>
REVENUES				
Federal Aid	\$ 1,850,755	\$ 1,787,343	\$ 1,787,343	\$ -
State Aid	7,872,337	8,066,837	8,066,837	-
Universal Services Fund	-	1,705	1,705	-
Other Assistance	28,269	67,353	67,353	-
Charges for Services:				
School Construction Authority	8,000	20,072	20,072	-
Student Lunches	20,074	20,222	20,222	-
Rentals	20,000	30,566	32,654	2,088
Other	9,801	16,351	17,049	698
Subtotal	<u>9,809,236</u>	<u>10,010,449</u>	<u>10,013,235</u>	<u>2,786</u>
Net Change in Estimate of Prior Receivables	-	-	(104,436)	(104,436)
Subtotal	<u>9,809,236</u>	<u>10,010,449</u>	<u>9,908,799</u>	<u>(101,650)</u>
Funding Provided by The City of New York	7,165,123	6,951,296	7,051,983	100,687
Total Revenues and Other Financing Sources	<u>16,974,359</u>	<u>16,961,745</u>	<u>16,960,782</u>	<u>(963)</u>
EXPENDITURES				
General Education Instruction & School Leadership	6,213,906	6,113,260	6,113,260	-
Special Education Instruction & School Leadership	1,111,624	1,045,815	1,045,573	242
School Support Organization	219,474	221,065	213,430	7,635
Citywide Education Instruction & School Leadership	679,219	697,746	690,991	6,755
Special Education Instructional Support	348,267	394,615	389,411	5,204
School Facilities	548,359	575,537	575,537	-
Pupil Transportation	1,033,911	966,878	966,878	-
School Food Services	364,113	378,552	371,097	7,455
School Safety	193,321	204,086	204,086	-
Energy and Leases	386,147	399,311	391,680	7,631
Central Administration	404,338	399,005	398,851	154
Fringe Benefits	2,129,638	2,229,998	2,216,628	13,370
Pre-Kindergarten Contracts	621,491	643,767	637,848	5,919
Charter & Contract Schools and Foster Care Payments	595,345	630,362	635,026	(4,664)
Non-Public Schools	61,596	61,092	61,092	-
Collective Bargaining	19,978	22,396	22,396	-
Subtotal	<u>14,930,727</u>	<u>14,983,485</u>	<u>14,933,784</u>	<u>49,701</u>
Reimbursable:				
Categorical Programs	2,052,726	1,994,793	2,043,250	(48,457)
Intracity Sales	(9,094)	(16,533)	(16,252)	(281)
Subtotal	<u>16,974,359</u>	<u>16,961,745</u>	<u>16,960,782</u>	<u>963</u>
Net Change in Estimate of Prior Payables	-	-	(105,657)	105,657
Total Expenditures	<u>16,974,359</u>	<u>16,961,745</u>	<u>16,855,125</u>	<u>106,620</u>
Other Financing Uses - Transfer to The City of New York	-	-	105,657	(105,657)
Total Expenditures and Other Uses	<u>16,974,359</u>	<u>16,961,745</u>	<u>16,960,782</u>	<u>963</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, 2007
(\$'000 Omitted)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Favorable / (Unfavorable)</u>
REVENUES				
Federal Aid	\$ 1,717,324	\$ 1,828,431	\$ 1,828,431	\$ -
State Aid	7,127,419	7,181,040	7,243,213	62,173
Other Assistance	19,173	43,881	43,881	-
Charges for Services:				
School Construction Authority	8,000	16,359	16,359	-
Student Lunches	20,074	20,074	20,222	148
Rentals	15,000	20,000	28,262	8,262
Other	9,800	9,800	12,572	2,772
Subtotal	<u>8,916,790</u>	<u>9,119,585</u>	<u>9,192,940</u>	<u>73,355</u>
Net Change in Estimate of Prior Receivables	-	-	(123,807)	(123,807)
Subtotal	<u>8,916,790</u>	<u>9,119,585</u>	<u>9,069,133</u>	<u>(50,452)</u>
Funding Provided by The City of New York	<u>6,529,428</u>	<u>6,756,006</u>	<u>6,802,690</u>	<u>46,684</u>
Total Revenues and Other Financing Sources	<u>15,446,218</u>	<u>15,875,591</u>	<u>15,871,823</u>	<u>(3,768)</u>
EXPENDITURES				
General Education Instruction & School Leadership	5,438,531	5,538,503	5,532,980	5,523
Special Education Instruction & School Leadership	911,764	1,129,752	1,134,154	(4,402)
Regional & Citywide Instructional & Operational Admin.	226,460	215,225	215,225	-
Citywide Education Instruction & School Leadership	636,532	662,969	652,272	10,697
Special Education Instructional Support	286,489	322,863	334,680	(11,817)
School Facilities	562,628	569,225	569,225	-
Pupil Transportation	915,813	937,593	937,593	-
School Food Services	350,115	364,605	364,605	-
School Safety	169,535	179,968	179,968	-
Energy and Leases	371,491	339,782	339,782	-
Central Administration	366,836	391,453	389,912	1,541
Fringe Benefits	1,967,215	1,991,096	1,988,926	2,170
SE Pre-Kindergarten Contracts	548,142	574,474	574,474	-
Charter & Contract Schools and Foster Care Payments	485,646	490,093	490,093	-
Non-Public Schools	53,799	57,518	57,518	-
Collective Bargaining	24,224	15,821	15,821	-
Subtotal	<u>13,315,220</u>	<u>13,780,940</u>	<u>13,777,228</u>	<u>3,712</u>
Reimbursable:				
Categorical Programs	2,138,973	2,107,306	2,107,173	133
Intracity Sales	(7,975)	(12,655)	(12,578)	(77)
Subtotal	<u>15,446,218</u>	<u>15,875,591</u>	<u>15,871,823</u>	<u>3,768</u>
Net Change in Estimate of Prior Payables	-	-	(123,807)	123,807
Total Expenditures	<u>15,446,218</u>	<u>15,875,591</u>	<u>15,748,016</u>	<u>127,575</u>
Other Financing Uses - Transfer to The City of New York	-	-	123,807	(123,807)
Total Expenditures and Other Uses	<u>15,446,218</u>	<u>15,875,591</u>	<u>15,871,823</u>	<u>3,768</u>
Excess of Revenues and Other Sources Over Expenditures and Other Uses	-	-	-	-
FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to the financial statements.

Department of Education of The City of New York
Statement of Fiduciary Net Assets
As of June 30, 2008
(\$000 Omitted)

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ <u>48,303</u>
Total Assets	\$ <u><u>48,303</u></u>
 LIABILITIES:	
Due To Students/Teachers	\$ 27,196
Holding Accounts Payable	17,071
Due to Tax Agents	<u>4,036</u>
Total Liabilities	\$ <u><u>48,303</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, 2007
(\$000 Omitted)

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	\$ <u>40,235</u>
Total Assets	\$ <u><u>40,235</u></u>
 LIABILITIES:	
Due To Students	\$ 23,423
Holding Accounts Payable	9,540
Due to Tax Agents	<u>7,272</u>
Total Liabilities	\$ <u><u>40,235</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, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The DOE is organized and administered in accordance with the provisions of the State of New York Education Law and consists of five Integrated Service Centers (ISCs) across The City and School Support Organizations (SSOs). The primary goal of the ISCs is to provide support services to the schools in the areas of business, operations and special education. Each ISC includes approximately three hundred and five schools and contains up to six community school districts, as well as, the high schools located within the districts' geographic boundaries. The schools are self-affiliated to one of the SSOs. The SSOs are comprised of one Empowerment Support Organization (ESO), four Learning Support Organizations (LSOs), and multiple Partnership Support Organizations (PSOs). The ESO includes networks of self-affiliated schools supported by a team of instructional and business staff selected by the schools. LSOs are led and operated by four accomplished educators who develop theme-based comprehensive services packages for the schools. PSOs are led by non-profit groups with strong records of supporting schools and communities. In partnership with the SSOs, school communities are able to focus more energy on providing the highest quality educational services to City school students.

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.

New Accounting Standards Adopted

In fiscal year 2008, the DOE adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- *Statement No. 48 Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*
- *Statement No. 50 Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*

Statement No. 48 establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or as a collateralized borrowing. Such transactions are likely to comprise the sale of delinquent property tax liens, 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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

In addition to clarifying guidance (supersedes Technical Bulletin No. 2004-1, Tobacco Settlement Recognition and Financial Reporting Entity Issues and amends Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments) on accounting for sales and pledges of receivables and future revenues, Statement No. 48:

- Requires enhanced disclosures pertaining to future revenues that have been pledged or sold. These disclosures are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so.
- Provides guidance on sales of receivables and future revenues within the same financial reporting entity.
- Provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues, including residual interests and recourse provisions.

The implementation of Statement No. 48 changed the accounting and financial reporting for the proceeds of Building Aid Revenue Bonds (BARBs) received from the New York City Transitional Finance Authority. BARBs are used to finance a portion of the City's educational facilities capital plan. Adoption of Statement No. 48 requires retroactive application of its requirements to prior years. As a result, the DOE's 2007 financial statements have been restated resulting in a net increase in state aid and a decrease in Funding by the City in the amount of \$62.2 million.

Statement No. 50 establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. The Statement more closely aligns the financial reporting requirements for pensions with those for Other Postemployment Benefits (OPEB) and consequently, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by Statement No. 50 amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The Statement is intended to improve the transparency and decision usefulness of reported information about pensions by state and local governmental plans and employers.

There was no impact on the DOE's financial statements as a result of the implementation of Statement No. 50.

Pronouncement Issued But Not Yet Effective

The Governmental Accounting Standards Board (GASB) has issued four pronouncements that have not been implemented by The City, nor the DOE:

In November 2006 GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes accounting and financial reporting standards for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as, site assessments and cleanups. Pollution remediation obligations exclude pollution prevention or control obligations relating to current operations and future pollution remediation activities, such as, landfill closure and post closure care. Statement 49 identifies the obligating events which require a governmental entity to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Comparability of financial statements among governments will be enhanced by Statement 49, requiring all governments to account for pollution remediation obligations in the same manner, including required reporting of pollution remediation obligations that previously may not have been reported.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

The Statement also will enhance the users' ability to assess governments' obligations by requiring more timely and complete reporting of obligations as their components become reasonably estimable.

The requirements of Statement No. 49 are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period, so that, beginning net assets can be restated. However, governments that have sufficient objective and verifiable information to apply the expected cash flow technique to measurements in prior periods are required to apply the provisions retroactively for all such prior periods presented.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires that all intangible assets, not specifically excluded by its scope provisions, be classified as capital assets. Accordingly, existing authoritative guidance relating to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Statement No. 51 also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The objective of Statement No. 51 is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies relating to recognition, initial measurements, and amortization, thereby, enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Statement requires that an intangible asset be recognized in the Statement of Net Assets only if it is considered identifiable. Additionally, the Statement establishes a specified-conditions approach to recognize intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. Statement No. 51 also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software. The Statement also establishes guidance specific to intangible assets related to amortization. Guidance is provided on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful lives are subsequently determined to no longer be indefinite due to a change in circumstances.

The requirements of Statement No. 51 are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. Early implementation of this Statement is not encouraged.

In November, 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. The Statement requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income. Statement No. 52 amends the scope of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to apply the disclosure provisions of paragraph 15 of that Statement to land and other real estate held as investments by endowments. Accordingly, endowments should disclose "the methods and significant assumptions used to estimate the fair value of investments, if that fair value is based on other than quoted market prices." The objective of this Statement is to enhance the comparability and usefulness of financial reporting by endowments by establishing a common approach to reporting land and other real estate held as investments with other entities that exist for similar purposes.

While the provisions of Statement No. 52 are effective for financial statements for periods beginning after June 15, 2008 and its earlier implementation encouraged, there is presently no impact on the DOE's financial statements from the issuance of Statement No. 52 since the DOE's governmental funds category does not include a Permanent Fund type.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

In June, 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The objective of the Statement is to enhance the usefulness and comparability of derivative instrument information reported by state and local governments by providing a comprehensive framework for the recognition, measurement, and disclosure of derivative instrument transactions. Derivative instruments such as interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swap options, forward contracts, and futures contracts are entered into by governments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (i.e., hedgeable items); to lower the costs of borrowings; to effectively fix cash flows or synthetically fix prices; or to offset the changes in fair value of hedgeable items. A key provision of Statement No. 53 is that certain derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit-responsive are reported at fair value by governments in their government-wide financial statements. This provision should allow users of those financial statements to more fully understand a government's resources available to provide services. The application of interperiod equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. Alternatively, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. The Statement describes several quantitative methods and a qualitative method for evaluating effectiveness. The disclosures required by Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*, have been incorporated into Statement No.53. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments.

The requirements of Statement No. 53 are effective for financial statements for periods beginning after June 15, 2009, while earlier application of the Statement is encouraged. The DOE has not completed the task of evaluating the impact of Statement No. 53 on its Financial Statements.

B. Basis of Presentation

Department-wide Financial Statements — The Department-wide Financial Statements consist of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets presents the difference between 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 2008 and 2007, SCA transferred \$1.4 billion and \$1.3 billion, respectively, in completed assets to DOE.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

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

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,

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

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.

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, 2008 and accruals for payments to be made in the future, which applies to liabilities incurred as of June 30, 2008. 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 offices and schools when the vendors' invoices 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 \$23.3 million. The value of these donated commodities received and still on hand, as of June 30, 2008 and 2007 was \$0.5 million.

Materials and Supplies — Inventories on hand at June 30, 2008 amounted to approximately \$9.7 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, 2007 this value was \$10 million.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

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 \$66.7 million received by DOE against which qualifying expenditures have not yet been incurred, as of June 30, 2008. As of June 30, 2007 cash advances amounted to \$49.5 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 2008 was \$1.38 billion. As of June 30, 2007 the value of these services was \$1.34 billion.

Vacation and Sick Leave and Cumulative Annual Reserve — Earned vacation and sick leave and Cumulative Annual Reserve (CAR) are recorded as expenditures in the period when payable from current financial resources in the fund financial statements. The estimated value of vacation leave and CAR earned by employees, which may be used in subsequent years or earned as vacation and sick leave and CAR to be paid upon termination or retirement, 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 1,407 separate school activity funds. All but three of these bank accounts are maintained by the schools under the responsibility of the respective principals. Three bank accounts are maintained in the central office for the benefit of the schools.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

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, 2008 (\$19.6 billion) differs from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balances (\$17 billion) because of adjustments necessary to convert expenditures from the modified accrual basis of accounting to the full accrual basis (as outlined in the Management’s Discussion and Analysis section). The following schedule reconciles these two accounting basis:

Figure 1

	Amount (\$000 Omitted)
Total Expenditures and Other Uses (from the Statement of Revenues, Expenditures and Changes in Fund Balance).....	\$ 16,960,782
Add back Intra-City Sales (which are included in General Revenue in Statement of Activities).....	16,252
Depreciation Expense	687,920
Long-term liabilities per full accrual basis	
Other Postemployment Benefit Obligations	1,789,757
Sick Leave and Vacation Balances	137,903
Capital Leases.....	28,963
Judgments and Claims	<u>7,243</u>
 Total Program Expenses (from the Statement of Activities).....	 <u>\$ 19,628,820</u>

The total program expenses included in the Statement of Activities for the year ended June 30, 2007 (\$18.1 billion) differs from the total expenditures and other uses included in the Statement of Revenues, Expenditures and Changes in Fund Balances (\$15.9 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

	Amount (\$000 Omitted)
Total Expenditures and Other Uses (from the Statement of Revenues, Expenditures and Changes in Fund Balance).....	\$ 15,871,823
Add back Intra-City Sales (which are included in the General Revenue in Statement of Activities).....	12,578
Depreciation Expense	618,628
Long-term liabilities per full accrual basis	
Other Postemployment Benefit Obligations	1,394,743
Sick Leave and Vacation Balances	136,836
Capital Leases.....	23,261
Judgments and Claims	<u>15,564</u>
 Total Program Expenses (from the Statement of Activities).....	 <u>\$ 18,073,434</u>

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

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 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, 2008 (\$000 omitted):

Figure 3

	Originally Adopted Budget	Net Modifications	Modified Budget
Tax Levy Programs.....	\$ 14,930,727	\$ 52,758	\$ 14,983,485
Reimbursable Programs	2,052,726	(57,933)	1,994,793
Sub Total.....	16,983,453	(5,175)	16,978,278
Less: Intracity Sales	(9,094)	(7,439)	(16,533)
Total	<u>\$ 16,974,359</u>	<u>\$ (12,614)</u>	<u>\$ 16,961,745</u>

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

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

Figure 4

	<u>Tax Levy</u>	<u>Reimbursable</u>
Intra-city Purchases	\$ 44	\$ 7,395
City Council Actions	187	-
Executive & Adoption	(60,842)	293
Oct. & Jan. Plan Actions	26,578	(136,253)
School Food Programs.....	(8,455)	2,032
Year-end Closing Actions	95,246	68,600
Total Net Modifications.....	<u>\$ 52,758</u>	<u>\$ (57,933)</u>

The following schedule summarizes budget modifications for the year ended June 30, 2007 (\$000 omitted):

Figure 5

	<u>Originally Adopted Budget</u>	<u>Net Modifications</u>	<u>Modified Budget</u>
Tax Levy Programs.....	\$ 13,315,220	\$ 465,720	\$ 13,780,940
Reimbursable Programs	2,138,973	(31,668)	2,107,306
Sub Total.....	15,454,193	434,052	15,888,246
Less: Intracity Sales	(7,975)	(4,679)	(12,655)
Total.....	<u>\$ 15,446,218</u>	<u>\$ 429,373</u>	<u>\$ 15,875,591</u>

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

Figure 6

	<u>Tax Levy</u>	<u>Reimbursable</u>
Intra-city Purchases.....	\$ -	\$ 4,679
City Council Actions.....	(348)	-
Executive & Adoption	83,455	20,525
Nov. & Jan. Plan Actions.....	439,060	(149,960)
School Food Programs	(3,353)	-
Year-end Closing Actions	(53,094)	93,088
Total Net Modifications	<u>\$ 465,720</u>	<u>\$ (31,668)</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 1,407 accounts maintained at the school level, DOE cannot determine the amounts that are insured or collateralized. The City has reported that approximately 0.33 and 0.46 percent of The City's June 30, 2008 and June 30, 2007 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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

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.

C. Lease Commitments

DOE leases various types of property and equipment. Total lease expenditures for the year ended June 30, 2008 and June 30, 2007 were approximately \$120 million and \$103 million, respectively. As of June 30, 2008, DOE has future minimum rental obligations on leases with a remaining term in excess of one year as follows (\$000 omitted):

Figure 7

Year(s) Ending June 30,	Total Amount	Capital Leases	Operating Leases
2009	\$ 94,351	\$ 23,784	\$ 70,567
2010	87,332	23,499	63,833
2011	78,299	22,154	56,145
2012	72,680	20,978	51,702
2013	71,476	21,263	50,213
2014-2018	305,517	87,741	217,776
2019-2023	184,631	57,531	127,100
2024-2028	99,180	24,148	75,032
2029-2033	45,159	22,719	22,440
2034-2038	16,119	1,953	14,166
Total minimum lease payments	<u>\$ 1,054,744</u>	<u>305,770</u>	<u>\$ 748,974</u>
Less imputed interest		(102,532)	
Present value of net minimum lease payments		<u>\$ 203,238</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 2008 and 2007 and funds have been appropriated for such payments.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

Changes in the various components of the long-term liabilities for fiscal year 2008 are as follows (\$000 omitted):

Figure 8

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
Accrued Vacation and Sick Leave.....	\$ 1,532,588	\$ 170,065	\$ (32,162)	\$ 1,670,491	\$ 32,162
Capital Lease Obligations.....	174,275	40,568	(11,605)	203,238	11,605
Accrued Judgments and Claims.....	281,078	63,259	(56,016)	288,321	72,729
OPEB Obligations	18,689,770	2,152,518	(362,761)	20,479,527	-
TOTALS.....	\$ 20,677,711	\$ 2,426,410	\$ (462,544)	\$ 22,641,577	\$ 116,496

Changes in the various components of the long-term liabilities for fiscal year 2007 are as follows (\$000 omitted):

Figure 9

	<u>Balance</u> <u>June 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due Within</u> <u>One Year</u>
Accrued Vacation and Sick Leave.....	\$ 1,395,752	\$ 178,515	\$ (41,679)	\$ 1,532,588	\$ 41,679
Capital Lease Obligations.....	151,014	32,658	(9,397)	174,275	9,397
Accrued Judgments and Claims.....	265,514	72,310	(56,746)	281,078	65,713
OPEB Obligations	17,295,027	1,737,927	(343,184)	18,689,770	-
TOTALS.....	\$ 19,107,307	\$ 2,021,410	\$ (451,006)	\$ 20,677,711	\$ 116,789

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 1,500 schools. 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 2008 can be reported, as follows (\$000's omitted):

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

Figure 10

CAPITAL ASSETS					
	Balance				Balance
	June 30, 2007	Additions	Transfers	Deletions	June 30, 2008
Capital Assets Not Being Depreciated:					
Land & Site Improvement.....	\$ 446,997	\$ -	\$ -	\$ -	\$ 446,997
Construction In Progress	1,888,769	2,355,274	(1,381,125)		2,862,918
Total Capital Assets					
Not Being Depreciated.....	2,335,766	2,355,274	(1,381,125)	-	3,309,915
Capital Assets Being Depreciated:					
Building & Additions.....	19,146,584	-	1,381,125	(129)	20,527,580
Equipment	240,943	27,150	-	(295)	267,798
Gross Balance Capital Assets.....	19,387,527	27,150	1,381,125	(424)	20,795,378
Less Accumulated Depreciation:					
Building & Additions.....	7,460,907	676,621	-	-	8,137,528
Equipment	172,046	11,594	-	(295)	183,345
Total Accumulated Depreciation	7,632,953	688,215	-	(295)	8,320,873
Net Capital Assets Being					
Depreciated	11,754,574	(661,065)	1,381,125	(129)	12,474,505
Total All Capital Assets	\$ 14,090,340	\$ 1,694,209	\$ -	\$ (129)	\$ 15,784,420

The overall changes substantial in the various classes of Capital Assets occurring during fiscal year 2007 can be reported, as follows (\$000's omitted):

Figure 11

CAPITAL ASSETS					
	Balance				Balance
	June 30, 2006	Additions	Transfers	Deletions	June 30, 2007
Capital Assets Not Being Depreciated:					
Land & Site Improvement.....	\$ 446,881	\$ 116	\$ -	\$ -	\$ 446,997
Construction In Progress	1,079,241	2,099,051	(1,289,523)	-	1,888,769
Total Capital Assets					
Not Being Depreciated.....	1,526,122	2,099,167	(1,289,523)	-	2,335,766
Capital Assets Being Depreciated:					
Building & Additions.....	17,857,061	-	1,289,523	-	19,146,584
Equipment	219,826	21,901	-	(784)	240,943
Gross Balance Capital Assets.....	18,076,887	21,901	1,289,523	(784)	19,387,527
Less Accumulated Depreciation:					
Building & Additions.....	6,850,554	610,353	-	-	7,460,907
Equipment	163,771	9,056	-	(781)	172,046
Total Accumulated Depreciation.....	7,014,325	619,409	-	(781)	7,632,953
Net Capital Assets Being					
Depreciated.....	11,062,562	(597,508)	1,289,523	(3)	11,754,574
Total All Capital Assets	\$ 12,588,684	\$ 1,501,659	\$ -	\$ (3)	\$ 14,090,340

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

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 2006 through 2009 totaled \$13.9 billion.

Capital Expenditures made on behalf of the DOE amounted to \$2.4 billion and \$2.1 billion in fiscal years 2008 and 2007, 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 the DOE. In Fiscal Years 2008 and 2007, SCA transferred \$1.4 billion and \$1.3 billion, respectively, in completed assets to DOE.

Included in land and buildings at June 30, 2008 are certain leased properties aggregating approximately \$301 million (of which \$2.9 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, 2008 was accumulated depreciation for leases of \$97 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 2008, the New York City Comprehensive Annual Financial Report reports capital expenditures for education as \$2.358 billion. This amount includes capital expenditures vouchered by SCA and DDC on behalf of DOE in the amount of \$2.355 billion and capital lease expenditures of \$2.9 million.

4. OTHER INFORMATION

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

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

FIT receives, through appropriations provided by the City, a grant from DOE to partially subsidize its operations. The amounts paid to FIT in Fiscal Year 2008 and 2007 were approximately \$37.9 million and \$37.2 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.

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

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, except for certain Transit Authority employees are not required to make contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. Effective December 2000, certain Transit authority, Tier III and Tier IV members make basic member contribution of 2.0 percent of their Salary in accordance with chapter 10 of the laws of 2000. Certain members of BERS, NYCERS, and TRS 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, 2008, for all City pension systems was \$5.7 billion; \$2 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 \$124 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, 2008, June 30, 2007 and June 30, 2006 were, as follows:

Figure 12

City Pension Costs
(in millions)

	2008	2007	2006
TRS.....	\$ 1,916.5	\$ 1,600.9	\$ 1,316.6
BERS	143.1	129.8	90.8
Total Pension Costs	\$ 2,059.6	\$ 1,730.7	\$ 1,407.4

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

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 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. 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 2008, the annual OPEB cost (expense) for The City was determined to be \$65.2 billion of which the City contributed \$1.9 billion of the RHBT. The Net OPEB Obligation, after City Contributions, was \$63.3 billion. For the DOE, the allocated Net OPEB Obligations for Fiscal Year 2008 was \$1.8 billion. This amount was allocated to Programs/Activities' expenses in presenting full accrual accounting within the Statement of Activities. This amount, when added to the allocated amount for last year (\$18.7 billion), was also included as a long term liability in the Statement of Net Assets (\$20.4 billion).

D. Contingencies

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

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

(2) Grant Programs — The Office of the Inspector General of the United States Department of Health and Human Services (HHS) has issued audit reports for the periods 1990 through 2001 on claims submitted to the New York State Medicaid program by the DOE with respect to services for students with disabilities. The audits state generally that the State of New York improperly billed HHS approximately \$800 million in Federal Financial Participation (FFP) for State Medicaid expenditures for services that were not sufficiently supported by documentation establishing the provision of such services in accordance with applicable standards. Of this \$800 million, the DOE and the State have each received approximately \$400 million, as the State takes back from the school districts approximately fifty percent of the federal portion of Medicaid payments to such districts. The State Department of Health has formally submitted responses raising objections, based in law and policy, to the audits' findings and requesting no further Federal action to be taken in response to the audits. The Center for Medicare and Medicaid Services have not imposed any disallowances of the FFP to date. The audits may be subject to 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 the DOE for services that are subject to such disallowances, or may attempt to offset amounts owed to the DOE. Further, in agreement with the DOE related to these audits concerning the tolling of any applicable statute of limitations, the United States Department of Justice has taken the position that the United States believes it has certain civil causes of action against the DOE under the false Claims Act, the Civil Monetary Penalties Law, and the common law in relation to the submission of claims to the Medicaid Program with

Department of Education of The City of New York
Notes to the Financial Statements
June 30, 2008

respect to school and preschool supportive health services. The False Claims Act in certain circumstances permits recovery by the United States of three times the amount of the actual damages as well as penalties of up to \$11,000 per claim, and the Civil Monetary Penalties Law provides for similarly substantial civil damages.

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

* * * * *

Department of Education of The City of New York
Supplemental Financial Schedules of the General Fund
June 30, 2008

The General Fund is the general operating fund of DOE that is used to account for all of the financial resources, except those required to be accounted for in another fund. The Schedule of Aged Receivables includes Federal, State and Non-Governmental Grants and other aid from Fiscal Year 2005 through Fiscal Year 2008, as of June 30, 2008. 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, 2008
With Comparative Totals to June, 2007
(\$000 Omitted)

	Federal Grants <u>Categorical</u>	State Aid and Categorical <u>Grants</u>	Non- Governmental <u>Grants</u>	Total Receivables <u>As of June 30, 2008</u>	Comparative Total, as of <u>June 30, 2007</u>
Fiscal Year 2008:	\$ 549,212	\$ 1,092,848	\$ 28,695	\$ 1,670,755	\$ -
Fiscal Year 2007:	16,680	141,288	5,009	162,977	1,518,981
Fiscal Year 2006:	-	77,624	1,378	79,002	152,415
Fiscal Year 2005:	-	20,878	6,787	27,665	94,044
Total Receivables:	<u>\$ 565,892</u>	<u>\$ 1,332,638</u>	<u>\$ 41,869</u>	<u>\$ 1,940,399</u>	<u>\$ 1,765,440</u>

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2008

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<u>GENERAL EDUCATION INSTRUCTION & SCHOOL LEADERSHIP</u>			
401 Salaries	\$ 5,462,567,515	\$ 5,462,567,515	\$ -
402 Supplies	238,696,205	163,971,026	74,725,179
402 Furniture and Equipment	75,470,934	84,020,965	(8,550,031)
402 Textbooks	117,980,017	133,914,415	(15,934,398)
402 Contractual Services	218,545,310	268,786,060	(50,240,750)
TOTAL	6,113,259,981	6,113,259,981	-
<u>SPECIAL EDUCATION INSTRUCTION & SCHOOL LEADERSHIP</u>			
403 Salaries	1,040,975,353	1,042,235,131	(1,259,778)
404 Supplies	1,479,679	1,269,219	210,460
404 Furniture and Equipment	434,483	1,262,180	(827,697)
404 Textbooks	347,020	94,001	253,019
404 Contractual Services	2,578,166	712,203	1,865,963
TOTAL	1,045,814,701	1,045,572,734	241,967
<u>SCHOOL SUPPORT ORGANIZATION</u>			
415 Salaries	196,519,010	191,485,108	5,033,902
416 Supplies	22,632,589	4,679,078	17,953,511
416 Furniture and Equipment	186,673	3,040,520	(2,853,847)
416 Textbooks	142,426	521,114	(378,688)
416 Contractual Services	1,584,265	13,704,474	(12,120,209)
TOTAL	221,064,963	213,430,294	7,634,669
<u>CITYWIDE EDUCATION INSTRUCTION & SCHOOL LEADERSHIP</u>			
421 Salaries	674,361,289	674,361,288	1
422 Supplies	7,584,746	5,430,473	2,154,273
422 Furniture and Equipment	4,975,013	3,307,846	1,667,167
422 Textbooks	2,557,398	1,322,989	1,234,409
422 Contractual Services	8,267,179	6,568,161	1,699,018
TOTAL	697,745,625	690,990,757	6,754,868
<u>SPECIAL EDUCATION INSTRUCTIONAL SUPPORT</u>			
423 Salaries	221,455,448	216,251,938	5,203,510
424 Supplies	436,664	669,027	(232,363)
424 Furniture and Equipment	762,913	445,590	317,323
424 Textbooks	500	1,781	(1,281)
424 Contractual Services	171,959,452	172,043,131	(83,679)
TOTAL	394,614,977	389,411,467	5,203,510
<u>SCHOOL FACILITIES</u>			
435 Salaries	406,008,169	408,178,995	(2,170,826)
436 Supplies	30,371,371	27,412,327	2,959,044
436 Furniture and Equipment	644,119	362,412	281,707
436 Contractual Services	138,513,708	139,583,633	(1,069,925)
TOTAL	575,537,367	575,537,367	-

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2008

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<u>PUPIL TRANSPORTATION</u>			
438 Supplies	\$ 6,216,627	\$ 6,244,064	\$ (27,437)
438 Contractual Services	35,185,403	34,333,297	852,106
438 Pupil Transportation	<u>925,475,614</u>	<u>926,300,282</u>	<u>(824,668)</u>
	966,877,644	966,877,643	1
<u>SCHOOL FOOD SERVICES</u>			
439 Salaries	189,510,204	188,267,586	1,242,618
440 Supplies	12,929,154	17,582,339	(4,653,185)
440 Food Purchases	137,056,394	136,538,197	518,197
440 Furniture and Equipment	1,730,245	4,777,491	(3,047,246)
440 Contractual Services	<u>37,326,585</u>	<u>23,930,889</u>	<u>13,395,696</u>
TOTAL	378,552,582	371,096,502	7,456,080
442 SCHOOL SAFETY	204,085,822	204,085,822	-
444 ENERGY AND LEASES	399,311,016	391,680,346	7,630,670
<u>CENTRAL ADMINISTRATION</u>			
453 Salaries	180,409,228	181,020,581	(611,353)
454 Supplies	41,955,569	14,143,367	27,812,202
454 Furniture and Equipment	10,130,422	10,553,878	(423,456)
454 Contractual Services	166,121,913	192,912,191	(26,790,278)
454 Fixed Charges	<u>388,217</u>	<u>220,693</u>	<u>167,524</u>
TOTAL	399,005,349	398,850,710	154,639
461 FRINGE BENEFITS	2,229,998,479	2,216,628,242	13,370,237
470 SE PRE-KINDERGARTEN CONTRACTS	643,767,338	637,848,134	5,919,204
472 CHARTER/CONTRACT SCHOOLS & FOSTER CARE	630,361,897	635,026,096	(4,664,199)
474 NON-PUBLIC SCHOOLS & FIT PAYMENTS	61,091,596	61,091,594	2
491 COLLECTIVE BARGAINING	<u>22,395,990</u>	<u>22,395,990</u>	<u>-</u>
TOTAL TAX LEVY	<u>\$ 14,983,485,327</u>	<u>\$ 14,933,783,679</u>	<u>\$ 49,701,648</u>
<u>CATEGORICAL PROGRAMS</u>			
481 Salaries	\$ 1,260,838,193	\$ 1,270,713,013	\$ (9,874,820)
482 Supplies	196,204,040	87,586,354	108,617,686
482 Furniture and Equipment	48,711,400	24,364,701	24,346,699
482 Pension	134,168,882	134,168,882	-
482 Contractual Services	<u>354,870,515</u>	<u>526,417,178</u>	<u>(171,546,663)</u>
TOTAL CATEGORICAL PROGRAMS	1,994,793,030	2,043,250,128	(48,457,098)

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2008

	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
TOTAL APPROPRIATIONS EXPENDED	\$ 16,978,278,357	\$ 16,977,033,807	\$ 1,244,550
Intra-City Sales	<u>(16,533,434)</u>	<u>(16,252,478)</u>	<u>(280,956)</u>
Sub-Total	16,961,744,923	16,960,781,329	963,594
Net Change in Prior Payables	<u>-</u>	<u>(105,656,676)</u>	<u>105,656,676</u>
Total Expenditures	16,961,744,923	16,855,124,653	106,620,270
Other Financing Uses -			
Transfer to The City of New York	<u>-</u>	<u>105,656,676</u>	<u>(105,656,676)</u>
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 16,961,744,923</u>	<u>\$ 16,960,781,329</u>	<u>\$ 963,594</u>

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2007

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<u>GENERAL EDUCATION INSTRUCTION & SCHOOL LEADERSHIP</u>			
401 Salaries	\$ 4,959,896,952	\$ 4,954,813,557	\$ 5,083,395
402 Supplies	170,893,290	170,760,727	132,563
402 Furniture and Equipment	77,854,528	77,795,916	58,612
402 Textbooks	111,140,824	111,057,152	83,672
402 Contractual Services	218,717,367	218,552,708	164,659
TOTAL	5,538,502,961	5,532,980,060	5,522,901
<u>SPECIAL EDUCATION INSTRUCTION & SCHOOL LEADERSHIP</u>			
403 Salaries	1,120,336,643	1,130,200,718	(9,864,075)
404 Supplies	4,219,947	1,774,004	2,445,943
404 Furniture and Equipment	3,333,116	1,398,105	1,935,011
404 Textbooks	687,143	288,228	398,915
404 Contractual Services	1,174,652	492,718	681,934
TOTAL	1,129,751,501	1,134,153,773	(4,402,272)
<u>REGIONAL & CITYWIDE INSTRUCTIONAL & OPERATIONAL ADMINISTRATION</u>			
415 Salaries	200,214,046	200,214,151	(105)
416 Supplies	4,096,825	4,096,720	105
416 Furniture and Equipment	1,442,876	1,442,876	-
416 Textbooks	207,398	207,398	-
416 Contractual Services	9,263,577	9,263,577	-
TOTAL	215,224,722	215,224,722	-
<u>CITYWIDE EDUCATION INSTRUCTION & SCHOOL LEADERSHIP</u>			
421 Salaries	637,408,302	634,526,214	2,882,088
422 Supplies	7,939,415	5,511,985	2,427,430
422 Furniture and Equipment	7,276,205	5,051,547	2,224,658
422 Textbooks	2,479,308	1,721,274	758,034
422 Contractual Services	7,866,189	5,461,147	2,405,042
TOTAL	662,969,419	652,272,167	10,697,252
<u>SPECIAL EDUCATION INSTRUCTIONAL SUPPORT</u>			
423 Salaries	179,303,983	191,121,759	(11,817,776)
424 Supplies	2,124,477	2,124,582	(105)
424 Furniture and Equipment	873,421	873,421	-
424 Textbooks	843	843	-
424 Contractual Services	140,559,745	140,559,745	-
TOTAL	322,862,469	334,680,350	(11,817,881)
<u>SCHOOL FACILITIES</u>			
435 Salaries	395,563,190	395,563,190	-
436 Supplies	26,499,619	26,499,619	-
436 Furniture and Equipment	577,451	577,451	-
436 Contractual Services	146,584,468	146,584,468	-
TOTAL	569,224,728	569,224,728	-

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2007

<u>UOA</u>	<u>Modified Budget</u>	<u>Expenditures</u>	<u>Favorable (Unfavorable)</u>
<u>PUPIL TRANSPORTATION</u>			
438 Supplies	\$ 1,980,063	\$ 1,980,063	\$ -
438 Contractual Services	83,624,938	83,624,938	-
438 Pupil Transportation	<u>851,988,307</u>	<u>851,988,307</u>	<u>-</u>
	937,593,308	937,593,308	-
<u>SCHOOL FOOD SERVICES</u>			
439 Salaries	188,910,432	188,910,432	-
440 Supplies	19,062,111	19,062,111	-
440 Food Purchases	125,870,184	125,870,184	-
440 Furniture and Equipment	4,921,905	4,921,905	-
440 Contractual Services	<u>25,840,702</u>	<u>25,840,702</u>	<u>-</u>
TOTAL	364,605,334	364,605,334	-
442 SCHOOL SAFETY	179,968,193	179,968,193	-
444 ENERGY AND LEASES	339,781,542	339,781,542	-
<u>CENTRAL ADMINISTRATION</u>			
453 Salaries	167,656,191	167,656,190	1
454 Supplies	22,876,317	22,718,654	157,663
454 Furniture and Equipment	6,075,617	6,033,744	41,873
454 Contractual Services	194,552,083	193,211,237	1,340,846
454 Fixed Charges	<u>293,088</u>	<u>291,068</u>	<u>2,020</u>
TOTAL	391,453,296	389,910,893	1,542,403
461 FRINGE BENEFITS	1,991,096,307	1,988,926,217	2,170,090
470 SE PRE-KINDERGARTEN CONTRACTS	574,473,724	574,473,724	-
472 CHARTER/CONTRACT SCHOOLS & FOSTER CARE	490,093,022	490,093,022	-
474 NON-PUBLIC SCHOOLS & FIT PAYMENTS	57,518,496	57,518,496	-
491 COLLECTIVE BARGAINING	<u>15,821,013</u>	<u>15,821,013</u>	<u>-</u>
TOTAL TAX LEVY	<u>\$ 13,780,940,035</u>	<u>\$ 13,777,227,542</u>	<u>\$ 3,712,493</u>
<u>CATEGORICAL PROGRAMS</u>			
481 Salaries	\$ 1,392,406,870	\$ 1,392,406,870	\$ -
482 Supplies	95,796,065	95,778,216	17,849
482 Furniture and Equipment	37,803,216	37,796,173	7,043
482 Pension	124,429,615	124,406,431	23,184
482 Contractual Services	<u>456,870,450</u>	<u>456,785,326</u>	<u>85,124</u>
TOTAL CATEGORICAL PROGRAMS	2,107,306,216	2,107,173,016	133,200

Department of Education of The City of New York
General Fund
Schedule of Budgeted and Actual Expenditures
For the Year Ended June 30, 2007

	Modified Budget	Expenditures	Favorable (Unfavorable)
TOTAL APPROPRIATIONS EXPENDED	\$ 15,888,246,251	\$ 15,884,400,558	\$ 3,845,693
Intra-City Sales	(12,654,885)	(12,577,719)	(77,166)
Sub-Total	15,875,591,366	15,871,822,839	3,768,527
Net Change in Prior Payables	-	(123,806,663)	123,806,663
Total Expenditures	15,875,591,366	15,748,016,176	127,575,190
Other Financing Uses -			
Transfer to The City of New York	-	123,806,663	(123,806,663)
TOTAL EXPENDITURES AND OTHER USES	\$ 15,875,591,366	\$ 15,871,822,839	\$ 3,768,527

Department of Education of The City of New York
Annual Financial Statements
For the Fiscal Years Ended June 30, 2008 and 2007

GLOSSARY

BERS.....	Board of Education Retirement System
CMS	Centers of Medical and Medicaid services
DDC	New York City Department of Design and Construction
DOE	Department of Education of the City of New York
FAMIS	Financial Accounting Management Information System
FDIC	Federal Deposit Insurance Corporation
Federal.....	One of the agencies of the United States of America
FFP.....	Federal Financial Participation
FIT.....	Fashion Institute of Technology
FMS.....	New York City Financial Management System
FY	Fiscal Year
GAAP.....	Generally Accepted Accounting Principles
GASB.....	Governmental Accounting Standards Board
HHS.....	United States Department of Health and Human Services
ISC	Integrated Service Center
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
SSO	School Support Organization
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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