

NYC School Construction Authority

**Public Authorities
Accountability Act
Annual Report**

Fiscal Year 2009

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**New York City School
Construction Authority**

Financial Statements

**At June 30, 2009 and 2008 and for the
fiscal years then ended**

New York City School Construction Authority

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June 30, 2009 and 2008

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Report of Independent Auditors

Members of the Board of Trustees of
New York City School Construction Authority

In our opinion, the accompanying statements of net assets and the related statements of activities present fairly, in all material respects, the financial position of the New York City School Construction Authority (the "Authority") at June 30, 2009 and 2008, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, which 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 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, in the year ended June 30, 2009, the Authority adopted Governmental Accounting Standards Board Statement ("GASB") No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligation*.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the information.

September , 2009

Management's Discussion and Analysis (Unaudited)

This section of the New York City School Construction Authority's (the "Authority") Annual Financial Report ("AFR") presents management's discussion and analysis of the Authority's financial performance during the fiscal years ended on June 30, 2009 and 2008.

Overview of Financial Statements

In accordance with the requirements of Governmental Accounting Standard No. 34 ("GASB 34"), the Authority presents herein its Management Discussion and Analysis Report. This management discussion and analysis is intended to provide an overview and analysis of the Authority's financial activity and identify the factors contributing to changes in the Authority's financial position.

In fiscal year 2009, the Authority committed over \$2,652 million in total contract obligations for school construction projects as compared to \$3,194 million in fiscal year 2008. The Authority processed approximately \$2,721 million in construction payments and payments related to general and administrative expenses (the "Operating Budget") during fiscal year 2009 as compared to \$2,251 million in fiscal year 2008. This represents a 21% increase from the prior year. The largest portion of the Authority's assets is in construction in progress, which is eventually transferred to the Department of Education (DoE) for capitalization.

In fiscal year 2008, the Authority committed over \$3,194 million in total contract obligations for school construction projects as compared to \$3,043 million in fiscal year 2007. The Authority processed approximately \$2,251 million in construction payments and payments related to general and administrative expenses (the "Operating Budget") during fiscal year 2008 as compared to \$1,752 million in fiscal year 2007. This represents a 28% increase from the prior year. The largest portion of the Authority's assets is in construction in progress, which is eventually transferred to the Department of Education (DoE) for capitalization.

The Authority has prepared and is responsible for the financial statements and related information included in this AFR. A system of internal controls is maintained to provide reasonable assurance that assets are safeguarded and that the financial records reflect only authorized transactions. Management believes that its system of internal accounting controls maintains an appropriate cost/benefit relationship.

In management's opinion, the financial statements present fairly the financial position and results of operations of the Authority in conformity with accounting principles generally accepted in the United States of America.

Results of Operations

The Authority's revenue is entirely funded by capital appropriations made by the City of New York (the "City") for capital expenditures of the Authority for the fiscal year, including operating and administrative costs. Sources of funding for the appropriations include City and State bonds. The state bonds totaled \$1.8 billion pursuant to state legislation passed in April 2006, which created Expanding our Children's Education and Learning Program ("EXCEL"). The funding from the EXCEL Program has been fully expended.

The increase in revenue from fiscal year 2008 to fiscal year 2009 was \$814 million or 34%. Operating revenues in fiscal year 2009 were \$3,140 million as compared to \$2,376 million in fiscal year 2008. This increase was driven by an increase in capital project expenditures of 21% and an increase in operating transfers on behalf of the DoE from fiscal year 2008 to fiscal year 2009.

Management's Discussion and Analysis (Unaudited)

For fiscal year 2009, the SCA awarded construction contracts for nineteen new schools and additions with a construction value of \$667 million and eight hundred eighty-two capital improvement or renovation projects with a construction value of \$1.0 billion. The SCA completed twenty-three new schools and additions as of September 2009 which created 13,881 seat openings for the school year.

For fiscal year 2008, the SCA awarded construction contracts for twenty-seven new schools and additions with a construction value of \$996 million and seven hundred seventy-six capital improvement or renovation projects with a construction value of \$1.4 billion. The SCA completed eighteen new schools and additions as of September 2008 which created 11,471 seat openings for the school year.

The increase in revenue from fiscal year 2007 to fiscal year 2008 was \$497 million or 26%. Operating revenues in fiscal year 2008 were \$2,376 million as compared to \$1,879 million in fiscal year 2007. This increase was driven by an increase in capital project expenditures of 28% from fiscal year 2007 to fiscal year 2008.

The Authority's operating expenses increased \$696 million from fiscal year 2008 to fiscal year 2009. Operating expenses in fiscal year 2009 were \$2,191 million as compared to \$1,495 million in fiscal year 2008. In fiscal year 2009, the value of completed contracts transferred to the DoE for capitalization as fixed assets was \$1,730 million as compared to \$1,390 million in fiscal year 2008. The increase in completed contracts transferred to the DoE from year to year was \$340 million. Operating transfers on behalf of the DoE increased by \$47 million from year to year. Operating transfers on behalf of the DoE are defined as technology enhancements, reconstruction, and athletic field refurbishment.

The Authority's operating expenses increased \$101 million from fiscal year 2007 to fiscal year 2008. Operating expenses in fiscal year 2008 were \$1,495 million as compared to \$1,394 million in fiscal year 2007. In fiscal year 2008, the value of completed contracts transferred to the DoE for capitalization as fixed assets was \$1,390 million as compared to \$1,276 million in fiscal year 2007. The increase in completed contracts transferred to the DoE from year to year was \$114 million. Operating transfers on behalf of the DoE decreased by \$13 million from year to year. Operating transfers on behalf of the DoE are defined as technology enhancements, reconstruction, and athletic field refurbishment.

Financial Highlights

The Authority's fund balances/net assets in the Government-wide financials increased by \$1,001 million from fiscal year 2008 to fiscal year 2009. This increase in net assets is principally due to the higher volume of payment activity for ongoing construction projects netted against the transfer of completed projects to the Department of Education and Operating transfers on behalf of the Department of Education. All projects transferred were determined by the Authority's Project Management Division to be substantially completed or occupied as of June 30, 2009. This transfer of completed contracts allowed for the capitalization of these contracts as fixed assets by the City in the current fiscal year.

The Authority's fund balances/net assets increased by \$883 million from fiscal year 2007 to fiscal year 2008. The increase in net assets in fiscal year 2008 was principally due to the higher volume of payment activity for ongoing construction projects netted against the transfer of completed projects to the Department of Education and operating transfers on behalf of the Department of Education.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2009 by \$3,981 million. The assets of the Authority exceeded its liabilities at the close of fiscal year 2008 by \$2,980 million. The balance in net assets primarily represents the investment in capital assets for construction work performed at New York City Public Schools. These assets are not available for future spending.

The change in net assets for the Capital Project Fund from fiscal year 2008 to fiscal year 2009 is principally attributable to the increase in construction project activity from year to year.

Management's Discussion and Analysis (Unaudited)

The change in net assets for the Capital Project Fund from fiscal year 2007 to fiscal year 2008 is principally attributable to the increase in construction project activity from year to year.

Total government-wide assets from fiscal year 2008 to fiscal year 2009 increased by \$1,347 million. The increase in total assets in fiscal year 2009 was primarily due to an increase in construction in progress. From fiscal year 2007 to fiscal year 2008 total assets increased by \$1,003 million. The increase in total assets in fiscal year 2008 was principally due to an increase in construction in progress.

Cash increased by \$21 million from fiscal year 2008 to fiscal year 2009. The increase is attributable to monies reimbursed to the Authority by the Port Authority for Noise Abatement Projects at NYC Public Schools of \$12 million and insurance premiums refunded of \$9 million.

Liabilities increased \$347 million from fiscal year 2008 to fiscal year 2009, principally, as a result of an increase in the accounts payable and accrued liabilities and retainage held for construction projects.

Liabilities increased \$120 million from fiscal year 2007 to fiscal year 2008, principally, as a result of an increase in the accounts payable and accrued liabilities and retainage held for construction projects.

Effective July 1, 2008 the City requires that pollution remediation costs now be accounted within the City's financial statements as expense items, rather than capital items as previously reflected in the financial statements in order to comply with Government Accounting Standard #49. For the fiscal year 2009, the Authority has classified \$309,089 as expenditures incurred for pollution remediation costs.

Reconciliation of Net Assets and Change in Net Assets

The change in "fund balances/net assets" is calculated based on the change from prior year between assets and liabilities for the Authority. The change in "net assets" is supported by the net change reported in the Statement of Activities for the Government-wide financials. Amounts reported by the Authority as expenses in the statement of activities are based on transfers between the Authority and the DoE. These transfers represent the costs incurred for completed contracts, pass through expenses, lead paint abatement and skilled trades.

The Authority has no infrastructure assets and no debt issued to fund activities.

As a component unit of the City of New York, the Authority is not required to present a statement of cash flows.

Contacting the NYC School Construction Authority's Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives. If you have any questions about this report or need additional financial information, contact the NYC School Construction Authority's Comptroller's Office, 30-30 Thomson Avenue, Long Island City, NY 11101.

New York City School Construction Authority

Statements of Net Assets

June 30, 2009 and 2008

(in thousands)

	2009			2008		
	Capital Project Fund	Adjustments (See Note I)	Government Wide	Capital Project Fund	Adjustments (See Note I)	Government Wide
Assets:						
Cash	\$ 29,032	-	\$ 29,032	\$ 8,928	-	\$ 8,928
Temporary investments	19,998	-	\$ 19,998	34,898	-	34,898
Due from the City of New York	763,383	24,460	\$ 787,843	413,556	23,222	582,530
Prepaid expenses & other assets	68,622	-	\$ 68,622	78,881	-	78,881
Securities in lieu of cash retainage	10,174	-	\$ 10,174	3,258	-	3,258
Fixed assets, net	-	8,561	\$ 8,561	-	5,273	5,273
Construction in progress, assets held for City of New York	-	3,923,180	\$ 3,923,180	-	2,931,969	2,931,969
Total Assets	\$ 891,209	\$ 3,956,201	\$ 4,847,410	\$ 539,521	\$ 2,960,464	\$ 3,499,985
Liabilities:						
Accounts payable and accrued liabilities	\$ 517,437	\$ 19,570	\$ 537,007	\$ 361,492	\$ 18,369	\$ 379,861
Retainage payable	169,221	-	\$ 169,221	130,869	-	130,869
Pollution Remediation payable	150,546	-	\$ 150,546	0	-	0
Accrued annual leave obligation	5,205	-	\$ 5,205	4,611	-	4,611
Accrued sick leave obligation	-	3,090	\$ 3,090	-	2,653	2,653
Accrued claims and contingencies	-	1,800	\$ 1,800	-	2,200	2,200
Total Liabilities	842,409	24,460	866,869	496,972	23,222	520,194
Fund balances/net Assets:						
Total fund balances/net assets	48,800	3,931,741	3,980,541	42,549	2,937,242	2,979,791
Total liabilities and fund balances/net assets	\$ 891,209	\$ 3,956,201	\$ 4,847,410	\$ 539,521	\$ 2,960,464	\$ 3,499,985

The accompanying notes are an integral part of these financial statements.

New York City School Construction Authority
Statements of Activities
Years Ended June 30, 2009 and 2008

(in thousands)

	2009			2008		
	Capital Project Fund	Adjustments (See Note 1)	Government Wide	Capital Project Fund	Adjustments (See Note 1)	Government Wide
Revenues						
Operating revenues from or due from the City of New York	\$ 3,037,148	\$ -	\$ 3,037,148	\$ 2,270,656	\$ -	\$ 2,270,656
Operating revenues for payments made on behalf of DOE	152,791	-	152,791	105,502	-	105,502
Total Revenues	<u>3,189,939</u>	<u>-</u>	<u>3,189,939</u>	<u>2,376,158</u>	<u>-</u>	<u>2,376,158</u>
Expenditures/expenses						
Capital projects	2,721,200	(2,721,200)	-	2,250,731	(2,250,731)	-
Fixed assets	3,288	(3,288)	-	363	(363)	-
Pollution Remediation Costs (GASB 49)	309,089	-	309,089	-	-	-
Transfer of completed contracts to the Department of Education	-	1,729,989	1,729,989	-	1,390,244	1,390,244
Operating transfers on behalf of the Department of Education	152,791	-	152,791	105,502	-	105,502
Total Expenses	<u>3,186,368</u>	<u>(994,499)</u>	<u>2,191,869</u>	<u>2,356,596</u>	<u>(860,850)</u>	<u>1,495,746</u>
Net Revenues	3,571	994,499	998,070	19,562	860,850	880,412
Other revenues and expenses, net	2,680	-	2,680	2,544	-	2,544
Excess of Revenues over expenses	6,251	994,499	1,000,750	22,106	860,850	882,956
Fund balances/net Assets:						
Beginning of year	42,549	2,937,242	2,979,791	20,443	2,076,392	2,096,835
End of year	<u>\$ 48,800</u>	<u>\$ 3,931,741</u>	<u>\$ 3,980,541</u>	<u>\$ 42,549</u>	<u>\$ 2,937,242</u>	<u>\$ 2,979,791</u>

The accompanying notes are an integral part of these financial statements.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2009 and 2008

Amounts are in thousands except where otherwise indicated

1. Description of the Entity

The New York City School Construction Authority (the "Authority"), a public benefit corporation and component unit of the City of New York (the "City"), was created by the State of New York Legislature in December, 1988. The Authority's responsibilities as defined in the enabling legislation are the design, construction, reconstruction, improvement, rehabilitation and repair of the New York City public schools. The Authority's capital projects include: new construction; building additions; major modernization and rehabilitation; construction, reconstruction or renovation of athletic fields, playgrounds and pools; and system replacements, including electrical, plumbing, elevators, roofs, security devices and system installation. Effective July 1, 2002, as a result of a change in legislation, the composition of the Board of Trustees changed such that the Mayor appoints the School's Chancellor, who serves as the Chairman of the Board of Trustees, and the Mayor also appoints the other two trustees.

The Authority's operations are funded by appropriations made by the City. Sources of funding for the appropriations include City and State bonds. The state bonds totaled \$1.8 billion pursuant to state legislation passed in April 2006, which created Expanding our Children's Education and Learning Program (EXCEL). The funding from the EXCEL Program has been fully expended.

All of the Authority's net assets are the property of the City and as such have been recorded as net assets - "Total Fund Balances/Net Assets." Appropriations are guided by five-year capital plans, developed by the New York City Department of Education (the "DoE"). The City's appropriation for the five-year capital plan for the fiscal years 2005 through 2009 was \$13.14 billion. The City's appropriation for the five year capital plan for the fiscal years 2010 through 2014 is \$11.3 billion.

The Authority carries out certain projects funded by the City Council and Borough Presidents, pursuant to the City Charter. Appropriations of \$118,588 and \$100,291 were made in fiscal 2009 and 2008, respectively, for this purpose.

As the Authority represents a pass-through entity, in existence for the sole purpose of capital projects, all costs incurred are capitalized into construction-in-progress. Upon completion of construction in progress projects, the assets are transferred to the DoE.

2. Summary of Significant Accounting Policies

Basis of Accounting

In accordance with accounting principles generally accepted for governmental entities, the financial statements of the Authority are organized on the basis of individual funds and account groups which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations.

Based upon the nature of the operations of the Authority, only a capital projects fund is utilized (a Governmental Fund Type), as all transactions relate to expenditures and resources obtained for the acquisition, construction or improvement of capital facilities. Amounts reflected in the adjustment column of the financial statements of the Authority represent the operational accounts of the Authority and combined with the funds held in the Capital Project Fund form the overall Government-wide Financials.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2009 and 2008

Amounts are in thousands except where otherwise indicated

The fund financial statements of the Authority are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and assets are recognized when measurable and available to finance operations of the current period; expenditures and liabilities are recognized upon receipt of goods and services to the extent that they will be liquidated with expendable available resources. The Capital Project Fund of the Authority has no long-term assets and certain long-term liabilities, such as annual leave, sick leave and claims, are not accrued for in the fund financial statements.

The Government-wide financial statements are presented on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred, including long-term liabilities such as annual leave, sick leave and claims.

Fiscal Years

The Authority's fiscal year ends on June 30 of each year. Fiscal years are designated in the notes to the financial statements by the calendar year in which the fiscal year ends ("fiscal 2009" and "fiscal 2008").

Due From the City of New York

Due from the City of New York represents amounts related to total liabilities net of certain assets.

Fixed Assets and Construction in Progress

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets applying the half-year convention. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related life of the lease. Upon the disposition of fixed assets, the cost of the asset disposed and the related accumulated depreciation are removed from the accounts, with any resulting gain or loss included in the statement of activities for the period.

Construction in progress includes such costs as construction contract costs, construction management fees, architecture and engineering fees, administrative costs of the Authority, and certain allocated DoE costs including salaries, related fringe benefits and overhead costs.

Pollution Remediation Costs

Effective fiscal 2009, pollution remediation costs are being charged in accordance with the provision of GASB Standard No. 49. Refer to footnote 10.

Budget versus Actual Revenues and Expenditures

Appropriations are made by the City for capital expenditures of the Authority, including operating and administrative costs. Such appropriations are based on the DoE five-year capital plan. Budgeted commitments and expenditures generally span more than one year and thus do not provide a meaningful basis for comparison of annual expenditures to budgeted amounts.

Statement of Cash Flows

As a component unit of the City, as defined in GASB Statement No. 34, no statement of cash flows is required to be presented.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2009 and 2008

Amounts are in thousands except where otherwise indicated

Annual and Sick Leave

The Authority's full time employees are entitled to annual and sick leave benefits. Annual and sick leave are recorded as expenses in the period in which they are earned. Upon retirement or termination, employees with at least ten years of service will be paid one-half of their accrued sick leave balance, while no pay out will be made to those employees with less than ten years of service.

Annual leave is limited to one year's worth of accrued benefits with any excess at the end of the calendar year paid out to the employees.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. The most significant assumptions and estimates relate to the determination of accrued expenses and the useful lives of assets. Actual results could differ from those estimates.

3. Cash

The Authority maintains cash accounts with a bank which are covered by FDIC insurance up to the maximum allowed by law. At June 30, 2009 and 2008 uninsured cash balances total \$28,932 and \$8,828, respectively.

Additionally, the Authority maintains a zero balance checking account, which is funded by the City. As checks are presented at the bank, funds are transferred from the City into the zero balance account. Negative book balances, representing checks issued but not yet presented for payment, have been classified as accounts payable in the accompanying financial statements and the aggregated amounts are \$70,446 and \$68,768 as of June 30, 2009 and June 30, 2008, respectively.

Additionally, at June 30, 2009 and 2008, \$344 and \$108, respectively, is held in escrow pending settlement of liens placed by a subcontractor against a primary contractor.

4. Temporary Investments

In accordance with Statement of Governmental Accounting Standards (SGAS) No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," the Authority categorizes its investments to give an indication of the level of risk assumed by the Authority at year end. The three categories of levels of credit risk are: (1) insured or registered, or securities held by the Authority or its agent in the Authority's name, (2) uninsured and unregistered with securities held by a party other than the Authority or its agent, but in the Authority's name and (3) uninsured and unregistered securities held by a party other than the Authority or its agent, but not in the Authority's name. Pursuant to Section 1741.3 of the Enabling Act, the Authority invests in obligations in accordance with Section 11 of the General Municipal Law. These investments qualify under the first category of credit risk. The Authority's investments are recorded at fair market value. Cost plus accrued interest ("Amortized Cost")

New York City School Construction Authority

Notes to Financial Statements

June 30, 2009 and 2008

Amounts are in thousands except where otherwise indicated

approximates the investments' fair market value. Investments are held in the Authority's name by a fiduciary institution.

At June 30, 2009 investments consist of the following:

	Amortized Cost	Fair Market Value
As of June 30, 2009		
US Treasury Bills, 0.062%, due on 7/30/09	\$ 19,972	\$ 19,998
Total	<u>\$ 19,972</u>	<u>\$ 19,998</u>
	Amortized Cost	Fair Market Value
As of June 30, 2008		
U.S. Government Series Money Market Merrimac Fund, 3.80%, due on call	\$ 35	\$ 36
US Treasury Bills, 3.02%, due on 7/3/08	9,849	9,999
US Treasury Bills, 1.66%, due on 8/28/08	9,917	9,976
US Treasury Bills, 1.82%, due 11/13/08	14,863	14,887
Total	<u>\$ 34,664</u>	<u>\$ 34,898</u>

5. Securities in Lieu of Cash Retainage and Retainage Payable

The Authority permits contractors to substitute marketable securities in lieu of cash retainage. These securities are maintained by a custodian on behalf of and in the name of the Authority. These investments qualify under the first category of credit risk.

Retainage payable consists of the following:

	June 30, 2009	June 30, 2008
Securities retained payable (FMV 2009 - \$12,672 ; 2008 - \$4,286)	\$ 10,174	\$ 3,258
Cash Retainage withheld	<u>159,047</u>	<u>127,612</u>
Total Retainage Payable	<u>\$ 169,221</u>	<u>\$ 130,870</u>

New York City School Construction Authority

Notes to Financial Statements

June 30, 2009 and 2008

Amounts are in thousands except where otherwise indicated

6. Fixed Assets

Fixed assets consist of the following:

Asset Category	Estimated Useful Lives	Fixed Assets at June 30, 2008	Additions	Dispositions	Fixed Assets at June 30, 2009
Leasehold Improvements	12	\$ 13,160	\$ 3,381	\$ -	\$ 16,541
Furniture & Fixtures	5 - 7	5,167	207	-	5,374
Computer Equipment	3	14,678	552	-	15,230
Office Equipment	3 - 5	2,641	56	-	2,697
Computer Software	3	3,848	1,088	-	4,936
Automobiles	5	2,748	885	(58)	3,575
		<u>42,242</u>	<u>6,169</u>	<u>(58)</u>	<u>48,353</u>
Less:					
Accumulated Depreciation		<u>(36,969)</u>	<u>(2,873)</u>	<u>50</u>	<u>(39,792)</u>
Fixed Assets, net		<u>\$ 5,273</u>	<u>\$ 3,296</u>	<u>\$ (8)</u>	<u>\$ 8,561</u>

In the Government-wide Financial Statements, depreciation is capitalized into construction in progress which totaled \$2,873 and \$1,769 for fiscal 2009 and fiscal 2008, respectively.

7. Construction in Progress

Expenditures for construction in progress for fiscal 2009 and fiscal 2008 include:

	2009	2008
Outside construction costs	\$ 2,575	\$ 2,141
Authority payroll and related fringe benefits	89	65
Authority general and administrative costs	57	45
Total expenditures	<u>2,721</u>	<u>2,251</u>
Construction in progress - beginning of year	<u>2,932</u>	<u>2,071</u>
Total before transfer to DoE	5,653	4,322
Costs transferred to the DoE during the year	<u>(1,730)</u>	<u>(1,390)</u>
Construction in progress - end of year	<u>\$ 3,923</u>	<u>\$ 2,932</u>

Included in outside construction costs are expenditures for site acquisition, construction, design/engineering, construction management, wrap-up insurance, initial outfitting and other outside construction costs.

During fiscal 2009, the Authority transferred \$1,730 to the DoE representing costs associated with substantially completed contracts and administrative costs. In addition, the DoE capitalized \$17,583 during fiscal 2009 for work performed by the Capital Task Force. This resulted in the DoE

New York City School Construction Authority

Notes to Financial Statements

June 30, 2009 and 2008

Amounts are in thousands except where otherwise indicated

additions to fixed assets for the fiscal 2009 of \$1,747. During fiscal 2008, the Authority transferred \$1,390 representing costs associated with substantially completed contracts and administrative costs.

8. Transactions with the Department of Education and Operating Transfers

In addition to construction and renovation of school facilities, the Authority makes payments for certain asset purchases made by the DoE. The title for such purchases transfers directly to the DoE. For the years ended June 30, 2009 and 2008 pass-through purchases totaled \$124,236 and \$83,719, respectively, and have been recorded as operating transfers on behalf of the DoE. Included in these amounts are expenditures for technology enhancements, leasehold alterations and reconstruction.

DoE employees performed minor capital projects on behalf of the Authority, as shown below:

	June 30, 2009	June 30, 2008
Skilled trades, minor capital projects	\$ 13,722	\$ 18,735
Lead Paint Abatement	2,167	3,047
DOE Admin Staff	12,666	-
	<u>\$ 28,555</u>	<u>\$ 21,782</u>

Such costs are also included in "Operating transfers on behalf of the Department of Education."

9. Commitments and Contingencies

Rent

On September 10, 1999 the Authority entered into a lease agreement for office space which expires in 2012, and is subject to a five-year renewal option at that time. This lease contains scheduled rent escalation clauses which, for the purposes of the Fund financial statements are charged/credited to rent expense on a straight-line basis over the related term of the lease agreement. On a Government-wide basis such charges are capitalized into construction in progress.

Future minimum annual rental payments under the non-cancelable operating lease agreement, having a term in excess of one year are as follows:

2010	\$ 4,808
2011	4,808
Thereafter	803
	<u>\$ 10,419</u>

Rent expense, in the Fund financial statements, totaled \$5,460 and 5,241 in fiscal 2009 and fiscal 2008, respectively.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2009 and 2008

Amounts are in thousands except where otherwise indicated

Purchase Orders

Purchase orders, contracts and other commitments at June 30, 2009 and 2008 totaled \$3,463 and \$3,879, respectively, and represent the difference between the value of construction-related contracts and the amount incurred to date through the end of the year. At June 30 of each fiscal year, the City has encumbered funds to meet these obligations.

Insurance

On January 1, 2003, the Authority entered into a contract with Liberty Mutual to provide General Liability (GL) and Worker's Compensation (WC) insurance coverage for the Owner Controlled Insurance Program. The insurance policies covered all contractors and sub-contractors working on construction projects for the Authority from January 1, 2003 through December 31, 2004. This policy coverage was in the form of a large deductible program for GL and a retrospectively rated program for WC. The Authority has recorded an estimated receivable of \$9,532 and estimated receivable of \$15,236 as of June 30, 2009 and 2008, respectively, based on the insurance contract's terms and conditions and an actuarial assessment of OCIP loss activity. The Authority received \$15,985 of returned premium in April 2009 from Liberty Mutual.

On January 2005, the Authority contracted with AIG to provide insurance coverage for the Owner Controlled Insurance Program. The insurance coverage period was from January 1, 2005 through December 31, 2007. The Authority has recorded an estimated receivable of \$0 and a receivable of \$6,373 as of June 30, 2009 and 2008, respectively. The Authority received \$7 million of returned premium in January 2009 from AIG.

The current SCA contract for the Owner Controlled Insurance Program is provided by Liberty Mutual. The insurance coverage period is from January 1, 2008 through December 31, 2010.

Legal

In the normal course of its operations, the Authority has received notices of claims alleging amounts due related to contracts, financial loss, including loss through condemnation, and personal injuries sustained by individuals. After giving effect to available insurance coverage related to such claims, expenses, if any, are recorded in accordance with FASB No. 5. The Authority, with the assistance of the City's Corporation Counsel, has estimated and recorded the liability at June 30, 2009 and 2008 to be \$1,800 and \$2,200, respectively.

From time to time the Authority is involved in various litigations, claims and assessments ("claims"). The Authority records those claims which they believe to be probable of settlement based upon their best estimate of such settlements and discloses those claims considered to be reasonably possible of settlement along with the range of such possible settlements. As of June 30, 2009, the Authority has estimated that there are reasonably possible claims in the range of \$10 million to \$13 million outstanding.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2009 and 2008
Amounts are in thousands except where otherwise indicated

10. Accounting and Financial Reporting for Pollution Remediation Obligations

The Government Accounting Standards Board issued statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations (“GASB 49”), which identifies the accounting and financial reporting requirements for pollution remediation obligations. GASB 49 specifies that costs incurred for the remediation of pollution, except for in certain circumstances, may not be afforded capital treatment for accounting purposes. Pollution remediation obligations are those obligations which are or will be incurred to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. GASB 49 requires that the Authority report actual remediation costs or expenditures incurred.

Effective July 1, 2008 the City requires that pollution remediation costs now be accounted within the City’s financial statements as expense items, rather than capital items as previously reflected in the financial statements in order to comply with GASB 49. Pollution remediation costs are identified as asbestos abatement, lead paint abatement, and soil contamination remediation project work performed at NYC Public Schools. For the fiscal year 2009, the Authority has classified \$309,189 as expenditures incurred for pollution remediation costs. The Authority does not anticipate recovering any of these costs from other parties or agencies.

11 Pension Plans, Deferred Compensation Plan and Other Post-Employment Benefits

Pension Plans

Substantially all of the Authority’s employees have the option to participate in the New York City Board of Education Retirement System-Qualified Pension Plan (“BERS”), a cost sharing multiple employer defined benefit pension plan. Additionally, certain employees who were previously employed by the City may continue to participate in certain other retirement plans including those of the New York City Employee Retirement System and the Teachers’ Retirement System of the City.

Contributions to the pension plans are made by the Authority and the employees. Contributions paid or accrued by the Authority under these plans totaled \$6,827 and \$7,006 for fiscal year 2009 and fiscal year 2008, respectively. The Authority’s contributions are actuarially determined at rates that are designed to accumulate sufficient assets to pay benefits when due. Member contributions are determined by law and vary by plan. The retirement plans provide pension benefits to retired employees based on salary and length of service. In addition, the pension systems may provide for cost-of-living and other supplemental benefits to qualified retirees and beneficiaries. In the event of disability during employment, participants are entitled to retirement allowances based on satisfaction of certain service requirements and other provisions. The plans also provide death benefits.

Information regarding actuarial data including vested and unvested benefits, assets to fund such benefits, amortization of unfunded actuarial accrued liability, significant actuarial assumptions, date of actuarial valuation, significant changes in the System or other retirement plans or the effect of any such changes and accounting and reporting policies of the System of other retirement plans are not presented herein as BERS and other retirement plans are administered through agencies of the City. Information about these plans is included in the financial statements of the City or the DoE. Copies of plan reports may be obtained from the City or the plan’s administrative agency.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2009 and 2008
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The Authority's obligation associated with the Pension Plans is limited to its contributions to the City.

Deferred Compensation Plan

The employees of the Authority are eligible to participate in a deferred compensation plan administered by the City, in accordance with Internal Revenue Code Section 457 (the "Plan"). The Plan is available to all Authority employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable hardship. Pursuant to SGAS No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the City complied with the Internal Revenue Code 457 subsection (g) by establishing a fully funded trust account for employees (including those of the Authority), effective January 1, 1999. Consequently, all assets held under the Plan are restricted to the exclusive use of plan participants and their beneficiaries and are no longer subject to the claims of the City's general creditors.

Other Post-Employment Benefits

Subject to the provisions of the City's retirement system, the Authority provides other post-employment benefits through various welfare funds that cover retirees for various healthcare benefits not provided through the basic coverage. Welfare fund benefits may include, but are not limited to, prescription drug coverage and vision and dental coverage.

Effective June 30, 2006, the City early adopted GASB 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions". This statement establishes standards for the measurement, recognition, and presentation of Other Post-Employment Benefits (OPEB) expenditures/expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits when provided separately from a pension plan.

The Authority has recorded net OPEB obligations of \$19.5 million and \$18.4 million with respect to its post-employment welfare fund benefits as of June 30, 2009 and 2008.

12/28/2009

Dear SCA Management:

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Center
300 Madison Avenue
New York NY 10017
Telephone (646) 471-3000
Facsimile (813) 286-6000

In planning and performing our audit of the financial statements of The New York City School Construction Authority (the "Authority") as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered its 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, of the AICPA Professional Standards includes the following definitions of a deficiency, a significant deficiency and a material weakness:

Deficiency - a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Significant deficiency - a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material weakness - a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

During our planned testing of specific management controls in connection with our audit, we identified various operational and business recommendations which we consider to be control deficiencies. Consistent with our understanding of your expectations, we are providing you with a full detail report of these items. Our comments deal exclusively with operational, accounting and record-keeping systems and procedures, and should not be regarded as reflecting on the integrity or capabilities of anyone in the Authority. Also, our comments have been restricted to weaknesses noted and suggested means of improvement and are not intended as a commentary on the favorable aspects of the Authority's control environment. Since the comments and observations contained in this report are a by-product of our audit procedures, the cost justification and other aspects of our suggestions have not been fully evaluated; these evaluations should be made by management.

We appreciate the cooperation we have received from the management of the Authority in connection with developing these recommendations and look forward to working with you on these and related matters over the next year.

If you would like any further information or would like to discuss any of the issues raised, please do not hesitate to contact Andre Chabanel (973) 236-4549.

Very truly yours,

PricewaterhouseCoopers LLP

NYC School Construction Authority
June 30, 2009
Report to Management

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I. Information Technology Comments

1. Information Security
 - a. Formally review privileged access*
 - b. Remove terminated users on a timely basis*
 - c. Enforce password parameters within system*
 - d. Review user access on a periodic basis*
 - e. Continue to enhance disaster recovery and business continuity plans*

II. Operational Comments

1. Coding of GASB 49 expenses
2. Enhance monthly accounts payable process*
3. Securities held in lieu of retainage under minimum value*

* Prior year MLC, updated with current year results.

NYC School Construction Authority
June 30, 2009
Report to Management

I. Information Technology Comments

1. Information Security

a. Formally review privileged access*

Observation:

The system administrator ("SA") account is used to perform administrative functions with respect to the Oracle database which hosts the underlying information for the Oracle Financials application. This SA account is a generic ID that is shared by the Oracle Database Administrator Group. Management responded to last year's comment by implementing a quarterly review of the system event log to ensure that administrative activity is authorized. However, evidence of the quarterly review is not formally maintained.

Similarly, the administrator account for the Primavera Expedition application is generic and shared amongst the group supporting the application. There are no current procedures to log and monitor the generic ID's activity within the system.

Implication:

The absence of individual and unique user ids for each person performing a function on the database or application increases the risk that inappropriate/unauthorized transactions may be processed and the individual responsible for such transactions may not be identified. The risk is heightened when the generic account in use is the system administrator account.

Recommendation:

For the Oracle database, we recommend that management implement a formal quarterly review over the audit log on the generic system accounts to ensure that no unauthorized updates or data changes are made that could potentially affect transaction processing.

For the Primavera Expedition application, we recommend that management enable audit logging of the generic accounts, including the administrator account, and implement a formal quarterly review over the audit log on the generic system accounts to ensure no unauthorized updates are made that could potentially affect transaction processing.

For these reviews evidence should be maintained to demonstrate performance.

Management Response:

Management agrees with this audit item and the following actions will be taken:

- IT Operations will document a procedure for reviewing Oracle privileged accounts by the end of November 2009. The quarterly review will begin by the end of calendar year 2009 and will be executed on a quarterly basis afterward.
- For Primavera, management agrees with this recommendation in concept. However, as the SCA is one of Primavera's largest customers, and given that application and database performance is paramount to the continued efficient processing of payments and other Contractor-facing transactions, it is our intent to test audit logging under the new version of Primavera Contract Manager, evaluate the results and develop a new protocol for

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Report to Management

privileged accounts. Primavera has rewritten the security module for the new version (now being tested as part of a formal software upgrade project plan).

b. Remove terminated users on a timely basis*

Observation:

Noted five instances where terminated employees' accesses to systems were not revoked upon termination. Specifically noted:

- 3 terminated employees with access to the Primavera Expedition application; and
- 2 terminated employees with access to Windows network.

Upon further discussion with IT Management, it was noted that two terminated employees were part of the Office of the Inspector General (OIG). These two OIG employees were the owners of the two Windows accounts and one Expedition account identified. IT Management indicated that further controls would be put in place to ensure that OIG terminations are communicated to the HelpDesk in a timely manner. It was also noted that Windows network access for the remaining two Expedition users was disabled; Expedition is accessed through the network.

Implication:

Failure to remove terminated user access in a timely manner can potentially compromise the integrity of sensitive data resulting in inaccurate financial reporting.

Recommendation:

We recommend that communication between the HR department and the IT staff occurs on a timely predetermined basis and that the appropriate protocol is established with the HR department for terminated employees to ensure there is periodic reporting to the IT staff. In addition, an individual's system and application accounts should be disabled in a timely manner upon notification of termination.

Management Response:

Management agrees with this audit item. IT Operations has communicated with the OIG to notify SCA when users are terminated. In addition, and the following actions will be taken:

- An updated policy will be put into effect for termination notices to be sent to the SCA. The IT Operations 45-day inactive report has been modified to include reporting for OIG users as well.
- SCA will develop a formal report to identify Expedition accounts that are inactive for 120 days and establish procedures to close out inactive accounts.
- Termination procedures will be modified to disable Expedition accounts as part of the separation process.

c. Strengthen password parameters within system*

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Report to Management

Observation:

Password configurations are not consistently established in systems. Noted through examination of the current Windows Active Directory password settings and current Primavera Expedition password settings that the password complexity requirement is not being enabled by the system. In addition, noted that the password complexity, history, and lockout are not enabled for the Oracle application. Password expiration for Oracle application is administered at the user ID level and is configured uniquely for each individual user ID. Noted through examination of the current Oracle application user settings that the password expiration for six individual IDs on the Oracle application is set to not expire.

Implication:

Without strong access controls in the network and application layers, there is an increased risk of inappropriate/unauthorized access to systems which can result in inaccurate financial reporting.

Recommendation:

We recommend that Management strengthen its network and application authentication controls. Management should enable password complexity, password history, and password lockout policies, where possible, on financial applications and the network. Also, management should implement a monitoring process to review Oracle application password expiration configuration, which is set at the individual user ID level, to ensure that the configuration is in line with policy.

Management Response:

Management agrees with this audit item and the following actions will be taken:

- For Windows Active Directory accounts, password history and lockout policies are in effect and comply with SCA policy. SCA IT will implement password complexity before the end of calendar year 2009.

Primavera has rewritten the security module for the new version of Contract Manager (now being tested as part of a formal software upgrade project plan). SCA will evaluate the LDAP integration module within the new version of Contract Manager so that authentication will be against Active Directory instead of the internal account database within Expedition. All password policies will automatically be in compliance and consistent with Windows AD.

- SCA will evaluate the complexity of implementing strong passwords in the Oracle Financial system due to heavy business critical applications dependence. SCA IT will formalize and conduct quarterly reviews to identify users with passwords non-compliant with SCA policy for all Oracle users. The 6 identified user accounts have been reset to have password expiration in compliance with SCA password policy as of September 2009.

d. Review user access on a periodic basis*

Observation:

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The current periodic access review for Oracle is ineffective, as there is inconsistent support from the functional business owners to actively review and respond. While there have been efforts to execute the review, the results have been inconsistent.

In addition, there is currently a process to review Windows network users who have been inactive for 45 days or never logged on. The inactivity report does not include Office of Inspector General users (OIG).

Access for Primavera Expedition users is currently not reviewed periodically to ensure that access is appropriate.

Implication:

The lack of timely and effective recertification increases the risk of inappropriate access to systems and data. Additionally, access to the system may no longer commensurate with the user's job functions.

Recommendation:

We recommend that NYCSCA implement a formal periodic review and recertification of access over Oracle roles and responsibilities, Windows network, and Primavera Expedition for all users. The recertification process should include a review of the following elements:

- All active user IDs from the application and their associated access rights
- Analysis of access rights to ensure duties are properly segregated
- All user IDs are uniquely assigned to one individual. If generic IDs are used, individual accountability should be maintained.
- All users IDs belong to a current employee.

Management should ensure that there are set timelines for each review, require positive confirmation from each business owner, and retain formal documentation for each periodic access review, including the initial access listing, evidence of the business owners' response, and corrective action taken as a result of the review.

Management Response:

Management agrees with this audit item and the following actions will be taken:

As stated from previous responses, SCA IT will establish a formal account review policy by the end of the year for Windows Active Directory, Expedition and Oracle roles on a quarterly basis to ensure terminated and inactive accounts will be removed on a timely basis. Any generic IDs will be logged in a control system with description and list of users or applications using the ID and a date/timestamp of last internal review

SCA IT will provide SCA business owners with a annual list of users assigned to Oracle responsibilities and track for confirmation after the review is completed.

e. Continue to enhance disaster recovery and business continuity plans*

Observation:

A high level DRP/BCP is currently being developed by SCA, but has not been finalized to include detailed recovery procedures nor has the plan ever been tested. Unlike the procedures described in the daily backup system backup policy, which addresses daily processes, such as a

NYC School Construction Authority
June 30, 2009
Report to Management

file that may need to be restored in the normal course of business, the detailed recovery procedures with respect to this observation relate to the overall recovery of critical business processes in the event of a disaster (e.g., a flood). In addition, although a Business Impact Analysis (a process that determines the length of time that alternative procedures can be performed before significantly impacting ongoing business operations) effort was conducted, the organization has not completed the development of a formal Business Continuity Plan for critical business functions at the local level. For example, the plan should include what critical steps in payroll would need to be performed offsite should the payroll center be destroyed.

Implication:

The lack of comprehensive, and tested, disaster recovery and business continuity plans, increases the risk of a prolonged and inadequate recovery which may result in financial losses and contract difficulties.

Recommendation:

We recommend that management formalize a comprehensive disaster recovery and business continuity plan (BCP and DRP). In addition, we recommend that the current disaster recovery plan for the SCA IT department be reviewed and updated continually and that such plan include step-by step instructions for recovery of data processing through the use of the Inspector General's office. All plans in place should be tested for operating effectiveness on a regular basis.

Management Response:

Management disagrees with this audit item as the usage of the Inspector General's Office as the SCA DRP/BCP co-host location is no longer feasible due to space, power cooling requirements.

The following actions will be taken:

SCA will establish a formal DRP/BCP project team and identify potential vendor to assist in developing DRP strategy and create an up-to-date BIA (Business Impact Analysis) by end of fiscal year 2010. Key business owners will be interviewed to establish an updated BIA and project plan based on the determined DRP strategy.

NYC School Construction Authority
June 30, 2009
Report to Management

II. Operational Comments

1. Coding of Pollution Remediation Expenses

Observation:

While performing auditing procedures on the selected pollution remediation transactions, we noted findings related to coding of Expedition invoices. We noted that the pollution remediation code descriptions on the invoices were not properly coded to the proper pollution remediation Construction Specification Institute ("CSI") code within Expedition.

Implication:

The Pollution Remediation expenditure report is generated using the Pollution Remediation CSI codes. This report sums up the total Pollution Remediation expense which is reported on a separate line item on the financial statements. This finding could cause the total Pollution Remediation expense to be over or understated.

Recommendation:

Management should continue to notify the contractors on how to properly code their request for payments. Contractors should also provide detailed description of the work performed. This will assist the accounting department in reviewing the invoices. A formal review of the invoices should be performed to ensure that they are properly coded.

Management Response:

Management agrees with this recommendation. A meeting took place with Construction Management, Industrial & Environmental Hygiene, A&E, IT, and Finance to determine how to improve the reporting of pollution remediation expenditures. The pollution remediation report will be run quarterly based on the cost code description contained in Expedition and tested against the Contractor requests for payment in order to improve reporting and minimize exceptions.

2. Enhance yearly accounts payable process*

Observation:

Management's practice is to review payments through the end of August to determine the completeness of the accounts payable and accrual balances. As part of our testing, we continue to monitor disbursements through the end of September and noticed a number of payments that related to FY 09 that were not accrued for. We note that the total findings have decreased compared to prior year. Management also recorded our findings related to the unrecorded liability test.

Implication:

Potentially material liabilities may not be recorded in the correct reporting period.

NYC School Construction Authority
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Report to Management

Recommendation:

Management should put in place additional procedures to verify what period larger payments being made in September should be recorded. Specifically management should review the cash activity in September and determine of the expense should be accrued for as of 6/30/2009.

Management Response:

Management agrees with this recommendation. A review of payment activity will be performed for the first two weeks in September to determine if additional accruals should be booked for the period ended June 30.

3. Securities held in lieu of retainage under minimum value*

Observation:

During the investment testing, PwC noted that two of the investments held in lieu of retainage had a market value below the minimum (obligated) value.

These securities are held "in lieu of retainage". Contractors arrange for SCA to hold these securities as retainage amounts. Upon maturity or when the project is closed out, the assets return to the contractor. If actual value falls below minimum value, the general contractor ("GC") either buys additional securities or the SCA holds back payments to the GC. Any interest earned on these securities accumulates and is included with the actual value. Accumulated interest is returned back to the GC with the security when all the retainage is paid out.

Implication:

Failure to monitor the market value of these securities may mean that when the value goes under the minimum, and no additional assets are requested or no additional payments are held back, the SCA could potentially risk overpaying the contractor retainage monies.

Recommendation:


We recommend that management strengthen the monitoring of the market value of the securities held on lieu of retainage by reviewing investment statements periodically and contacting the contractor if necessary.

Management Response:

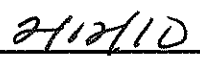
Management agrees with this recommendation. The securities held on lieu of retainage accounts are monitored on a monthly basis to ensure that the market value is sufficient to cover the required minimum balance for the accounts and if there is a shortfall the contractor is notified to deposit additional securities. In addition, the balance of cash retainage being held in the contract is monitored to ensure that there are sufficient monies held to cover any shortfall in securities. The Comptroller will review and signoff on the monthly reports.

Public Authorities Accountability Act
Officer's Certification

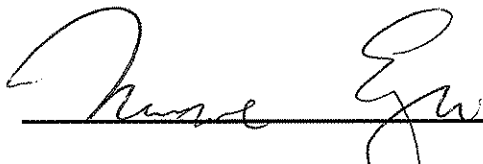
I, Sharon L. Greenberger, President and CEO, and I, Marianne Egri, Vice President of Finance & Information Technology, to the best of our knowledge and beliefs, make the following certifications regarding the financial reports included in the New York City School Construction Authority's Public Accountability Act Annual Report: (a) the information provided therein is accurate, correct, and does not contain any untrue statement of material fact; (b) does not omit any material fact which, if omitted, would cause the financial statements to be misleading in light of the circumstances under which such statements are made; and (c) fairly presents in all material respects the financial condition and results of operations of the Authority as, of, and for, the year ended June 30, 2009.



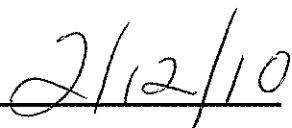
Sharon L. Greenberger, President & CEO



Date



Marianne Egri, Vice President of Finance & Information Technology



Date

FY09 Projects and Key Accomplishments

Design and Construction

Total expenditures were \$2.7 billion in FY 09. As of June 30, 2009, the SCA had 650 projects worth \$2.2 billion in construction. There were 660 projects in scope and design with an estimated construction value of \$1.8 billion.

In FY09, the SCA awarded 19 contracts for new schools and additions valued at \$667 million. The SCA also awarded 882 projects for Capital Improvement totaling \$1.2 billion. Total capital commitments in FY09 exceeded \$2.6 billion.

Among the major projects completed in FY09 (September, 2008 and September, 2009 school openings) are:

- Midwood High School Addition, Brooklyn, 340 seats (\$29,494,000)
- Telecom Arts & Technology High School Addition, Brooklyn, 466 seats (\$19,921,000)
- Family Court High School Complex, Brooklyn, 1173 seats (\$56,565,000)
- Gregorio Luperon High School, Manhattan, 492 seats (\$34,742,000)
- PS 245, Queens, 441 seats (\$19,187,000)
- PS 244 Early Childhood Center, Queens, 441 seats (\$24,645,648)
- PS/IS 260, Queens, 996 seats (\$43,836,000)
- PS 303 a/k/a PS 262 Early Childhood Center, Queens, 441 seats (\$21,120,000)
- PS 3, Queens, 216 seats (\$10,392,000)
- IS 43, Staten Island, 1,664 seats (\$82,307,000)
- New School @ R829/PS 15, Staten Island, 440 Seats (\$22,148,000)
- IS/HS 362, Bronx, 1,664 seats (\$60,750,000)
- Icahn Charter School, Bronx, 144 seats (\$12,613,630)
- Cesiah Toro Mullane School, Brooklyn, 700 seats (\$50,875,000)
- PS 861 a/k/a Elizabeth Connelly Campus, Staten Island, 822 seats (\$50,539,000)
- Frank Sinatra High School, Queens, 998 seats (\$77,725,000)
- James Monroe High School Annex, Bronx, 1,144 seats (\$57,790,000)
- New Utrecht High School Addition, Brooklyn, 442 seats (\$29,565,704)
- PS 229 Addition, Brooklyn, 650 seats (\$41,742,000)
- PS/IS 102 Addition, Queens, 936 seats (\$56,222,000)
- PS/IS 113 Addition, Queens, 446 seats (\$38,975,000)
- PS/IS 128, Queens, 648 seats (\$49,450,000)
- PS/IS 237, Brooklyn, 1,154 seats (\$56,587,000)
- PS/IS 366, Brooklyn, 506 seats (\$34,444,000)
- PS/IS 49 Addition, Queens, 410 seats (\$33,220,861)
- Sunset Park High School, Brooklyn, 1,650 seats (\$77,425,000)
- Reverend James A. Polite Ave School Campus, Bronx, 723 seats (\$21,971,000)
- The Willie Ella Paschal Bowman Campus, Bronx, 416 seats (\$24,926,000)

Major projects awarded in FY09 and currently under construction include:

- Community Health Academy, Manhattan, 572 seats (\$43,728,000)
- High School 585, Queens, 1,119 seats (\$70,250,000)
- PS 133, Brooklyn, 935 seats, (\$66,224,000)
- PS 160 Annex, Brooklyn, 410 seats (\$38,772,000)
- PS 196 Addition, Queens, 408 seats (\$29,800,000)
- PS 264, Brooklyn, 476 seats (\$39,814,903)
- PS 8 Addition, Brooklyn, 172 seats (\$21,230,000)
- PS/IS 277, Queens, 665 seats (\$47,100,000)
- PS 42, Queens, 410 seats (\$43,065,000)

Capital Plan Accomplishments

In General

- Overhauled design standards
- Simplified contractor qualification process
- Increased competition among top-tier firms
- Aggressive outreach to M/W/LBE community
- Project Labor Agreement (PLA)
- Developed and implemented Green Design Standards
- Improved SCA internal operating efficiencies

FY 2005 – 2009 Plan Accomplishments

- Obligated over \$8.8 billion in three (3) years
- Awarded 118 new capacity projects
- Awarded over 4,000 CIP and Reso A projects
- Completed over 2,900 CIP projects
- Obligated over \$450 million in Mentor Program contracts
- Opened 77 new school facilities with 38,196 seats

FY 2010 – 2014 Capital Plan Priorities

- Address capacity need on a neighborhood basis
- Ensure the stability of out existing facilities
- Continue instructional enhancement program
- Allocate limited resources effectively

Other Accomplishments

Restructuring

Twenty (20) large high school campuses are being transformed into smaller learning campuses through multi-year projects in which individual schools are provided with independent learning spaces and share common facilities.

Enhanced Operational Efficiencies

- Improved prequalification process
- Improved payment performance
- Improved change order and close-out
- Enhanced use of the internet

Strategic Initiatives

Development of improvement areas for the agency, including a new centralized training function, improvements to the Primavera implementation for better project controls, a refined costing system for capital planning, and improved transparency and increased communication with stakeholders.

Labor Law Compliance

An electronic certified payroll reporting system for contractors was developed and implemented.

Real Property Disposal Bulk Load Worksheet

Version 1.4

In accordance with Public Authorities Law, please provide information on the following:
 Any real property of the authority having an estimated fair market value in excess of \$15,000 that the authority either acquired or disposed of during the reporting period.
 Columns whose names contain "-" are required and must have values for each record to be loaded. Do not enter blank lines, as a blank line (a line with no information) will be regarded as the end of the file. Do not enter commas, letters or \$ signs in numeric fields.
 This worksheet must be saved as type "csv" in order to be uploaded to PARIS. Select "Save As" from the "File" menu above and select "CSV (comma delimited)" as the file type.
 Note: Most cells have some level of validation, however, validation in Excel only functions when you actually type data in the cell. It is recommended that you selectively check validation in rows that you have copied data into.

* Address Line 1		* Address Line 2		* City	* State	* Postal Code	* Province/Region	* Country	* Name of Country	* Property Description	* Estimated Fair Market Value	* How was FMV Determined?	* Transaction Type	* Other, Explain	* Transaction Date	* Purchase/Sale Price
8664 4th Ave & 361 and 365 88th Street		Brooklyn	NY	11209	USA			USA	Commercial Building	\$3,800,000	Appraisal	Acquisition		5/19/2009	\$4,500,000	
8818 4th Ave		Brooklyn	NY	11209	USA			USA	Commercial Building	\$1,200,000	Appraisal	Acquisition		5/15/2009	\$1,350,000	
942 62nd Street		Brooklyn	NY	11219	USA			USA	Commercial Building	\$3,000,000	Appraisal	Acquisition		5/28/2009	\$3,000,000	
153-26 Hillside Ave		Jamaica	NY	11432	USA			USA	Commercial Building	\$12,000,000	Appraisal	Acquisition		3/11/2009	\$12,000,000	
9940 & 9904 Albert Road		South Ozone Park	NY	11417	USA			USA	Vacant Lot/Undeveloped Land	\$4,260,000	Appraisal	Acquisition		6/24/2009	\$4,200,000	
5444 74th Street		Maspeth	NY	11373	USA			USA	Commercial Building	\$16,000,000	Appraisal	Acquisition		4/30/2009	\$16,000,000	
1061 52nd Street		Brooklyn	NY	11219	USA			USA	Vacant Lot/Undeveloped Land	\$5,100,000	Appraisal	Acquisition		5/13/2009	\$5,150,000	
40 East 29th Street		New York	NY	10016	USA			USA	Commercial Building		Other	Acquisition	Market Analysis - \$/sf	6/16/2009		
120 Warren Street		New York	NY	10007	USA			USA	Mixed Use		Other	Acquisition	Market Analysis - \$/sf	9/8/2009		
50 West 23rd Street		New York	NY	10017	USA			USA	Commercial Building		Other	Acquisition	Market Analysis - \$/sf	5/28/2009		
333 7th Ave		New York	NY	10001	USA			USA	Office Building		Other	Acquisition	Market Analysis - \$/sf	4/3/2009		
123 West 67th Street		New York	NY	10023	USA			USA	Commercial Building		Other	Acquisition	Market Analysis - \$/sf	5/7/2009		
1231 Lafayette Ave		Bronx	NY	10474	USA			USA	Commercial Building		Other	Acquisition	Market Analysis - \$/sf	4/2/2009		
400 East Fordham Road		Bronx	NY	10485	USA			USA	Commercial Building		Other	Acquisition	Market Analysis - \$/sf	1/15/2009		
211 8th Street		Brooklyn	NY	11215	USA			USA	Commercial Building		Other	Acquisition	Market Analysis - \$/sf	6/24/2009		
869 Cypress Ave		Ridgewood	NY	11385	USA			USA	Mixed Use		Other	Acquisition	Market Rate Parking	8/11/2008		
27-28 Thomson Ave		Long Island City	NY	11101	USA			USA	Commercial Building		Other	Acquisition	Market Analysis - \$/sf	11/21/2008		
76-05 51st Ave		Elmhurst	NY	11373	USA			USA	Commercial Building		Other	Acquisition	Market Analysis - \$/sf	4/14/2009		
30-30 Thomson Ave		Long Island City	NY	11101	USA			USA	Office Building		Other	Acquisition	Market Analysis - \$/sf	5/14/2009		

Lease Data (if applicable) Note: either Organization or Last Name/First Name are required. Entry of both is not.

Market Rate	Lease Rate	Lease Period (Months)	Seller/Purchaser/Tenant Organization	Seller/Purchaser/Tenant Last Name	Seller/Purchaser/Tenant First Name	Address Line 1	Address Line 2	City	State	Postal Code	Province/Region	Country	Does the Seller/Purchaser/Tenant have or had within the last two years, a personal or professional relationship with a Board member or senior management of the authority?
			AKPK Development Corp.	Mass	Lawrence	647 88th Street		Brooklyn	NY	11228		USA	
			Gallima Realty			5 Berkley Lane		Rye Brook	NY	10573		USA	
			Tower 10, LLC			410 East 57th Street		New York	NY	10022		USA	
			New York Racing Association			770 Middle Neck Road - Suite 4P		Great Neck	NY	11024		USA	
			Lucky Star Elmhurst, LLC			110-00 Rockaway Boulevard		South Ozone Park	NY	11414		USA	
			Lyon Group, LLC			56-72 49th Place		Maspeth	NY	11378		USA	
						22 West 38th Street		New York	NY	10018		USA	
40	36.7	60	East 29th Street Associates			19 West 34th Street		New York	NY	10001		USA	
48	45	24	Manhattan Youth Recreation & Resource Inc.			120 Warren Street		New York	NY	10007		USA	
35	32.85	120	The Moihan Group			530 Fifth Ave - Suite 1800		New York	NY	10017		USA	
34	39	109	333 Seventh Ave LLC			116 East 27th Street - Suite 1800		New York	NY	10016		USA	
58	26.9	60	Elaine Kaufman Cultural Center			129 West 67th Street		New York	NY	10023		USA	
21	27.94	25	ABN Associates LLC			111 Eighth Ave - Suite 1500		New York	NY	10011		USA	
40	40	240	Arcadia-PA East Fordham Acquisition, LLC			1311 Mamaroneck Ave - Suite 205		White Plains	NY	10605		USA	
20	20	36	St. Thomas Aquinas Roman Catholic Church			249 9th Street		Brooklyn	NY	11215		USA	
20	17.5	180	Public Service Property Management Corp.			63-23 Metropolitan Ave		Middle Village	NY	11379		USA	
			LIC Operating, LLC			20 West 48th Street		New York	NY	10036		USA	
14	10.5	180	Twin Music Inc.			575 Lexington Ave		Queens	NY	10022		USA	
25	22.75	120	Celtic Holding			7 Penn Plaza		New York	NY	10011		USA	

Code of Business Ethics

Ethics Guidance for Working Partners of the New York City School Construction Authority

Introduction

The New York City School Construction Authority (the "Authority"), a public-benefit corporation, requires its members, officers and employees, as well as the contractors, consultants and vendors with whom the Authority interacts -- its Working Partners -- to adhere to the highest ethical standards.

The Authority is governed by Chapter 68 of the New York City Charter ("Conflicts of Interest"). The Authority also requires that all of its members, officers and employees perform their official duties consistent with the requirements of the New York State Public Officers Law, and other applicable laws, rules, and regulations, and comply with the Authority's own internal policies.

The Authority encourages and supports a fair, open and honest business relationship with its Working Partners based on quality, service, price, and business integrity. The Authority believes that this objective can be achieved only if the Authority's employees and its Working Partners adhere to a high standard of ethical business practices.

Conduct of Authority Members, Officers and Employees

Authority employees are required to conduct business with our Working Partners in a fair and professional manner. Chapter 68 provides the legal framework governing the conduct of Authority employees. The Authority also has its own internal Code of Ethics to which the members of the Authority must adhere.

Ethics Programs

In addition to considering technical competence and financial capability, the Authority assesses the corporate integrity of its Working Partners through its prequalification process. Contractors seeking to do business with the Authority must first successfully be screened through this prequalification in order to be able to participate in bidding on Authority contracts and projects.

The Authority encourages its Working Partners to advance and support ethical business conduct and practices among their respective directors, officers and employees, preferably through the adoption of corporate ethics awareness training programs and written codes of conduct, copies of which are available through the Authority.

To promote ethical business practices, our Working Partners are expected to:

- Furnish all goods, materials and services to the Authority as contractually required and specified;
- Submit complete and accurate documents to the Authority as required;
- Refrain from seeking, soliciting, demanding or accepting from the Authority any information, whether verbal, written or in electronic form, that gives them an unfair advantage over a competitor;
- Refrain from engaging in any activity or course of conduct that restricts open and fair competition on Authority-related projects and transactions;
- Refrain from engaging in any activity or course of conduct with Authority employees or its agents that constitutes a conflict of interest, in fact or in appearance;
- Refrain from offering any gifts, gratuities or anything of value to Authority employees in excess of \$1.00
- Refrain from engaging in any other conduct that violates Chapter 68, or any other laws, regulations, or Authority policies; and
- Report to the Authority any activity by an Authority employee or Working Partner that appears to violate Charter 68 or any other laws, regulations, or Authority policies.

No Gifts to Authority Employees

Section 73(5) of the Public Officers Law expressly prohibits any firm or its agents, either doing or seeking to do business with the Authority, from directly or indirectly offering or giving any gift having more than a nominal value to an Authority employee under circumstances in which it:

- could be reasonably inferred the gift was intended to influence the employee in the performance of his or her official duties, or
- could reasonably be expected to influence the employee in the performance of his or her official duties, or
- was intended as a reward for the employee's official action.

Such prohibited gifts include, in addition to cash, a service, a loan, travel, lodging, meals, refreshments, entertainment, a discount, forbearance or a promise.

Because gifts from Working Partners can *per se* be inferred to be intended to influence or reward official action, gifts of greater than nominal value would be prohibited by Section 73(5). *See also Chapter 68 Section 2604(b)(5).*

Although Authority employees are governed by the New York State Public Officers Law and the Chapter 68 of the New York City Charter, the Authority has adopted a stricter standard in its own internal policy, prohibiting an Authority employee from accepting anything of value in excess of one dollar (\$1.00) from any individual or entity seeking to do business with the Authority. Our Working Partners should not offer to Authority

employees gifts of *any* value, and Authority employees are obligated to immediately report any such violation. Violations of the gift provisions may be grounds for contract termination and/or referral for civil action or criminal prosecution.

Employing Relatives of Authority Employees

Although Working Partners may employ relatives of Authority employees, the Authority must be made aware of such circumstances as soon as possible, preferably in writing, to ensure a conflict of interest situation does not arise. The Authority reserves the right to request that its Working Partners modify the work assignment of an Authority employee's relative where a conflict of interest, or the appearance thereof, is deemed to exist. Under no circumstances should an Authority employee have an involvement in the solicitation for or hiring of a relative by a Working Partner.

Hiring of Authority Employees by a Working Partner

Our Working Partners may hire former Authority employees; however, Chapter 68 prohibits the former employee from appearing before the Authority for a period of one (1) year following the employee's separation from Authority service. In addition, former Authority employees are subject to a "lifetime bar" which prevents them from working on or receiving compensation for services regarding any transaction in which they participated in a personal and substantial manner or which was under their active consideration during their tenure with the Authority.

Questions

Questions relating to these guidelines should be directed to the Authority's Vice President & General Counsel at (718) 472-8220.

When in doubt, please seek guidance.

Assessment of the Effectiveness of Internal Control Structures and Procedures

1. Describe the review process used by the Authority during FY09 to assure that internal controls were evaluated regularly

- Departments complete self-evaluations based upon internal training and instruction. Departments identify key functions, potential risks, related controls, and recommended policy changes as appropriate.
- The SCA continuously assesses its risk management policies and procedures.
- The SCA continuously updates and improves its project and financial tracking systems.
- The SCA's Information Technology department continues to create and enhance its web site and computer operations to increase the information base to staff, contractors, and consultants,
- The SCA's Internal Auditor performs internal audits of business operations and programs.
- The financial statement audits are conducted by the SCA's independent certified public accounting firm which includes a review of major internal accounting controls.

2. List all high-risk activities and indicate which were evaluated during FY09

- The SCA reviewed its internal financial and accounting controls which were also evaluated by the SCA's internal auditor and independent certified public accountants as part of the audit of the SCA's financial statements. The internal auditors performed audits of the SCA's accounting, project management, capital planning process, bid and award procedures, change order review, approval and payment processes, and audits of other programmatic activities based on perceived risk. In addition, the SCA prepares a Fraud Prevention Assessment each year that is submitted to the New York City Department of Investigation for its review. The SCA is also preparing an updated Disaster Recovery/Business Continuity Plan.

- 3. Identify the significant deficiencies revealed through the FY09 review process. Outline the actions taken or planned to eliminate the deficiencies. Highlight the most important internal control improvements made during the fiscal year.**
- Although no significant deficiencies were identified during FY09, Fraud Prevention Assessment highlighted areas of potential concern and set forth the improvements that had been made, including:
 1. Implementation of on-line ethics training program;
 2. Audit of controlled inspection firms;
 3. Implementation of electronic prevailing wage compliance system;
 4. Contract bid and award certification that contractor is not under criminal investigation or charged with crimes: and
 5. Electronic submission of prequalification application.
- 4. Describe the monitoring system installed by the SCA to verify that corrective actions are taken. Discuss the extent to which electronic data processing systems are used to track steps taken to reinforce internal controls.**
- The SCA's Director of Internal Audit tracks the implementation of recommendations that have been accepted by management and reports to the Vice President & General Counsel and the Audit Advisory Committee. This report sets forth dates by which recommendations must be implemented, and any delay in doing so and the reasons therefore.
- 5. Summarize specific actions the SCA has taken to install a compliance testing program.**
- Formal compliance testing of internal controls is performed during internal audits within various departments. Controls are also reviewed through management's oversight of SCA business functions and operations. In addition, the SCA's actions are subject to audit by its outside auditor.

6. Discuss the methods used in FY09 to provide internal control education and training to keep the SCA staff aware of the needs for internal controls.

- Training sessions by each department are periodically conducted to highlight the nature and types of potential risks and the identification of internal controls in place. The involvement of SCA staff in the internal audit process serves as a reminder of the need to assess continually the adequacy of internal controls and compliance with them.

7. Describe measures to sustain the effectiveness of the internal control program during FY09. Include information on reorganizations and other revisions in the program to enhance operations.

- The recommendations contained in the internal audits of the SCA's operations and construction program assure the sustained effectiveness of the SCA's internal control efforts. The SCA maintains a continuous process to draft and revise policies and operational guidelines to insure that audit recommendations are implemented.

8. For those agencies required by BPRM Item B-350 to have an internal audit function, demonstrate how that function complies with requirements of the Internal Control Act and professional IA standards.

- Although it is not required by law to do so, the SCA maintains an internal control function. Cheryl Hood-Francis is the Director of Internal Audit and reports to the Audit Advisory Committee and administratively to the SCA's Vice President & General Counsel. Prior to her current position, Ms. Hood-Francis was the Director of Capital Planning for the New York City Department of Education.

The IA function is independent from the processing of transactions and other management activities that would impair its objectivity. Each of the members of the Audit Advisory Committee is independent of and has no employment relationship with the SCA. All controls and procedures recommended by the internal auditor must be implemented by the senior manager in the organization responsible for the specific issues addressed in a particular internal audit.

The IA department develops and follows a risk-based audit plan. When audits are conducted, internal controls are evaluated, weaknesses are identified, and recommendations for corrective action are made. The internal audit staff maintains adequate work papers and conducts repeat audits as appropriate for significant matters, functions, and processes.

A description of how the IA function ensures that it does not compromise its independence if it is also responsible for other functions (i.e., internal control, information security or other duties

- The IA function is independent from the processing of transactions and other management activities that would impair the independence of the IA Department and the Audit Advisory Committee. Further, any recommended controls and control enhancements are the responsibility of the managers in the organization that are responsible for the related functions. Those managers must implement the appropriate procedures and controls for all audit recommendations that are made.

A demonstration of how the IA function conducts its operations in accordance with professional IA standards by responding to the following questions:

- a. Does the IA function develop and follow a risk based audit plan? Yes**
- b. When audits are conducted, are internal controls evaluated, weaknesses identified and recommendations made to correct those weaknesses? Yes**
- c. Does the IA function maintain adequate work papers? Yes**
- d. Does the IA function conduct follow-up audits? Yes, for significant where follow-up prior to a subsequent cycle is appropriate.**

9. Outline the specific actions taken to implement recommendations included in the Internal Control Task Force report, *“The New York State Internal Control Act Implementation Guide: Strengthening Compliance with the Act and Standards.”*

- See responses above. In addition, Internal Audit is conducting a self-assessment and customer satisfaction survey to assure that its services are in compliance with SCA internal control policies and procedures.

Internal Control Certification

Authority Name:

New York City School Construction Authority

President & CEO:

Sharon L. Greenberger

Authority Address:

30-30 Thomson Avenue, Long Island City, NY 11101

Telephone Number:

(718) 472-8000

Internal Control Officer:

Cheryl Hood-Francis

Address:

30-30 Thomson Avenue, Long Island City, NY 11101

Telephone Number:

(718) 472--8320

Email address of Internal Control Officer:

choodfrancis@nycsca.org

I hereby certify that the New York City School Construction Authority (“Authority”) has complied with the following provisions regarding its internal controls:

- A. Establish and maintain guidelines for a system of internal controls for the Authority. Internal control guidelines communicate the management and programmatic objectives of the Authority to its employees and provide the methods and procedures used to assess the effectiveness of the Authority’s internal controls in supporting these objectives.
- B. Establish and maintain a system of internal controls and a program of internal control review for the Authority. The program of internal control review shall be a structured, continuing and well-documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the Authority’s internal controls.

- C. Make available to each officer and employee of the Authority a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of the Authority shall be expected to comply. Such statements shall emphasize the importance of effective internal controls to the Authority and the responsibility of each officer and employee for effective internal controls.
 - D. Designate an internal control officer, who shall report to the head of the Authority or her designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item.
 - E. Implement education and training efforts to ensure that officers and employees within the Authority have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.
 - F. Periodically evaluate the effectiveness of the internal audit function.
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Sharon L. Greenberger
President & CEO

July, 2009