

**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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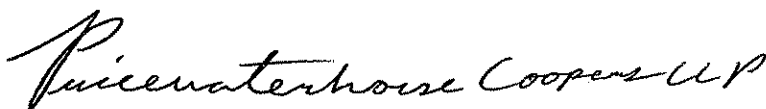
Report of Independent Auditors

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.



October 5, 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, pollution remediation expenditures, and operating and administrative costs of the Authority for the fiscal year. 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 \$663 million or 28%. Operating revenues in fiscal year 2009 were \$3,039 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 \$2,192 million as compared to \$1,496 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 \$850 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 \$3,830 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 \$1,197 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 \$20.1 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 No. 49 ("GASB 49"). For the fiscal year 2009, the Authority has classified \$309 million 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 1)	Government Wide	Capital Project Fund	Adjustments (See Note 1)	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	612,837	24,460	637,297	413,556	23,222	436,778
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 the City of New York	-	3,923,180	3,923,180	-	2,931,969	2,931,969
Total Assets	\$ 740,663	\$ 3,956,201	\$ 4,696,864	\$ 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	-	-	-
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	691,863	175,006	866,869	496,972	23,222	520,194
Fund balances/net Assets:						
Total fund balances/net assets	48,800	3,781,195	3,829,995	42,549	2,937,242	2,979,791
Total liabilities and fund balances/net assets	\$ 740,663	\$ 3,956,201	\$ 4,696,864	\$ 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	\$ 152,791	\$ 158,543	\$ 2,270,656	\$ -
Operating revenues for payments made on behalf of the Department of Education	-	-	105,502	-
Total Revenues	152,791	158,543	2,376,158	-
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	-	-
Transfer of completed contracts to the Department of Education	-	1,729,989	-	1,390,244
Operating transfers on behalf of the Department of Education	152,791	-	105,502	-
Total Expenses	2,877,279	(685,410)	2,356,596	(860,850)
Net Revenues	3,571	843,953	19,562	880,412
Other revenues and expenses, net	2,680	-	2,544	-
Excess of revenues over expenses	6,251	843,953	22,106	860,850
Fund balances/net assets:				
Beginning of year	42,549	2,937,242	20,443	2,076,392
End of year	\$ 48,800	\$ 3,781,195	\$ 42,549	\$ 2,937,242

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 except for pollution remediation expenditures (see footnote #10). 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

New York City School Construction Authority

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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.

In order to comply with the requirements of GASB 49, the Authority has recorded a long-term liability in the Government wide financial statements for its outstanding commitments for pollution remediation expenditures.

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 obligations are being expensed in accordance with the provision of GASB 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.

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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.

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 Board (GASB) 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,

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(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") 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	159,047	127,612
Total Retainage Payable	<u>\$ 169,221</u>	<u>\$ 130,870</u>

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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	<u>5,653</u>	<u>4,322</u>
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

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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	<u>803</u>
	<u>\$ 10,419</u>

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

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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.

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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 million 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.

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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.