

NYC School Construction Authority

**Public Authorities
Accountability Act
Annual Report**

Fiscal Year 2011

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**New York City School
Construction Authority**
Financial Statements
June 30, 2011 and 2010

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Report of Independent Auditors

To Members of the Board of Trustees of
the 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, 2011 and 2010, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

The management's discussion and analysis for the year ended June 30, 2011 on pages 2 through 4 is not a required part of the basic financial statements as of and for the year then ended but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

October 3, 2011

New York City School Construction Authority 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 June 30, 2011 and 2010.

Overview of Financial Performance

In accordance with the requirements of Governmental Accounting Standards Board ("GASB") Standard No. 34 ("GASB 34"), the Authority presents herein its Management Discussion and Analysis Report. Management's 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 2011, the Authority committed over \$1,742 million in total contract obligations for school construction projects as compared to \$2,258 million in fiscal year 2010. The Authority processed \$1,868 million in construction payments and payments related to general and administrative expenses during fiscal year 2011 as compared to \$2,728 million in fiscal year 2010. The largest portion of the Authority's assets is in construction in progress, which is eventually transferred to the Department of Education (the "DoE") for capitalization once the project is completed.

In fiscal year 2010, the Authority committed over \$2,258 million in total contract obligations for school construction projects as compared to \$2,652 million in fiscal year 2009. The Authority processed approximately \$2,728 million in construction payments and payments related to general and administrative expenses (the "Operating Budget") during fiscal year 2010 as compared to \$2,721 million in fiscal year 2009. The largest portion of the Authority's assets is in construction in progress, which is eventually transferred to the DoE for capitalization once the project is completed.

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.

Resource flows between the Authority (a blended component unit of The City of New York) and The City of New York and DoE, have been reported as revenues and expenses in the Statements of Activities. Management believes that this presentation is most useful for the intended users of these financial statements, although this treatment is most often used when presenting the activities of a discreet component. The presentation of these activities as a net fund transfer was deemed to provide less useful information.

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. The decrease in revenue from fiscal year 2010 to fiscal year 2011 was \$830 million or 27%. Operating revenues in fiscal year 2011 were \$2,188 million as compared to \$3,017 million in fiscal year 2010. This decrease was driven principally by a decrease in capital project expenditures from fiscal year 2010 to fiscal year 2011.

For fiscal year 2011, the Authority awarded construction contracts for 6 new schools and additions with a construction value of \$190.7 million and 454 capital improvement or renovation projects with a construction value of \$617.7 million. The Authority completed 8 new schools and additions as of September 2011, which created 3,684 seat openings for the school year.

For fiscal year 2010, the Authority awarded construction contracts for 18 new schools and additions with a construction value of \$561 million and 663 capital improvement or renovation projects with a construction value of \$807 million. The Authority completed 26 new schools and additions as of September 2010, which created 17,656 seat openings for the school year.

New York City School Construction Authority Management's Discussion and Analysis (Unaudited)

The decrease in revenue from fiscal year 2009 to fiscal year 2010 was \$22 million or 1%. Operating revenues in fiscal year 2010 were \$3,017 million as compared to \$3,039 million in fiscal year 2009. This decrease was driven by a decrease in capital project expenditures and a decrease in operating transfers on behalf of the DoE from fiscal year 2009 to fiscal year 2010.

The Authority's operating expenses decreased \$886 million from fiscal year 2010 to fiscal year 2011. Operating expenses in fiscal year 2011 were \$2,835 million as compared to \$3,721 million in fiscal year 2010. In fiscal year 2011, the value of completed contracts transferred to the DoE for capitalization as fixed assets was \$2,538 million as compared to \$3,449 million in fiscal year 2010. The decrease in completed contracts transferred to the DoE from year to year was \$911 million. Operating transfers on behalf of the DoE increased by \$46 million from year to year. Operating transfers on behalf of the DoE are defined as technology enhancements and reconstruction.

The Authority's operating expenses increased \$1,529 million from fiscal year 2009 to fiscal year 2010. Operating expenses in fiscal year 2010 were \$3,721 million as compared to \$2,192 million in fiscal year 2009. In fiscal year 2010, the value of completed contracts transferred to the DoE for capitalization as fixed assets was \$3,449 million as compared to \$1,730 million in fiscal year 2009. The increase in completed contracts transferred to the DoE from year to year was \$1,719 million. The increase in completed contracts transferred to the DoE for capitalization is attributable to the 26 new schools opened in September 2010 and the 23 new schools opened in September 2009. Operating transfers on behalf of the DoE decreased by \$21 million from year to year. Operating transfers on behalf of the DoE are defined as technology enhancements and reconstruction.

Financial Highlights

During the past two fiscal years, the Authority's total assets and fund balance have decreased. The factors driving this decrease are a higher volume of contracts transferred to the DoE for capitalization as fixed assets and a lower volume of construction activity. The dollar value of commitments has decreased by \$910 million during this period from \$2,652 million in fiscal year 2009 to \$1,742 million in fiscal year 2011. The decrease in construction activity is in accordance with the five year capital plan, developed by the DoE, for fiscal years 2010 through 2014.

The Authority's net assets in the Government-wide financials decreased by \$642 million from fiscal year 2010 to fiscal year 2011. This decrease in net assets is principally due to the higher volume of completed contracts transferred to the DoE in fiscal year 2011. All projects transferred were determined by the Authority's Project Management Division to be substantially completed or occupied as of June 30, 2011. 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 net assets in the Government-wide financials decreased by \$696 million from fiscal year 2009 to fiscal year 2010. This decrease in net assets is principally due to the higher volume of completed contracts transferred to the DoE in fiscal year 2010.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2011 by \$2,492 million. The assets of the Authority exceeded its liabilities at the close of fiscal year 2010 by \$3,134 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 2010 to fiscal year 2011 is principally attributable to the transfers of completed contracts to the DoE.

The change in net assets for the Capital Project Fund from fiscal year 2009 to fiscal year 2010 is principally attributable to the decrease in construction project activity of the Authority from year to year and the transfers of completed contracts to the DoE.

New York City School Construction Authority Management's Discussion and Analysis (Unaudited)

Total Government-wide assets from fiscal year 2010 to fiscal year 2011 decreased by \$744 million. The decrease in total assets in fiscal year 2011 was primarily due to an increase in completed contracts transferred to the DoE for capitalization as fixed assets. From fiscal year 2009 to fiscal year 2010 total assets decreased by \$738 million. The decrease in total assets in fiscal year 2010 was principally due to an increase in completed projects transferred to the DoE for capitalization as fixed assets.

Cash increased by \$26 million from fiscal year 2010 to fiscal year 2011. The increase is principally due to the maturity of U.S. Treasury Bills of \$25 million. The amount of \$25 million was reinvested in U.S. Treasury Bills in July 2011 and has a maturity date of January 12, 2012.

Cash decreased by \$25 million from fiscal year 2009 to fiscal year 2010. The decrease 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 decreased \$103 million from fiscal year 2010 to fiscal year 2011, principally as a result of a decrease in the accounts payable and accrued liabilities.

Liabilities decreased \$42 million from fiscal year 2009 to fiscal year 2010, principally as a result of an increase in the accounts payable, accrued liabilities and retainage held for construction projects.

Effective July 1, 2008, GASB No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", requires that pollution remediation costs be accounted within the City's financial statements as expense items, rather than capital items as previously reflected in the financial statements. For fiscal year 2011, the Authority has classified \$119 million as expenditures incurred for pollution remediation costs. For fiscal year 2010, the Authority classified \$140 million as expenditures incurred for pollution remediation costs (Note 10).

Reconciliation of Net Assets and Changes in Net Assets

The change in "fund balance" 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 Statements 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.

Contacting the NYC School Construction Authority's Management

This financial report is designed to provide 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, 2011 and 2010

(in thousands)

	2011		2010	
	Capital Project Fund	Adjustments (Note 1)	Government Wide	Capital Project Fund
Assets				Adjustments Government Wide
Cash	\$ 29,864	\$ -	\$ 29,864	\$ 4,110
Temporary investments	15,000	-	15,000	39,985
Due from The City of New York	512,112	28,861	540,973	594,926
Prepaid expenses & other assets	63,663	-	63,663	48,807
Other assets	18,784	-	18,784	15,551
Securities in lieu of cash retainage	7,346	-	7,346	17,328
Fixed assets, net	-	6,280	6,280	-
Construction in progress, assets held for The City of New York	-	2,532,157	2,532,157	-
Total assets	646,769	2,567,298	3,214,067	3,201,698
				3,237,774
				3,958,481
Liabilities				
Accounts payable and accrued liabilities	\$ 410,996	\$ 23,492	\$ 434,488	\$ 473,596
Retainage payable	169,491	-	169,491	198,066
Pollution remediation payable	-	107,266	107,266	120,066
Accrued annual leave obligation	5,327	-	5,327	5,420
Accrued sick leave obligation	-	4,268	4,268	3,443
Accrued claims and contingencies	-	1,100	1,100	3,400
Total liabilities	585,814	136,126	721,940	677,082
Fund Balances/Net Assets				
Total Fund Balances - Restricted	60,955	2,431,172	43,625	3,090,091
Total Net Assets	\$ 646,769	\$ 2,567,298	\$ 2,492,127	\$ 3,133,716
Total Liabilities and Fund Balances	\$ 646,769	\$ 2,567,298	\$ 720,707	\$ 3,237,774

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

New York City School Construction Authority
Statements of Activities
Years Ended June 30, 2011 and 2010

(in thousands)

	2011		2010	
	Capital Project Fund	Adjustments (Note 1) Government Wide	Capital Project Fund	Adjustments (Note 1) Government Wide
Revenues				
Operating revenues from or due from The City of New York	\$ 2,009,489	\$ -	\$ 2,885,368	\$ -
Operating revenues for payments made on behalf of DOE	178,046	178,046	131,705	131,705
Total revenues	2,187,535	2,187,535	3,017,073	3,017,073
Expenditures/expenses				
Capital projects	1,867,982	(1,867,982)	2,727,653	(2,727,653)
Fixed assets	(2,179)	2,179	(102)	102
Pollution remediation costs (GASB 49)	131,755	(12,800)	170,872	(30,480)
Transfer of completed contracts to the Department of Education		2,537,522		3,449,135
Operating transfers on behalf of the Department of Education	178,046	178,046	131,705	131,705
Total expenses	2,175,604	658,919	3,030,128	691,104
Net revenues	11,931	(658,919)	(13,055)	(691,104)
Other revenues and expenses, net	5,399	-	7,880	-
Excess of revenues over expenses	17,330	(658,919)	(5,175)	(691,104)
Fund balances/net assets				
Beginning of year	43,625	3,090,091	48,800	3,781,195
End of year	\$ 60,955	\$ 2,431,172	\$ 43,625	\$ 3,090,091
				\$ 3,133,716

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

New York City School Construction Authority

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

1. Description of the Entity

The New York City School Construction Authority (the "Authority"), a public benefit corporation and blended 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. The Authority is governed by a three member Board of Trustees. The Mayor of the City appoints the School's Chancellor, who serves as the Chairman of the Board of Trustees. The Mayor also appoints the other two trustees.

The Authority's operations are funded by appropriations made by the City. All of the Authority's net assets are the property of the City. Appropriations are guided by the five-year capital plan, 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 fiscal years 2010 through 2014 is \$10.89 billion.

The Authority carries out certain projects funded by the City Council and Borough Presidents, pursuant to the City Charter. Appropriations of \$123,769 and \$105,878 were made in fiscal 2011 and 2010, respectively, for this purpose.

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 projects, the assets are transferred to the DoE.

2. Summary of Significant Accounting Policies

Basis of Accounting

In accordance with accounting principles generally accepted in the United States 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 project 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.

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.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

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.

Resource flows between the Authority (a blended component unit of The City of New York) and The City of New York and DoE, have been reported as revenues and expenses in the Statements of Activities. Management believes that this presentation is most useful for the intended users of these financial statements, although this treatment is most often used when presenting the activities of a discreet component. The presentation of these activities as a net fund transfer was deemed to provide less useful information.

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 2011" and "fiscal 2010").

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 site acquisition, wrap-up insurance, initial outfitting 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

Pollution remediation costs are expensed in accordance with the provision of GASB Statement No. 49 ("GASB No. 49"). Refer to Note 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.

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.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2011 and 2010

(in thousands)

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, 2011 and 2010, uninsured cash balances totaled \$29,764 and \$4,010, respectively. Cash accounts are collateralized through JP Morgan Chase with the Federal Reserve of Boston and invested in U.S. Treasury Notes.

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 \$69,537 and \$115,055 as of June 30, 2011 and 2010, respectively.

Additionally, at June 30, 2011 and 2010, \$345 and \$344, respectively, was held in escrow pending settlement of liens placed by a subcontractor against a primary contractor.

4. Temporary Investments

The Authority, in accordance with Section 11 of the General Municipal Law, invests money on deposit not required for immediate expenditure in U.S. Treasury Bills.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, the Authority categorizes its investments to give an indication of the level of risk assumed by the Authority at year end. The three 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. Amortized cost, cost plus accrued interest, approximates the investments' fair market value. Investments are held in the Authority's name by a fiduciary institution.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2011 and 2010

(in thousands)

Investments consist of the following:

	<u>June 30, 2011</u>	
	Amortized Cost	Fair Market Value
U.S. Treasury bills, 0.04%, due on 09/08/11	\$ 14,989	\$ 15,000
	<u>\$ 14,989</u>	<u>\$ 15,000</u>
	<u>June 30, 2010</u>	
	Amortized Cost	Fair Market Value
U.S. Treasury bills, 0.04%, due on 08/12/10	\$ 24,981	\$ 24,997
U.S. Treasury bills, 0.05%, due on 11/26/10	14,985	14,988
	<u>\$ 39,966</u>	<u>\$ 39,985</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:

	2011	2010
Securities	\$ 7,346	\$ 17,328
Cash	<u>162,145</u>	<u>180,738</u>
Total retainage payable	<u>\$ 169,491</u>	<u>\$ 198,066</u>

The fair market value of the securities retained payable is \$10,820 and \$21,028 as of June 30, 2011 and 2010, respectively.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2011 and 2010

(in thousands)

6. Fixed Assets

Fixed assets consist of the following:

Asset Category	Estimated Useful Lives	2010	Additions	Dispositions	2011
Computer hardware/equipment	3	\$ 15,691	\$ 1,138	\$ -	\$ 16,829
Computer software	3	5,660	647		6,307
Leasehold improvements	12	17,810	810		18,620
Furniture & fixtures	5 - 7	5,166			5,166
Automobiles	5	4,163	151	(193)	4,121
Office equipment	3 - 5	3,872	240		4,112
		<u>52,362</u>	<u>2,986</u>	<u>(193)</u>	<u>55,155</u>
Less: Accumulated depreciation		<u>(43,903)</u>	<u>(4,972)</u>		<u>(48,875)</u>
Fixed assets, net		<u>\$ 8,459</u>	<u>\$ (1,986)</u>	<u>\$ (193)</u>	<u>\$ 6,280</u>

In the Government-wide Financial Statements, depreciation is capitalized into construction in progress, which totaled \$4,972 and \$4,210 for fiscal 2011 and 2010, respectively.

7. Construction in Progress and Transfers of Completed Contracts

Expenditures for construction in progress for fiscal 2011 and 2010 include:

	2011	2010
Outside construction costs	\$ 1,730,816	\$ 2,584,598
Authority payroll and related fringe benefits	91,357	91,288
Authority general and administrative costs	<u>45,809</u>	<u>51,767</u>
Total expenditures	1,867,982	2,727,653
Construction in progress		
Beginning of year	<u>3,201,698</u>	<u>3,923,180</u>
Total before transfer to DoE during the year	5,069,680	6,650,833
Costs transferred to the DoE during the year	<u>(2,537,522)</u>	<u>(3,449,135)</u>
End of year	<u>\$ 2,532,158</u>	<u>\$ 3,201,698</u>

During fiscal 2011, the Authority transferred \$2,537,522 to the DoE representing costs associated with substantially completed contracts and administrative costs. In addition, the DoE capitalized \$33,844 during fiscal 2011 for work performed by the Capital Task Force. This resulted in the DoE additions to fixed assets for the fiscal 2011 of \$2,571,366. During fiscal 2010, the Authority transferred \$3,449,135, to the DoE representing costs associated with substantially completed contracts and administrative costs. In addition, the DoE capitalized \$19,277 during fiscal 2010 for work performed by the Capital Task Force. This resulted in the DoE additions to fixed assets for the fiscal 2010 of \$3,468,413.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2011 and 2010

(in thousands)

During fiscal 2011, the Authority discovered that a duplicate accrual was recorded in fiscal year 2010 for environmental costs related to outstanding invoices. The impact of this over accrual was approximately \$18 million reduction to Construction in Progress and Accrued Liabilities as well as a reduction to Due from The City of New York and Revenue. An adjustment was recorded in fiscal 2011 to correct this duplicate accrual. The adjustment was determined not to be material to either 2010 or 2011.

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, 2011 and 2010, pass-through purchases totaled \$125,809 and \$100,210, 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 contractors performed minor capital projects on behalf of the Authority, as shown below:

	2011	2010
Skilled trades, minor capital projects	\$ 43,495	\$ 24,628
Lead paint abatement	2,279	-
DOE admin staff	6,463	6,867
	<u>\$ 52,237</u>	<u>\$ 31,495</u>

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

9. Commitments and Contingencies

Rent

On September 10, 1999, the Authority entered into a lease agreement for office space which expires in fiscal 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.

Rental payments of \$803 are expected to be paid in fiscal 2012 through the maturity of the lease.

Rent expense, in the Fund financial statements, totaled \$6,100 and \$6,045 in fiscal 2011 and fiscal 2010, respectively.

In August 2011, the Authority renewed this lease.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2011 and 2010

(in thousands)

Purchase Orders

Purchase orders, contracts and other commitments at June 30, 2011 and 2010 totaled \$2,417, and \$2,599, respectively, and represent the difference between the value of construction-related contracts and the amount incurred through the end of the year. At June 30 of each fiscal year, the City had 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 ("OCIP"). 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 \$15,140 and \$11,915 as of June 30, 2011 and 2010, respectively, based on the insurance contract's terms and conditions and an actuarial assessment of OCIP loss activity.

The current Authority contract for the Owner Controlled Insurance Program is provided by Liberty Mutual. The insurance coverage period is from January 1, 2011 through December 31, 2013.

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 the GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and related insurance issues*. The Authority, with the assistance of the City's Corporation Counsel, has estimated and recorded the liability at June 30, 2011 and 2010 to be \$1,100 and \$3,400, respectively.

From time to time the Authority is involved in various litigations, claims and assessments. 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.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2011 and 2010

(in thousands)

10. Accounting and Financial Reporting for Pollution Remediation Obligations

GASB No. 49 governs the accounting and financial reporting requirements for pollution remediation obligations. Under GASB No. 49, costs incurred for the remediation of pollution, except for in certain circumstances, may not be afforded capital treatment. 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. Pollution remediation costs are identified as asbestos abatement, lead paint abatement, and soil contamination remediation project work performed at New York City public schools. GASB No. 49 requires that the Authority report actual remediation costs or expenditures incurred. For fiscal year 2011, the Authority has incurred \$118,955 of expenditures for pollution remediation costs. For fiscal year 2010, the Authority incurred \$140,391 of expenditures for pollution remediation costs. The Authority does not anticipate recovering any of these costs from other parties or agencies.

Open Commitments	2011	2010
Beginning of year	\$ 120,066	\$ 150,546
Pollution remediation costs	118,955	140,392
Payments made on open commitments	<u>(131,756)</u>	<u>(170,872)</u>
End of year	<u>\$ 107,265</u>	<u>\$ 120,066</u>

11. GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions

The new standard establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints upon how resources reported in governmental funds may be used. The five classifications depicting the relative strength of the constraints that control how specific amounts can be spent are:

- **Nonspendable** fund balance includes amounts that are not in a spendable form or are required to be maintained intact.
- **Restricted** fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers.
- **Committed** fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.
- **Assigned** fund balance comprises amounts intended to be used by the government for specific purposes. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other government funds are, at a minimum, intended to be used for the purpose of that fund.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2011 and 2010

(in thousands)

- **Unassigned** fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.

The fund balances reported by the Authority in the financial statements are considered restricted under the above definitions, for the purpose of capital improvements to NYC Public Schools in accordance with our enabling legislation.

12. 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 ("System").

Contributions to the pension plans are made by the Authority and the employees. Contributions paid or accrued by the Authority under these plans totaled \$10,996 and \$8,625 for fiscal years 2011 and 2010, 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.

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 ("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 GASB No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City complied

New York City School Construction Authority
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June 30, 2011 and 2010

(in thousands)

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. In accordance with GASB No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The Authority has recorded net obligations of \$23,492 and \$20,774 with respect to its post-employment welfare fund benefits as of June 30, 2011 and 2010, respectively.

13. Subsequent Events

The Authority has performed an evaluation of subsequent events through October 3, 2011, the date the financial statements were available for issuance.

www.pwc.com

New York City School Construction Authority

December 12, 2011

Report to Management

pwc



December 12, 2011

Members of the Audit Advisory Committee
of the New York City School Construction Authority:

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, 2011, 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.

As agreed in our engagement letter, we are providing you with a report of all deficiencies, operational, business and other observations.

If you would like any further information or would like to discuss any of the matters raised, please contact Valerie Wieman, (646) 471-5027.

Very truly yours,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP

*PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (646) 471 8320, www.pwc.com/us*

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I. Significant Deficiency

1. Proper accounting for self-insurance receivable/liability

Observation:

During the course of the current year audit, we proposed and Management recorded an adjustment related to the Authority's accounting for self-insurance.

The Authority's extension of its 2008-2010 Liberty Mutual insurance policy through 2013 included a retrospective amendment to the prior policy periods. The Authority should have allocated \$25 million of the premium to the prior years to account for the retrospective changes.

The adjustment is indicative of a need to improve the Authority's review and analysis of its accounting for self-insurance.

Implication:

Failure to appropriately review and analyze the accounting for self insurance policies may result in a misstatement of the Authority's financial statements. Because of the relatively small amount of the potential misstatements compared to total fund balance and net assets, such risk is not deemed a material weakness, however we believe the risk is such that it merited communication to the Audit Advisory Committee and therefore qualifies as a significant deficiency.

Recommendation:

We recommend ensuring the Authority has a formal process to evaluate the financial implications of all provisions of its self-insurance policies.

Management's Response:

Management agrees with this recommendation. A process will be put in place to review all of the financial implications of the terms of the contract if the current insurance carrier is selected to continue to provide insurance services. This process will ensure that all financial provisions are clearly defined and that any prior period adjustments included in the premium costs are accounted for properly in the current period.

II. Control Deficiencies

1. Financial close process

Observation:

We note that the Authority does not maintain a formal financial reporting closing process whereby all necessary and recurring adjustments and reviews are completed according to a predetermined schedule of book close procedures. As a result, we noted that Management experienced difficulty in finalizing the Authority's financial statements prior to the deadline established by the City of New York.

Implication:

Failure to maintain a formal schedule of book closing can result in delays in posting all necessary journal entries, thereby reduce the amount of time available for management review. This can result in a failure to identify errors. This can also impact the efficiency of the financial statement audit. In the current year, we identified several errors in schedules and balances that had not been reviewed prior to presentation to the auditors. In most cases, the control environment as designed, including the preparation and review of reconciliations, would have identified the adjustments had there been sufficient time available to allow for secondary Management review.

Recommendation:

We recommend that Management create a formal financial closing process and calendar that allows sufficient time for Management review.

Management's Response:

Management agrees with this recommendation. The financial close process for year end will be revised to include key dates for the final submission of reconciliation schedules and accrual reports to the Comptroller for review prior to presentation to the auditors. These schedules and reports will be due no later than the end of the 1st week in September.

III. Information Technology Comments

1. Enhance security controls within Primavera Expedition

Observation

We noted four instances where terminated employees' access to Primavera Expedition CM13 was not revoked upon termination. These users retained access to a template which allowed users to certify requisitions and edit cost sheets, change orders, and daily reports.

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

We note that a similar comment was made in 2009, prior to the implementation of CM13.

Implication

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

The lack of timely and effective recertification increases the risk that inappropriate access to systems and data as a result of terminations or changes in job function are undetected.

Recommendation

We recommend more effective communication between the IT and HR departments to ensure that application accounts for terminated individuals are disabled in a timely manner.

We also recommend that NYSCSA implement a formal periodic review and recertification of access to 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.

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

Management Response

Management agrees with this recommendation. The IT department recognizes this is an issue for Expedition and is performing the following tasks based on the audit recommendations.

The System Administrators for Expedition and CM13 receives notification from the SCA Service desk of all terminations. A service desk ticket is assigned to them so they can delete the ID in Expedition if there is one, and disable the ID in CM13 within 24 hours of the notification.

Beginning April, 2012, the IT department will send a list of all active users with access to changing financial data to the Construction Management Expedition Administrators for review on an annual basis and require sign off that the access level granted is appropriate.

Annually, the IT department will review and insure that all IDs in Expedition / CM13 systems are active system users (as defined by having active accounts in the Active Directory) and unique to an individual.

IV. Site Visit Comments

1. Non-compliance with SCA policy regarding approval of subcontractors

Observation:

During our site visits, we noted several subcontractors identified on the Subcontractor Log that had yet to be formally approved by the Authority. Three subcontractors had begun work while the paperwork requesting approval was in process. The Authority's policy requires that all subcontractors be approved prior to beginning work.

Implication:

Failure to comply with the approval policy could result in accepting work from an unacceptable subcontractor with quality or financial issues.

Management's Response:

Management agrees with this recommendation. It is the Authority's policy that all subcontractors be approved prior to performing work.

There were a total of nine (9) subcontractors with an unapproved status at the time of the site visits. The paperwork for three (3) of the subcontractors performing work at the sites was submitted to the Pre-Qualification Unit. The applications were missing information which delayed their approval. Three (3) of the firms listed as subcontractors were suppliers and not required to be approved since they don't work at the site. The remaining three (3) subcontractors were not used on the projects and the work was performed by an approved subcontractor.

V. Status of Prior Year Observations

1. Review year end repairs and maintenance accruals

Observation:

While testing the repair and maintenance accounts, we noted that hardware expense had a credit balance. This resulted from the reversal of an accrual from the prior year that had been overstated. The overstatement was not material to the financial statements.

Implication:

The overbooking of accruals overstates the expense and liability and impacts the statement of activity upon reversal in the subsequent year.

Management's Response:

Management agrees with this recommendation. During the Fiscal Year 2010 year-end close process, an Operating Budget Report of Open Balances was run in September 2010 and compared against the June 2010 Report to determine the accuracy of the accrual and eliminate the potential for an inaccurate accrual. The improvement to this process strengthened the Operating Budget accrual process and resulted in an accurate accrual. This process will be used annually to validate the Operating Budget accrual during year-end.

Status: Complete. We did not have concerns in this area in 2011.

2. Enhance the user provisioning process

Observation:

While there are procedures in place for provisioning user access to the Oracle Financials application, we noted three instances where formal request and approval for additional access granted to existing users in the Oracle Financials application was not retained.

Implication:

Granting additional access to a user ID without documentation of a managerial approval increases the risk of inappropriate access to the application and may lead to unauthorized transactions processed in the system.

Recommendation:

Management should enhance their procedures for granting additional access to the Oracle Financials application to include a process for verifying and maintaining formal requests and authorizations for all modified user access to the Oracle Financials application.

Management Response:

Management agrees with the recommendation and has modified the existing IT Service Desk Manual and instructed all system administrators to ensure additional access will not be granted unless it is approved by the application manager and is documented in our Heat ticketing system. This process will be enforced for all Oracle Financials users and system administrators.

Status: Completed. We did not have concerns in this area in 2011.

3. Non-compliance with New York Prevailing Wage Law

Observation:

The New York State Prevailing Wage Law requires the General Contractor to post the prevailing wage schedule at the construction sites for the benefit of the contractors and subcontractors. The New York State prevailing wage poster was not posted at any of the four construction sites visited.

Implication:

Failure to comply with the New York State Prevailing Wage Law could result in penalties and fines.

Management's Response:

Management agrees with this recommendation. Construction Management in conjunction with Labor Law will send a letter to all General Contractors advising them of the requirement to post the prevailing wage schedule at the construction sites for the benefit of contractors and subcontractors.

Status:

Still applicable. We noted that the required poster was not present at any of the four sites visited in 2011.

4. Repeated Safety Violations

Observation:

There were repeated safety violations noted on the sample site safety reports for one of the sites visited. The reports noted that there was a lack of perimeter protection and improper fall protection by steel erectors who did not properly tie off. Although the violations appeared to have been promptly addressed by the General Contractor on the day they were noted, the same type of safety violations re-occurred on subsequent days.

Implication:

Failure to comply with safety procedures increases the risk of injuries and insurance costs.

Management's Response:

Management agrees with this recommendation. Construction Management in conjunction with the Safety Unit will address the issue of recurring safety violations with contractors and bring the General Contractor in for a meeting at the SCA if these situations continue to occur. Safety Unit will advise Construction Management of continuing safety issues for a particular contractor as they occur.

Status:

We did not identify concerns in this area at any of the sites visited in 2011.

Public Authorities Accountability Act Officer's Certification

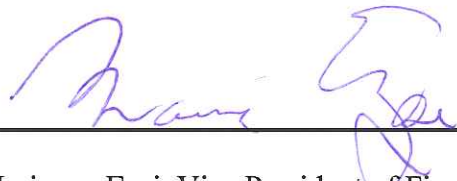
I, Lorraine Grillo, President and CEO, and I, Marianne Egri, Vice President of Finance & Information Technology, to the best of our knowledge and beliefs, make the following certifications regarding the financial reports included in the New York City School Construction Authority's Public Accountability 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, 2011.





Lorraine Grillo, President & CEO

Date





Marianne Egri, Vice President of Finance & Information Technology

Date

FY2011 Projects and Key Accomplishments

Design and Construction Accomplishments

Total expenditures were \$2.1 billion in FY 2011. As of June 30, 2011, the SCA had 435 projects worth \$2.9 billion in construction. There were 337 projects in scope and design with an estimated construction value of \$1.1 billion. In FY 2011, the SCA awarded six (6) contracts for new schools and additions valued at \$218 million. The SCA also awarded 351 projects for Capital Improvement totaling \$617 million. Total capital commitments in FY 2011 exceeded \$1.7 billion.

Among the major projects completed in FY 2011 (September, 2010 and September, 2011 school openings) are:

- Achievement First Endeavor Charter School, Brooklyn, 696 seats (\$38,112,577)
- Crown Heights Charter School, Brooklyn, 1,600 seats (\$63,520,000)
- Early Childhood Center (ECC) 361 @ PS 94, Bronx, 490 Seats (\$33,670,000)
- Eagle Academy HS, Bronx, 577 seats (\$41,500,000)
- HS of Math, Science & Engineering, Manhattan, 168 seats (\$8,106,288)
- IS 259 Addition, Brooklyn, 433 seats (\$38,339,000)
- MS 114 (ECF), Manhattan, 544 seats (\$45,525,000)
- Metropolitan Avenue Campus, Queens, 1,911 seats (\$158,000,000)
- Mott Haven Educational Campus, Queens, 2,310 seats (\$157,820,000)
- New Gateway HS, Queens, 805 seats (\$70,877,000)
- New York Harbor School, Governor's Island, 435 seats (\$28,706,155)
- PS 13 Addition, Queens, 707 seats (\$41,250,000)
- PS 273, Queens, 379 seats (\$22,850,000)
- PS 971, Brooklyn, 378 seats (\$25,495,000)
- PS/IS 263, Manhattan, 600 seats (\$50,721,000)
- PS/IS 276, Manhattan, 952 seats (\$83,889,000)
- PS/IS 338, Bronx, 642 seats (\$50,897,000)
- PS/IS 79 Addition, Bronx, 712 seats (\$45,737,000)
- PS/IS 89, Brooklyn, 596 seats (\$47,263,261)
- PS/IS 665 @ PS 163, Brooklyn, 665 seats (\$59,834,000)
- Van Nest & Icahn North Charter Schools, Bronx, 911 seats (\$12,613,630)
- Young Women's Leadership Academy, Queens, 140 seats (\$27,119,808)
- Ampark Neighborhood School, Bronx, 461 seats (\$48,624,000)
- Broadway Educational Campus, Manhattan, 651 seats (\$44,107,009)
- PS 196 Addition, Queens, 408 seats (\$29,800,000)
- PS 42 Addition, Queens, 410 seats (\$43,065,000)
- PS 8 Addition, Brooklyn, 172 seats (\$21,230,000)
- Spruce Street Educational Campus, Manhattan, 630 seats (\$34,146,385)
- William Wordsworth Educational Complex, Queens, 611 seats (\$52,489,000)

Major projects awarded in FY 2011 and currently under construction include:

- Middle College HS @ La Guardia, Queens, 820 seats
- PS 287, Queens, 432 seats
- PS 290, Queens, 616 seats
- PS 71, Staten Island, 844 seats
- PS/IS 312, Queens, 578 seats
- Richmond Hill HS Annex, Queens, 402 seats
- Suspension Center School, Bronx, 262 seats

Capital Plan Accomplishments

In General

- Streamlined business operations of the Industrial & Environmental Hygiene Department and developed new policies and operating guidelines
- Undertook review and assessment of the Change Order Unit and its operations
- Increased competition among top-tier firms
- Aggressive outreach to M/W/LBE community
- Implement Project Labor Agreement (PLA)
- Developed and implemented Green Design Standards
- Improved SCA internal operating efficiencies

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 have been 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

- Developed electronic consultant evaluation system
- Developed internet site that is more transparent and easier to navigate

Strategic Initiatives

Development of 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 1.6

Real Property

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 commas, letters or \$ signs in numeric fields.

This worksheet must be saved as type "csv" in order to be updated 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.

Property Address										Lease Data (if applicable)									
Address Line 1	Address Line 2	City	State	Postal Code	Country	Property Description	Estimated Fair Market Value	How was FMV determined?	Transaction Type	If Other, Explain	Transaction Date	Purchase/Sale Price	Market Rate	Lease Rate	Lease Period (Months)	Was the real property acquisition/disposal competitively bid?			
55-20 Metropolitan Ave		Ridgewood	NY	11385	USA	Commercial Building	13700000.00	Appraisal	Acquisition		7/1/2010	7000000.00	0.00	30.00	84	N			
110-10 - 110-20 Northern Blvd		Corona	NY	11368	USA	Commercial Building	7200000.00	Appraisal	Acquisition		7/2/2010	7400000.00	0.00	15.00	120	N			
33-55 74th Street		Jackson Heights	NY	11372	USA	Residential Building	1600000.00	Appraisal	Acquisition		8/5/2010	1600000.00	0.00	22.50	160	N			
200 W. 167th Street		Bronx	NY	10452	USA	Vacant Lot/Undeveloped Land	2300000.00	Appraisal	Acquisition		12/21/2010	2000000.00	0.00	18.00	180	N			
88-04 164th Street		Jamaica	NY	11432	USA	Commercial Building	13450000.00	Appraisal	Acquisition		3/31/2011	13800000.00	0.00	30.00	20.24	N			
46-08 5th Street		Long Island City	NY	11101	USA	Vacant Lot/Undeveloped Land	1.00	Appraisal	Acquisition		4/21/2011	1.00	0.00	28.00	120	N			
524 Coney Island Ave		Brooklyn	NY	11218	USA	Commercial Building	2150000.00	Appraisal	Acquisition		4/5/2011	2950000.00	0.00	19.00	180	N			
510 Coney Island Ave		Brooklyn	NY	11218	USA	Commercial Building	1000000.00	Appraisal	Acquisition		6/20/2011	1200000.00	0.00	30.00	84	N			
425 West 33rd Street		New York	NY	10001	USA	Commercial Building	2000000.00	Appraisal	Acquisition		6/28/2011	2500000.00	0.00	15.00	120	N			
1800 Ulton Ave		Bronx	NY	10460	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	7/26/2010	0.00	30.00	30.00	84	N			
2240 Walton Ave		Bronx	NY	10460	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	7/26/2010	0.00	15.00	11.50	120	N			
1021 Jennings Street		Bronx	NY	10463	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	8/1/2010	0.00	22.50	16.00	180	N			
287 East 10th Street		New York	NY	10009	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	8/1/2010	0.00	25.00	18.00	180	N			
12 West 12th Street		Hollis	NY	10011	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	8/1/2010	0.00	30.00	20.24	10	N			
188-04 91st Avenue		New York	NY	11423	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	8/19/2010	0.00	30.00	28.00	120	N			
350 Gerard Avenue		Bronx	NY	10451	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	8/23/2010	0.00	23.00	18.63	12	N			
120 Warren Street		New York	NY	10007	USA	Mixed Use	0.00	Other	Acquisition	Market Analysis-\$/sf	8/31/2010	0.00	49.00	75.00	35	N			
3030 Godwin Terrace		Bronx	NY	10463	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	9/1/2010	0.00	25.00	21.00	60	N			
52 Broadway		New York	NY	10004	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	9/2/2010	0.00	45.00	42.24	10	N			
1001 Hecklmer Street		Brooklyn	NY	11233	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	9/14/2010	0.00	22.00	23.00	50	N			
339 8th Street		Brooklyn	NY	11215	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	10/19/2010	0.00	18.00	18.05	60	N			
67-69 Schermerhorn Street		Bronx	NY	11201	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	11/8/2010	0.00	20.00	20.00	60	N			
1122 East 180th Street		Bronx	NY	10460	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	11/12/2010	0.00	19.00	19.00	180	N			
30-30 47th Avenue		Long Island City	NY	11101	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	12/3/2010	0.00	24.00	17.50	180	N			
411 46th Street		Brooklyn	NY	11220	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	1/31/2011	0.00	15.00	15.00	60	N			
3690 Hillman Avenue		Bronx	NY	10463	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	2/18/2011	0.00	21.00	14.56	120	N			
710 Webster Avenue		Bronx	NY	10457	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	2/24/2011	0.00	22.00	19.00	180	N			
778 Briggs Avenue		Bronx	NY	10458	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	2/24/2011	0.00	20.00	14.50	60	N			
543 East 159th Street		Bronx	NY	10458	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	3/1/2011	0.00	20.00	13.00	120	N			
94-25 17th Street		Sb. Richmond Hill	NY	11419	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	4/29/2011	0.00	16.00	11.21	240	N			
1231 Lafayette Street		Bronx	NY	10474	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	6/21/2011	0.00	21.00	25.00	180	N			
361-38 Gun Hill Road		Bronx	NY	10467	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	6/29/2011	0.00	29.00	39.00	42	N			
52 Broadway		New York	NY	10004	USA	Commercial Building	0.00	Other	Acquisition	Market Analysis-\$/sf	8/30/2011	0.00	45.00	56.17	12	N			

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 Executive 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 FY11 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 FY11

- 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 FY11 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 FY11, Fraud Prevention Assessment highlighted areas of potential concern and set forth the improvements that had been made, including:
 1. The SCA now requires both in-house and on-line ethics training programs for all full-time and contingent staff;
 2. The SCA has hired an independent consultant to comprehensively review the internal process for both submitting, negotiating, and approving change orders and the dispute resolution process;
 3. An audit of the electronic prevailing wage compliance system revealed flaws in the system originally implemented. The SCA and its outside system programmer are working to correct the flaws and enhance security of the prevailing wage compliance system;
 4. The failure of some contractors to adhere to contract specifications and/or improperly substitute inferior products or materials has compelled the SCA's Architecture & Engineering Department to issue written notice to all of its technical staff and consultants;
 5. Contract bid and award certification that contractor is not under criminal investigation or charged with crimes: and
 6. The upgrade of security at the SCA's headquarters.
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 Executive 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 FY11 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 FY11. 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 Executive 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:

Lorraine Grillo

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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Lorraine Grillo
President & CEO

February, 2012