

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

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

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Report of Independent Auditors

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

In our opinion, the accompanying Statements of Net Assets and the related Statements of Activities present fairly, in all material respects, the financial position of the New York City School Construction Authority (the "Authority") at June 30, 2011 and 2010, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

PricewaterhouseCoopers LLP

October 3, 2011

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

This section of the New York City School Construction Authority's (the "Authority") Annual Financial Report ("AFR") presents Management's Discussion and Analysis of the Authority's financial performance during the fiscal years ended June 30, 2011 and 2010.

Overview of Financial Performance

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

In fiscal year 2011, the Authority committed over \$1,742 million in total contract obligations for school construction projects as compared to \$2,258 million in fiscal year 2010. The Authority processed \$1,868 million in construction payments and payments related to general and administrative expenses during fiscal year 2011 as compared to \$2,728 million in fiscal year 2010. The largest portion of the Authority's assets is in construction in progress, which is eventually transferred to the Department of Education (the "DoE") for capitalization once the project is completed.

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

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

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

Results of Operations

The Authority's revenue is entirely funded by capital appropriations made by The City of New York (the "City") for capital expenditures of the Authority for the fiscal year, including operating and administrative costs. The decrease in revenue from fiscal year 2010 to fiscal year 2011 was \$830 million or 27%. Operating revenues in fiscal year 2011 were \$2,188 million as compared to \$3,017 million in fiscal year 2010. This decrease was driven principally by a decrease in capital project expenditures from fiscal year 2010 to fiscal year 2011.

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

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

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

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

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

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

Financial Highlights

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

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

The Authority's net assets in the Government-wide financials decreased by \$696 million from fiscal year 2009 to fiscal year 2010. This decrease in net assets is principally due to the higher volume of completed contracts transferred to the DoE in fiscal year 2010.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2011 by \$2,492 million. The assets of the Authority exceeded its liabilities at the close of fiscal year 2010 by \$3,134 million. The balance in net assets primarily represents the investment in capital assets for construction work performed at New York City public schools. These assets are not available for future spending.

The change in net assets for the Capital Project Fund from fiscal year 2010 to fiscal year 2011 is principally attributable to the transfers of completed contracts to the DoE.

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

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

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

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

Cash decreased by \$25 million from fiscal year 2009 to fiscal year 2010. The decrease is attributable to monies reimbursed to the Authority by the Port Authority for Noise Abatement Projects at NYC public schools of \$12 million and insurance premiums refunded of \$9 million.

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

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

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

Reconciliation of Net Assets and Changes in Net Assets

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

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

Contacting the NYC School Construction Authority's Management

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

New York City School Construction Authority
Statements of Net Assets
June 30, 2011 and 2010

(in thousands)

	2011			2010		
	Capital Project Fund	Adjustments (Note 1)	Government Wide	Capital Project Fund	Adjustments (Note 1)	Government Wide
Assets						
Cash	\$ 29,864	\$ -	\$ 29,864	\$ 4,110	\$ -	\$ 4,110
Temporary investments	15,000	-	15,000	39,985	-	39,985
Due from The City of New York	512,112	28,861	540,973	594,926	27,617	622,543
Prepaid expenses & other assets	63,663	-	63,663	48,807	-	48,807
Other assets	18,784	-	18,784	15,551	-	15,551
Securities in lieu of cash retainage	7,346	-	7,346	17,328	-	17,328
Fixed assets, net	-	6,280	6,280	-	8,459	8,459
Construction in progress, assets held for The City of New York	-	2,532,157	2,532,157	-	3,201,698	3,201,698
Total assets	646,769	2,567,298	3,214,067	720,707	3,237,774	3,958,481
Liabilities						
Accounts payable and accrued liabilities	\$ 410,996	\$ 23,492	\$ 434,488	\$ 473,596	\$ 20,774	\$ 494,370
Retainage payable	169,491	-	169,491	198,066	-	198,066
Pollution remediation payable	-	107,266	107,266	-	120,066	120,066
Accrued annual leave obligation	5,327	-	5,327	5,420	-	5,420
Accrued sick leave obligation	-	4,268	4,268	-	3,443	3,443
Accrued claims and contingencies	-	1,100	1,100	-	3,400	3,400
Total liabilities	585,814	136,126	721,940	677,082	147,683	824,765
Fund Balances/Net Assets						
Total Fund Balances - Restricted	60,955	2,431,172		43,625	3,090,091	
Total Net Assets			<u>\$ 2,492,127</u>			<u>\$ 3,133,716</u>
Total Liabilities and Fund Balances	<u>\$ 646,769</u>	<u>\$ 2,567,298</u>		<u>\$ 720,707</u>	<u>\$ 3,237,774</u>	

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

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

(in thousands)

	2011			2010		
	Capital Project Fund	Adjustments (Note 1)	Government Wide	Capital Project Fund	Adjustments (Note 1)	Government Wide
Revenues						
Operating revenues from or due from The City of New York	\$ 2,009,489	\$ -	\$ 2,009,489	2,885,368	\$ -	\$ 2,885,368
Operating revenues for payments made on behalf of DOE	178,046	-	178,046	131,705	-	131,705
Total revenues	<u>2,187,535</u>	<u>-</u>	<u>2,187,535</u>	<u>3,017,073</u>	<u>-</u>	<u>3,017,073</u>
Expenditures/expenses						
Capital projects	1,867,982	(1,867,982)	-	2,727,653	(2,727,653)	-
Fixed assets	(2,179)	2,179	-	(102)	102	-
Pollution remediation costs (GASB 49)	131,755	(12,800)	118,955	170,872	(30,480)	140,392
Transfer of completed contracts to the Department of Education		2,537,522	2,537,522		3,449,135	3,449,135
Operating transfers on behalf of the Department of Education	178,046		178,046	131,705		131,705
Total expenses	<u>2,175,604</u>	<u>658,919</u>	<u>2,834,523</u>	<u>3,030,128</u>	<u>691,104</u>	<u>3,721,232</u>
Net revenues	11,931	(658,919)	(646,988)	(13,055)	(691,104)	(704,159)
Other revenues and expenses, net	5,399	-	5,399	7,880	-	7,880
Excess of revenues over expenses	17,330	(658,919)	(641,589)	(5,175)	(691,104)	(696,279)
Fund balances/net assets						
Beginning of year	43,625	3,090,091	3,133,716	48,800	3,781,195	3,829,995
End of year	<u>\$ 60,955</u>	<u>\$ 2,431,172</u>	<u>\$ 2,492,127</u>	<u>\$ 43,625</u>	<u>\$ 3,090,091</u>	<u>\$ 3,133,716</u>

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

New York City School Construction Authority

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

1. Description of the Entity

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

The Authority's operations are funded by appropriations made by the City. All of the Authority's net assets are the property of the City. Appropriations are guided by the five-year capital plan, developed by the New York City Department of Education (the "DoE"). The City's appropriation for the five-year capital plan for the fiscal years 2005 through 2009 was \$13.14 billion. The City's appropriation for the five-year capital plan for fiscal years 2010 through 2014 is \$10.89 billion.

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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

New York City School Construction Authority

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

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

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

Fiscal Years

The Authority's fiscal year ends on June 30 of each year. Fiscal years are designated in the notes to the financial statements by the calendar year in which the fiscal year ends ("fiscal 2011" and "fiscal 2010").

Due From The City of New York

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

Fixed Assets and Construction in Progress

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

Construction in progress includes such costs as site acquisition, wrap-up insurance, initial outfitting construction contract costs, construction management fees, architecture and engineering fees, administrative costs of the Authority, and certain allocated DoE costs including salaries, related fringe benefits and overhead costs.

Pollution Remediation Costs

Pollution remediation costs are expensed in accordance with the provision of GASB Statement No. 49 ("GASB No. 49"). Refer to Note 10.

Budget Versus Actual Revenues and Expenditures

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

Annual and Sick Leave

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

New York City School Construction Authority

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

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

Use of Estimates

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

3. Cash

The Authority maintains cash accounts with a bank which are covered by FDIC insurance up to the maximum allowed by law. At June 30, 2011 and 2010, uninsured cash balances totaled \$29,764 and \$4,010, respectively. Cash accounts are collateralized through JP Morgan Chase with the Federal Reserve of Boston and invested in U.S. Treasury Notes.

The Authority maintains a zero balance checking account, which is funded by the City. As checks are presented at the bank, funds are transferred from the City into the zero balance account. Negative book balances, representing checks issued but not yet presented for payment, have been classified as accounts payable in the accompanying financial statements and the aggregated amounts are \$69,537 and \$115,055 as of June 30, 2011 and 2010, respectively.

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

4. Temporary Investments

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

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, the Authority categorizes its investments to give an indication of the level of risk assumed by the Authority at year end. The three levels of credit risk are: (1) insured or registered, or securities held by the Authority or its agent in the Authority's name, (2) uninsured and unregistered, with securities held by a party other than the Authority or its agent, but in the Authority's name, and (3) uninsured and unregistered securities held by a party other than the Authority or its agent, but not in the Authority's name. Pursuant to Section 1741.3 of the Enabling Act, the Authority invests in obligations in accordance with Section 11 of the General Municipal Law. These investments qualify under the first category of credit risk. The Authority's investments are recorded at fair market value. Amortized cost, cost plus accrued interest, approximates the investments' fair market value. Investments are held in the Authority's name by a fiduciary institution.

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

(in thousands)

Investments consist of the following:

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

5. Securities in Lieu of Cash Retainage and Retainage Payable

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

Retainage payable consists of the following:

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

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

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

(in thousands)

6. Fixed Assets

Fixed assets consist of the following:

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

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

7. Construction in Progress and Transfers of Completed Contracts

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

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

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

New York City School Construction Authority
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(in thousands)

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

8. Transactions with the Department of Education and Operating Transfers

In addition to construction and renovation of school facilities, the Authority makes payments for certain asset purchases made by the DoE. The title for such purchases transfers directly to the DoE. For the years ended June 30, 2011 and 2010, pass-through purchases totaled \$125,809 and \$100,210, respectively, and have been recorded as "Operating transfers on behalf of the DoE". Included in these amounts are expenditures for technology enhancements, leasehold alterations and reconstruction.

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

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

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

9. Commitments and Contingencies

Rent

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

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

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

In August 2011, the Authority renewed this lease.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2011 and 2010

(in thousands)

Purchase Orders

Purchase orders, contracts and other commitments at June 30, 2011 and 2010 totaled \$2,417, and \$2,599, respectively, and represent the difference between the value of construction-related contracts and the amount incurred through the end of the year. At June 30 of each fiscal year, the City had encumbered funds to meet these obligations.

Insurance

On January 1, 2003, the Authority entered into a contract with Liberty Mutual to provide General Liability ("GL") and Worker's Compensation ("WC") insurance coverage for the Owner Controlled Insurance Program ("OCIP"). The insurance policies covered all contractors and sub-contractors working on construction projects for the Authority from January 1, 2003 through December 31, 2004. This policy coverage was in the form of a large deductible program for GL and a retrospectively rated program for WC. The Authority has recorded an estimated receivable of \$15,140 and \$11,915 as of June 30, 2011 and 2010, respectively, based on the insurance contract's terms and conditions and an actuarial assessment of OCIP loss activity.

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

Legal

In the normal course of its operations, the Authority has received notices of claims alleging amounts due related to contracts, financial loss, including loss through condemnation, and personal injuries sustained by individuals. After giving effect to available insurance coverage related to such claims, expenses, if any, are recorded in accordance with the GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and related insurance issues*. The Authority, with the assistance of the City's Corporation Counsel, has estimated and recorded the liability at June 30, 2011 and 2010 to be \$1,100 and \$3,400, respectively.

From time to time the Authority is involved in various litigations, claims and assessments. The Authority records those claims which they believe to be probable of settlement, based upon their best estimate of such settlements, and discloses those claims considered to be reasonably possible of settlement along with the range of such possible settlements.

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10. Accounting and Financial Reporting for Pollution Remediation Obligations

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

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

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

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

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

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

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

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

Pension Plans

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

Contributions to the pension plans are made by the Authority and the employees. Contributions paid or accrued by the Authority under these plans totaled \$10,996 and \$8,625 for fiscal years 2011 and 2010, respectively. The Authority's contributions are actuarially determined at rates that are designed to accumulate sufficient assets to pay benefits when due. Member contributions are determined by law and vary by plan. The retirement plans provide pension benefits to retired employees based on salary and length of service. In addition, the pension systems may provide for cost-of-living and other supplemental benefits to qualified retirees and beneficiaries. In the event of disability during employment, participants are entitled to retirement allowances based on satisfaction of certain service requirements and other provisions. The plans also provide death benefits.

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

The Authority's obligation associated with the pension plans is limited to its contributions to the City.

Deferred Compensation Plan

The employees of the Authority are eligible to participate in a deferred compensation plan administered by the City, in accordance with Internal Revenue Code Section 457 ("Plan"). The Plan is available to all Authority employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable hardship. Pursuant to GASB No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, the City complied

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with the Internal Revenue Code 457 subsection (g) by establishing a fully funded trust account for employees (including those of the Authority), effective January 1, 1999. Consequently, all assets held under the Plan are restricted to the exclusive use of plan participants and their beneficiaries and are no longer subject to the claims of the City's general creditors.

Other Post-Employment Benefits

Subject to the provisions of the City's retirement system, the Authority provides other post-employment benefits through various welfare funds that cover retirees for various healthcare benefits not provided through the basic coverage. Welfare fund benefits may include, but are not limited to, prescription drug coverage and vision and dental coverage. In accordance with GASB No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The Authority has recorded net obligations of \$23,492 and \$20,774 with respect to its post-employment welfare fund benefits as of June 30, 2011 and 2010, respectively.

13. Subsequent Events

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