New York City School Construction Authority

Financial Statements
At June 30, 2010 and 2009 and for the fiscal years then ended

New York City School Construction Authority
Index
June 30, 2010 and 2009

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Report of Independent Auditors

To the 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, 2010 and 2009, 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, 2010 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 1, 2010

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, 2010 and 2009.

Overview of Financial Performance
In accordance with the requirements of Governmental Accounting 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 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 $2,728 million in construction payments and payments related to general and administrative expenses 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 Department of Education ("DoE") for capitalization once the project is completed.

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 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 Board of Education, 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 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 principally 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.

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.

For fiscal year 2009, the Authority awarded construction contracts for 19 new schools and additions with a construction value of $667 million and 882 capital improvement or renovation projects with a construction value of $1.0 billion. The Authority completed 23 new schools and additions as of September 2009, which created 13,881 seat openings for the school year.

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.

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, reconstruction, and athletic field refurbishment.

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.

Financial Highlights

The Authority's fund balances/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 projects transferred to the DoE in fiscal year 2010. All projects transferred were determined by the Authority's Project Management Division to be substantially completed or occupied as of June 30, 2010. 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 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 DoE and Operating transfers on behalf of the DoE.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2010 by $3,134 million. The assets of the Authority exceeded its liabilities at the close of fiscal year 2009 by $3,830 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 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.

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.

Total Government-wide assets from fiscal year 2009 to fiscal year 2010 decreased by $738 million. The decrease in total assets in fiscal year 2010 was primarily due to an increase in completed contracts transferred to the DoE for capitalization as fixed assets. From fiscal year 2008 to fiscal year 2009 total assets, increased by $1,197 million. The increase in total assets in fiscal year 2009 was principally due to an increase in construction in progress.

Cash decreased by $25 million from fiscal year 2009 to fiscal year 2010. The decrease is principally attributable to $30 million reimbursed to the Authority by the Port Authority for Noise Abatement Projects at NYC Public Schools that was transferred to the NYC Department of Finance.

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 School of $12 million and insurance premiums refunded of $9 million.

Liabilities decreased $42 million from fiscal year 2009 to fiscal year 2010, principally as a result of a decrease in the accounts payable and accrued liabilities.

Liabilities increased $347 million from fiscal year 2008 to fiscal year 2009, 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 the fiscal year 2010, the Authority has classified $140.4 million as expenditures incurred for pollution remediation costs. For the fiscal year 2009, the Authority classified $309.1 million as expenditures incurred for pollution remediation costs (see Note 10).

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.

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, 2010 and 2009

(in thousands)

	2010			2009		
	Capital Project Fund	Adjustments (See Note 2)	Government Wide	Capital Project Fund	Adjustments (See Note 2)	Government Wide
Assets						
Cash	$ 4,110	$ -	$ 4,110	$ 29,032	$ -	$ 29,032
Temporary investments	39,985	-	39,985	19,998	-	19,998
Due from the City of New York	594,926	27,619	622,545	612,837	24,460	637,297
Prepaid expenses	48,807	-	48,807	53,374	-	53,374
Other assets	15,551	-	15,551	15,248	-	15,248
Securities in lieu of cash retainage	17,328	-	17,328	10,174	-	10,174
Fixed assets, net	-	8,459	8,459	-	8,561	8,561
Construction in progress, assets held for City of New York	-	3,201,698	3,201,698	-	3,923,180	3,923,180
Total Assets	$ 720,707	$ 3,237,776	$ 3,958,483	$ 740,663	$ 3,956,201	$ 4,696,864
Liabilities						
Accounts payable and accrued liabilities	$ 473,596	$ 20,774	$ 494,370	$ 517,437	$ 19,570	$ 537,007
Retainage payable	198,066	-	198,066	169,221	-	169,221
Pollution remediation payable	-	120,066	120,066	-	150,546	150,546
Accrued annual leave obligation	5,420	-	5,420	5,205	-	5,205
Accrued sick leave obligation	-	3,443	3,443	-	3,090	3,090
Accrued claims and contingencies	-	3,400	3,400	-	1,800	1,800
Total Liabilities	$ 677,082	$ 147,683	$ 824,765	$ 691,863	$ 175,006	$ 866,869
Fund Balances/Net Assets						
Total Fund Balances	$ 43,625	$ 3,090,093		$ 48,800	$ 3,781,195	
Total Net Assets			$ 3,133,718			$ 3,829,995
Total Liabilities and Fund Balances	$ 720,707	$ 3,237,776		$ 740,663	$ 3,956,201	

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

New York City School Construction Authority
Statements of Activities
Years Ended June 30, 2010 and 2009

(in thousands)

	2010			2009		
	Capital Project Fund	Adjustments (See Note 2)	Government Wide	Capital Project Fund	Adjustments (See Note 2)	Government Wide
Revenues:						
Operating revenues from or due from the City of New York	$ 2,885,368	$ -	$ 2,885,368	$ 2,886,602	$ -	$ 2,886,602
Operating revenues for payments made on behalf of DoE	131,705	-	131,705	152,791	-	152,791
Total Revenues	$ 3,017,073	$ -	$ 3,017,073	$ 3,039,393	$ -	$ 3,039,393
Expenditures/expenses:						
Capital projects	$ 2,727,653	$ (2,727,653)	$ -	$ 2,721,200	$ (2,721,200)	$ -
Fixed assets	(102)	102	-	3,288	(3,288)	-
Pollution remediation costs	170,872	(30,480)	140,392	158,543	150,546	309,089
Transfer of completed contracts to the DoE	-	3,449,135	3,449,135	-	1,729,989	1,729,989
Operating transfers on behalf of the DoE	131,705	-	131,705	152,791	-	152,791
Total Expenses	$ 3,030,128	$ 691,104	$ 3,721,232	$ 3,035,822	$ (843,953)	$ 2,191,869
Net Revenues	$ (13,055)	$ (691,104)	$ (704,159)	$ 3,571	$ 843,953	$ 847,524
Other revenues and expenses, net	7,880	-	7,880	2,680	-	2,680
Excess of revenues over expenses	$ (5,175)	$ (691,104)	$ (696,279)	$ 6,251	$ 843,953	$ 850,204
Fund Balances/Net Assets:						
Beginning of year	$ 48,800	$ 3,781,195	$ 3,829,995	$ 42,549	$ 2,937,242	$ 2,979,791
End of year	$ 43,625	$ 3,090,091	$ 3,133,716	$ 48,800	$ 3,781,195	$ 3,829,995

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

(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, and 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 and as such have been recorded as net assets - "Total Fund Balances/Net Assets." 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 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 $105,578 and $118,588 were made in fiscal 2010 and 2009, respectively, for this purpose.

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

(in thousands)

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

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

Resource flows between the Authority (a blended component unit of the City of New York) and the City of New York and Board of Education, 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 2010" and "fiscal 2009").

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 as incurred in accordance with the provision of Governmental Accounting Standards Board ("GASB") Standard 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.

(in thousands)

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.

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, 2010 and 2009 uninsured cash balances total $4,010 and $28,932, respectively. Cash accounts are collateralized through JP Morgan Chase with the Federal Reserve of Boston.

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 $115,055 and $70,446 as of June 30, 2010 and 2009, respectively.

Additionally, at June 30, 2010 and 2009, $344 and $344, respectively, is held in escrow pending settlement of liens placed by a subcontractor against a primary contractor.

(in thousands)

4. Temporary Investments

The Authority, in accordance with section eleven of the general municipal law, invests money on deposit not required for immediate expenditure in US 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 categories of levels of credit risk are: (1) insured or registered, or securities held by the Authority or its agent in the Authority's name, (2) uninsured and unregistered with securities held by a party other than the Authority or its agent, but in the Authority's name and (3) uninsured and unregistered securities held by a party other than the Authority or its agent, but not in the Authority's name. Pursuant to Section 1741.3 of the Enabling Act, the Authority invests in obligations in accordance with Section 11 of the General Municipal Law. These investments qualify under the first category of credit risk. The Authority's investments are recorded at fair market value. Cost plus accrued interest ("Amortized Cost") approximates the investments' fair market value. Investments are held in the Authority's name by a fiduciary institution.

Investments consist of the following:

	Amortized Cost	Fair Market Value
As of June 30, 2010		
US Treasury Bills, 0.04%, due on 08/12/10	$ 24,981	$ 24,997
US Treasury Bills, 0.05%, due on 11/26/10	14,985	14,988
	$ 39,966	$ 39,985

	Amortized Cost	Fair Market Value
As of June 30, 2009		
US Treasury Bills, 0.06%, due on 07/30/09	$ 19,972	$ 19,998
	$ 19,972	$ 19,998

(in thousands)

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:

	2010	2009
Securities retained payable	$ 17,328	$ 10,174
Cash retainage withheld	180,738	159,047
Total Retainage Payable	$ 198,066	$ 169,221

The Fair Market Value of the securities retained payable is $21,028 and $12,672 in fiscal 2010 and 2009, respectively.

6. Fixed Assets

Fixed assets consist of the following:

Asset Category	Estimated Useful Lives	2009	Additions	Dispositions	2010
Computer hardware/Equipments	3	$ 15,230	$ 461	$ -	$ 15,691
Computer software	3	4,935	725	-	5,660
Leasehold improvements	12	16,542	1,268	-	17,810
Furniture & fixtures	5-7	5,374	-	-	5,374
Automobiles	5	3,575	702	(114)	4,163
Office equipment	3-5	2,697	967	-	3,664
		48,353	4,123	(114)	52,362
Less: Accumulated depreciation		(39,792)	(4,210)	99	(43,903)
Fixed assets, net		$ 8,561	$ (87)	$ (15)	$ 8,459

In the Government-wide Financial Statements, depreciation is capitalized into construction in progress which totaled $4,210 and $2,873 for fiscal 2010 and 2009, respectively.

(in thousands)

7. Construction in Progress

Expenditures for construction in progress for fiscal 2010 and 2009 include:

	2010	2009
Outside construction costs	$ 2,584,598	$ 2,574,898
Authority payroll and related fringe benefits	91,288	89,128
Authority general and administrative costs	51,767	57,175
Total Expenditures	2,727,653	2,721,201
Construction in progress - beginning of year	3,923,180	2,931,968
Total before transfer to DoE during the year	6,650,833	5,653,169
Costs transferred to the DoE during the year	(3,449,135)	(1,729,989)
Construction in progress - end of year	$ 3,201,698	$ 3,923,180

During fiscal 2010, the Authority transferred $3,449,136 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. During fiscal 2009, the Authority transferred $1,729,989, 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 additions to fixed assets for the fiscal 2009 of $1,747,572.

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, 2010 and 2009, pass-through purchases totaled $100,210 and $124,236, 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:

	2010	2009
Skilled trades, minor capital projects	$ 24,628	$ 13,722
Lead Paint Abatement	-	2,167
DoE Admin Staff	6,867	12,666
Total	$ 31,495	$ 28,555

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

(in thousands)

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:

2011	$	4,808
Thereafter		803
Total	$	5,611

Rent expense, in the Fund financial statements, totaled $6,045 and $5,460 in fiscal 2010 and fiscal 2009, respectively.

Purchase Orders

Purchase orders, contracts and other commitments at June 30, 2010 and 2009 totaled $2,599, and $3,463, 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 $11,915 and estimated receivable of $9,532 as of June 30, 2010 and 2009, respectively, based on the insurance contract's terms and conditions and an actuarial assessment of OCIP loss activity.

On January 2005, the Authority contracted with AIG to provide insurance coverage for the OCIP. The insurance coverage period was from January 1, 2005 through December 31, 2007.

The current Authority 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.

(in thousands)

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 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, 2010 and 2009 to be $3,400 and $1,800, 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.

10. Accounting and Financial Reporting for Pollution Remediation Obligations

GASB No. 49 identifies the accounting and financial reporting requirements for pollution remediation obligations. GASB No. 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 No. 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 No. 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 2010, the Authority has classified $140,391 as expenditures incurred for pollution remediation costs. For the fiscal year 2009, the Authority classified $309,089 as expenditures incurred for pollution remediation costs. The Authority does not anticipate recovering any of these costs from other parties or agencies.

	2010	2009
Pollution Remediation Expenditures (GASB No. 49)		
Pollution Remediation Expenditures	$ 170,872	$ 158,543
Open commitments as of June 30	120,066	150,546
Payment of 2009 open commitments	(150,546)	-
Total Expenditures	$ 140,392	$ 309,089

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

(in thousands)

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 $8,625 and $6,827 for fiscal year 2010 and 2009, 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 (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 GASB 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. 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 $20,774 and $19,500 with respect to its post-employment welfare fund benefits as of June 30, 2010 and 2009, respectively.

(in thousands)

12. Subsequent Events

The Authority has performed an evaluation of subsequent events through October 1, 2010, the date the financial statements were available for issuance.

NYC School Construction Authority
2010 Report to Management

December 1, 2010

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, 2010, 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.

We have identified no significant deficiencies or material weaknesses as a result of performing our audit procedures. As agreed in our engagement letter, we are providing you with a report of all deficiencies that are of a lesser magnitude than a significant deficiency and 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,

PricewaterhouseCoopers LLP

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I. Site Visit Comments

1. 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.

2. 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.

II. Information Technology Comments

1. 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 the formal request and approval for additional access granted to existing users in the Oracle Financials application were 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.

III. Operational Comments

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.

Recommendation:
We recommend that Management provide an additional review of the accuracy of accruals prior to finalization of the financial statements.

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.

IV. <u>Status of Prior Year Observations</u>

1. Information Security

a. Formally review user access

<u>Observation:</u>
Access for Primavera Expedition users is not reviewed on a regular basis. In addition, the administrator account for the Primavera Expedition application is generic and shared amongst the group supporting the application. There are currently no procedures to log and monitor the generic ID's activity within the system.

A periodic review is not performed to ensure that Oracle Database generic IDs are appropriate. In 2010, we noted that there was no business justification for two Oracle Database generic IDs.

<u>Implication:</u>
The lack of timely recertification increases the risk of inappropriate access to systems and data. Additionally, access to the system may no longer be appropriate for the user's job functions.

The absence of unique user IDs for each person increases the risk that unauthorized transactions may be processed by individuals who cannot be identified. The risk is heightened when the generic account is the system administrator account.

<u>Recommendation:</u>
We recommend that Management implement a formal periodic review and recertification process to evaluate access for Primavera Expedition. The recertification process should include a review of the following elements:

- Review of all active user IDs from the application and their associated access rights
- Analysis of access rights to ensure duties are properly segregated
- Assignment of unique user IDs. If generic IDs are used, individual accountability should be maintained.

In addition, we recommend that Management enable and review audit logging of the Primavera Expedition generic accounts, including the administrator account, to ensure that no unauthorized updates are made that could potentially affect transaction processing.

We recommend that Management implement a formal periodic review of Oracle Database generic IDs. The review process should include a review of the appropriateness of all active generic IDs and their associated access rights.

Management Response:
While there are generic database IDs, there are NO Generic application IDs in the Primavera Expedition system. Each user has his/her own credentials, including ID and Password as per SCA policy. The database system IDs and passwords are restricted to designated individuals to ensure full accountability and traceability is maintained.

Each Expedition application ID has a level of security based on the person's role in the system and the project(s) to which they have access. The security and access is based on a user ID request / change form. These forms are approved by designated persons in the Construction Management department, the A&E department or the IT department (for administrative users).

Management agrees with the finding that a periodic review is necessary to ensure proper access levels and security settings are appropriate. The IT department in conjunction with business functions will generate a report of all users and their access levels. Each business unit's management will attest that individuals in their groups' access levels are still appropriate, and that adequate separation of duties exists in the business function. Likewise, IT will perform the same tests for administrative users.

Any inappropriate access levels that are identified will be remediated immediately.

Due to the fact that Expedition is in the middle of a major upgrade, we plan to have the process in place for the new version (CM13), which is scheduled to go live by fiscal year ended June 30, 2011.

b. Remove terminated users on a timely basis

Observation:
We noted four instances when the system access for terminated employees was not revoked upon their termination.

Implication:
Failure to remove user access in a timely manner upon termination can potentially compromise the integrity of the Authority's data and could result in unauthorized data access and manipulation.

Recommendation:
We recommend that Management improve the timeliness of communication with the IT department by the HR department and that Management ensure system and application accounts are disabled in a timely manner upon termination.

Management Response:
Management agrees with the recommendation and has modified existing processes and procedures documented in the IT Service Desk Manual to ensure all terminated users' Windows, Expedition and Oracle Financials logins are disabled in a timely manner. All exceptions will require upper management approval and will be documented in the Heat ticket for each case. All exceptions will be followed up monthly until closed.

IT will look into implementing system integration with the new HR system to trigger automatic workflow to disable network and systems access once a user is terminated.

Management will continue to produce "45-day inactive" reports and account last login reports, as well as performing random checks on a quarterly basis to ensure this process change is followed.

c. Strengthen password parameters within the system

Observation:
Password configurations are not consistently established. We noted that the password complexity requirement for Primavera Expedition is not enabled. We noted that the password complexity and lockout are not enabled for the Oracle Financials application. We also noted that the password expiration for one individual Oracle Financials user ID was indefinite.

Implication:
Without strong access controls in the network and application layers, there is an increased risk of inappropriate/unauthorized access to systems.

Recommendation:
We recommend that Management strengthen its application authentication controls. Management should enable password complexity, password history, and where possible, password lockout policies. Also, management should ensure that the password expiration configuration is consistent with policy.

Management Response:
Management agrees with the recommendation and has taken action to enable the Windows LDAP authentication option when we release the upgraded version of Expedition (Contract Manager), which is expected to be completed by the end of this fiscal year. Windows LDAP authentication will be listed as a required feature in the Oracle Financials R12 upgrade, which is tentatively scheduled for Fiscal Year 2012. We will begin an internal process to review Oracle Financials password configuration for all users to ensure it is in line with our password policy.

2. IT Operations

a. Continue to enhance disaster recovery and business continuity plans

Observation:
A high-level disaster recovery and business continuity plan is currently being developed, but has not been finalized. The detailed recovery procedures with respect to this observation relate to the overall recovery of critical business processes in the event of a disaster (e.g., a flood). In addition, although a Business Impact Analysis (a process that determines the length of time that alternative procedures can be performed before significantly impacting ongoing business operations) was conducted, Management has not completed the development of a formal Business Continuity Plan for critical business functions at the local level. For example, the plan should include what critical steps in payroll would need to be performed off site should the payroll center be incapacitated.

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

Recommendation:
We recommend that Management complete a comprehensive disaster recovery and business continuity plan. In addition, we recommend that the current disaster recovery plan for the IT department be reviewed and updated and that such plan include instructions for recovery of data processing. All plans should be tested for operating effectiveness on a regular basis.

Management Response:
Management agrees with the recommendation and will continue the IT disaster recovery effort begun last year. IT will develop the IT disaster recovery plan, document an annual review and update procedure to ensure the recovery plan is kept up-to-date. IT will issue an RFP to potential vendor(s) to provide space and resources for the IT disaster recovery effort. IT will review the risk assessment report produced by KPMG and come up with plan to remediate risks identified. Once the contract is awarded and the DR site is ready, we will conduct annual testing to validate the recovery plan and operating effectiveness against the new DR site.