

**New York City School  
Construction Authority**  
**Financial Statements**  
**June 30, 2012 and 2011**

**New York City School Construction Authority**  
**Index**  
**June 30, 2012 and 2011**

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|                                                               | Page(s)    |
|---------------------------------------------------------------|------------|
| <b>Report of Independent Auditors .....</b>                   | <b>1</b>   |
| <b>Management's Discussion and Analysis (Unaudited) .....</b> | <b>2-4</b> |
| <b>Financial Statements</b>                                   |            |
| Statements of Net Assets .....                                | 5          |
| Statements of Activities .....                                | 6          |
| Notes to Financial Statements .....                           | 7-15       |



## 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 Statement of Activities present fairly, in all material respects, the financial position of the New York City School Construction Authority (the "Authority") at June 30, 2012 and June 30, 2011, 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, 2012 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*

September 14, 2012

# **New York City School Construction Authority**

## **Management's Discussion and Analysis (Unaudited)**

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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, 2012 and 2011.

### **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.

The Authority is in the third year of the five-year capital plan for the fiscal years 2010 through 2014. The total appropriation for this five-year capital plan is \$11.01 billion. Commitments for contractual obligations increased by \$861 million from fiscal year 2011 to fiscal year 2012. This increase resulted from the Authority awarding more construction contracts in fiscal year 2012. The Authority processed \$1,787 million in construction payments and payments related to general and administrative expenses during fiscal year 2012 as compared to \$1,863 million in fiscal year 2011. 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 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 approximately \$1,863 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 ("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 control 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 discrete 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. Revenue in fiscal year 2012 compared to fiscal year 2011 was substantially unchanged.

For fiscal year 2012, the Authority awarded construction contracts for 24 new schools and additions with a construction value of \$812.5 million and 416 capital improvement or renovation projects with a construction value of \$619.1 million. The Authority completed 13 new schools and additions September 2012, which created 9,453 seat openings for the 2012/2013 school year.

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

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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.

The decrease in revenue from fiscal year 2010 to fiscal year 2011 was \$830 million or 27%. This decrease resulted from a decrease in capital project expenses.

The Authority's operating expenses decreased \$871 million from fiscal year 2011 to fiscal year 2012. In fiscal year 2012, the decrease in operating expenses resulted from a decrease in completed contracts transferred to the DoE.

The Authority's operating expenses decreased \$886 million from fiscal year 2010 to fiscal year 2011. This decrease resulted from a decrease in the value of completed contracts transferred to the DoE for capitalization as fixed assets.

### **Financial Highlights**

The Authority's total assets and fund balance increased during fiscal year 2012. The factors driving this increase are an increase in construction in progress and a decrease in total liabilities.

The Authority's net assets in the Government-wide financials increased by \$175 million from fiscal year 2011 to fiscal year 2012. This increase in net assets is principally due to an increase in construction in progress and a decrease in total liabilities.

Completed contracts transferred to the DoE decreased from \$2,538 million in fiscal year 2011 to \$1,668 million fiscal year 2012. This decrease is consistent with the decrease in capital project expenditures during the last two fiscal years. All projects transferred were determined by the Authority's Project Management Division to be substantially completed or occupied as of June 30, 2012. 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 \$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.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2012 and 2011 by \$2,667 million and \$2,492 million, respectively. 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.

Total Government-wide assets from fiscal year 2011 to fiscal year 2012 increased by \$59 million. The increase in total assets in fiscal year 2012 was primarily due to an increase in construction in progress offset by a decrease in the receivable due from the City for accrued expenditures. From fiscal year 2010 to fiscal year 2011, total Government-wide assets decreased by \$744 million. The decrease in total assets in fiscal year 2011 was principally due to the transfer of completed projects to the DoE for capitalization as fixed assets.

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

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Cash and Temporary Investments increased by \$27 million from fiscal year 2011 to fiscal year 2012. The increase is principally due to contributions received from Partnership Agreements between the Authority, the Lower Manhattan Development Corp. and the New Settlement Community Campus Corp. for the construction of public schools. This cash is collateralized through JP Morgan Chase with the Federal Reserve of Boston and invested in U.S. Treasury Notes. The cash is held temporarily by the Authority for capital project expenditures.

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

Liabilities decreased \$115 million from fiscal year 2011 to fiscal year 2012, principally as a result of a decrease in accounts payable, accrued liabilities, and retainage held for construction projects. The decrease is a result of lower volume of construction expenditures in fiscal year 2012.

Liabilities decreased \$103 million from fiscal year 2010 to fiscal year 2011, principally as a result of a decrease in accounts payable, accrued liabilities and retainage held for construction projects. The decrease is a result of lower volume of construction expenditures in fiscal year 2012.

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. For the fiscal year 2012, the Authority has classified \$88 million as expenditures incurred for pollution remediation costs. For the fiscal year 2011, the Authority classified \$119 million as expenditures incurred for pollution remediation costs (Note 10 to the Financial Statements).

Funding for all Capacity Projects in fiscal years 2013 and 2014 is anticipated to be a combined \$2.2 billion. Approximately \$1 billion is anticipated for fiscal years 2013 and 2014 for Capital Improvements to existing facilities including a lighting replacement program. The total number of seats created by the current five-year capital plan is projected to be 33,888.

### **Reconciliation of Net Assets and Change in Net Assets**

The change in "fund balance/ net assets" is calculated based on the change from prior year between assets and liabilities of 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 and pollution remediation expenditures. The transfers to the DoE 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, 2012 and 2011**

(in thousands)

|                                                                | 2012                    |                         | 2011               |                         |
|----------------------------------------------------------------|-------------------------|-------------------------|--------------------|-------------------------|
|                                                                | Capital<br>Project Fund | Adjustments<br>(Note 1) | Government<br>Wide | Capital<br>Project Fund |
|                                                                |                         |                         |                    | Adjustments<br>(Note 1) |
|                                                                |                         |                         |                    | Government<br>Wide      |
| <b>Assets</b>                                                  |                         |                         |                    |                         |
| Cash                                                           | \$ 37,117               | \$ -                    | \$ 37,117          | \$ 29,864               |
| Temporary investments                                          | 35,000                  | -                       | 35,000             | 15,000                  |
| Due from The City of New York                                  | 450,973                 | 32,325                  | 483,298            | 512,112                 |
| Prepaid expenses & other assets                                | 27,609                  | -                       | 27,609             | 63,663                  |
| Other assets                                                   | 21,716                  | -                       | 21,716             | 18,784                  |
| Securities in lieu of cash retainage                           | 9,755                   | -                       | 9,755              | 7,346                   |
| Fixed assets, net                                              | -                       | 4,069                   | 4,069              | -                       |
| Construction in progress, assets held for The City of New York | -                       | 2,654,915               | 2,654,915          | -                       |
| Total assets                                                   | 582,170                 | 2,691,309               | 3,273,479          | 646,769                 |
|                                                                |                         |                         |                    | 2,532,157               |
|                                                                |                         |                         |                    | 3,214,067               |
| <b>Liabilities</b>                                             |                         |                         |                    |                         |
| Accounts payable and accrued liabilities                       | \$ 348,214              | \$ 25,726               | \$ 373,940         | \$ 23,492               |
| Retainage payable                                              | 146,918                 | -                       | 146,918            | 169,491                 |
| Pollution remediation payable                                  | -                       | 74,167                  | 74,167             | -                       |
| Accrued annual leave obligation                                | 5,157                   | -                       | 5,157              | 5,327                   |
| Accrued sick leave obligation                                  | -                       | 4,099                   | 4,099              | -                       |
| Accrued claims and contingencies                               | -                       | 2,500                   | 2,500              | -                       |
| Total liabilities                                              | 500,289                 | 106,492                 | 606,781            | 585,814                 |
| <b>Fund balances/net assets</b>                                |                         |                         |                    |                         |
| Total fund balances - restricted                               | 81,881                  | 2,584,817               |                    | 60,955                  |
| Total net assets                                               |                         |                         | \$ 2,666,698       |                         |
| Total liabilities and fund balances                            | \$ 582,170              | \$ 2,691,309            |                    | \$ 646,769              |
|                                                                |                         |                         |                    | \$ 2,492,127            |

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

**New York City School Construction Authority**  
**Statements of Activities**  
**Years Ended June 30, 2012 and 2011**

(in thousands)

|                                                                | 2012                    |                         | 2011               |                         |
|----------------------------------------------------------------|-------------------------|-------------------------|--------------------|-------------------------|
|                                                                | Capital<br>Project Fund | Adjustments<br>(Note 1) | Government<br>Wide | Capital<br>Project Fund |
|                                                                |                         |                         |                    | Adjustments<br>(Note 1) |
|                                                                |                         |                         |                    | Government<br>Wide      |
| <b>Revenues</b>                                                |                         |                         |                    |                         |
| Operating revenues from or due from The City of New York       | \$ 1,902,106            | \$ -                    | \$ 1,902,106       | \$ -                    |
| Operating revenues for payments made on behalf of DOE          | 207,130                 | -                       | 207,130            | -                       |
| Total revenues                                                 | 2,109,236               | -                       | 2,109,236          | -                       |
| <b>Expenditures/expenses</b>                                   |                         |                         |                    |                         |
| Capital projects                                               | 1,786,849               | (1,786,849)             | -                  | 1,867,982               |
| Fixed assets                                                   | 1,685                   | (1,685)                 | -                  | (2,179)                 |
| Pollution remediation costs (GASB 49)                          | 121,456                 | (33,098)                | 88,358             | 131,755                 |
| Transfer of completed contracts to the Department of Education |                         | 1,667,987               | 1,667,987          | 2,537,522               |
| Operating transfers on behalf of the Department of Education   | 207,130                 |                         | 207,130            | 178,046                 |
| Total expenses                                                 | 2,117,120               | (153,645)               | 1,963,475          | 2,175,604               |
| Net revenues                                                   | (7,884)                 | 153,645                 | 145,761            | 11,931                  |
| Other revenues and expenses, net                               | 28,810                  | -                       | 28,810             | 5,399                   |
| Excess of revenues over expenses                               | 20,926                  | 153,645                 | 174,571            | 17,330                  |
| <b>Fund balances/net assets</b>                                |                         |                         |                    |                         |
| Beginning of year                                              | 60,955                  | 2,431,172               | 2,492,127          | 43,625                  |
| End of year                                                    | \$ 81,881               | \$ 2,584,817            | \$ 2,666,698       | \$ 60,955               |
|                                                                |                         |                         |                    | \$ 2,431,172            |
|                                                                |                         |                         |                    | \$ 2,492,127            |

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

# **New York City School Construction Authority**

## **Notes to Financial Statements**

### **June 30, 2012 and 2011**

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*(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 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. 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 2010 through 2014 is \$11.01 billion.

The Authority carries out certain projects funded by the City Council and Borough Presidents, pursuant to the City Charter. Appropriations of \$119,557 and \$123,769 were made in fiscal 2012 and 2011, respectively, by the City Council and Borough Presidents 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 Adjustments column of the financial statements represent the operational accounts of the Authority, which when 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. 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, 2012 and 2011**

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*(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 2012" and "fiscal 2011").

#### **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.

#### **Due from the City of New York**

Due from The City of New York represents amounts expended by the Authority for construction projects pursuant to appropriations made by the City. This amount is related to liabilities, net of certain assets, that have been incurred by the Authority for construction activities prior to June 30, 2012.

#### **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 "Accounting and Financial Reporting for Pollution Remediation Obligations" ("GASB No. 49"). Refer to Note 10.

# **New York City School Construction Authority**

## **Notes to Financial Statements**

### **June 30, 2012 and 2011**

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*(in thousands)*

#### **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. 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. All employees are required to take annual leave. If circumstances preclude an employee from taking annual leave the excess at the end of the year is paid out.

#### **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, 2012 and 2011 uninsured cash balances total \$37,017 and \$29,764, respectively. Cash accounts are collateralized through JP Morgan Chase with the Federal Reserve of Boston and invested in U.S. Treasury Notes.

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 \$53,098 and \$69,537 as of June 30, 2012 and 2011, respectively.

### **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.

**New York City School Construction Authority**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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(in thousands)

Investments consist of the following:

|                                           | <b>June 30, 2012</b>      |                              |
|-------------------------------------------|---------------------------|------------------------------|
|                                           | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Market Value</b> |
| US Treasury Bills, 0.16%, due on 03/07/13 | \$ 34,961                 | \$ 35,000                    |
|                                           | <u>\$ 34,961</u>          | <u>\$ 35,000</u>             |

  

|                                           | <b>June 30, 2011</b>      |                              |
|-------------------------------------------|---------------------------|------------------------------|
|                                           | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Market Value</b> |
| US Treasury Bills, 0.04%, due on 09/08/11 | \$ 14,989                 | \$ 15,000                    |
|                                           | <u>\$ 14,989</u>          | <u>\$ 15,000</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:

|                              | <b>June 30,</b>   |                   |
|------------------------------|-------------------|-------------------|
|                              | <b>2012</b>       | <b>2011</b>       |
| Securities retainage payable | \$ 9,755          | \$ 7,346          |
| Cash retainage withheld      | 137,163           | 162,145           |
| Total retainage payable      | <u>\$ 146,918</u> | <u>\$ 169,491</u> |

The fair market value of the securities retained payable is \$12,375 and \$10,820 in fiscal 2012 and 2011, respectively.

**New York City School Construction Authority**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

(in thousands)

**6. Fixed Assets**

Fixed assets consist of the following:

| <b>Asset Category</b>          | <b>Estimated Useful Lives</b> | <b>2011</b> | <b>Additions</b> | <b>Dispositions</b> | <b>2012</b> |
|--------------------------------|-------------------------------|-------------|------------------|---------------------|-------------|
| Computer hardware/equipment    | 3                             | \$ 16,829   | \$ 738           | \$ -                | \$ 17,567   |
| Computer software              | 3                             | 6,307       | 81               |                     | 6,388       |
| Leasehold improvements         | 12                            | 18,620      | 69               | (8,254)             | 10,435      |
| Furniture & fixtures           | 5-7                           | 5,166       | 18               |                     | 5,184       |
| Automobiles                    | 5                             | 4,121       | 613              | (258)               | 4,476       |
| Office equipment               | 3-5                           | 4,112       | 166              | (2,411)             | 1,867       |
|                                |                               | 55,155      | 1,685            | (10,923)            | 45,917      |
| Less: Accumulated depreciation |                               | (48,875)    | (3,896)          | 10,923              | (41,848)    |
| Fixed assets, net              |                               | \$ 6,280    | \$ (2,211)       | \$ -                | \$ 4,069    |

Depreciation expense transferred to the DoE in the Government-wide financial statements totaled \$3,896 and \$4,972 for fiscal 2012 and 2011, respectively.

**7. Construction in Progress**

Expenditures for construction in progress for fiscal 2012 and 2011 include:

|                                                                                         | <b>2012</b>  | <b>2011</b>  |
|-----------------------------------------------------------------------------------------|--------------|--------------|
| Outside construction costs                                                              | \$ 1,657,006 | \$ 1,730,816 |
| Authority payroll and related fringe benefits                                           | 93,971       | 91,357       |
| Authority general and administrative costs                                              | 39,768       | 45,808       |
| Total expenditures, including depreciation expense of \$3,896 and \$2,986, respectively | 1,790,745    | 1,867,981    |
| <b>Construction in progress</b>                                                         |              |              |
| Beginning of year                                                                       | 2,532,157    | 3,201,698    |
| Total before transfer to DoE during the year                                            | 4,322,902    | 5,069,679    |
| Costs transferred to the DoE during the year                                            | (1,667,987)  | (2,537,522)  |
| Construction in progress - End of year                                                  | \$ 2,654,915 | \$ 2,532,157 |

During fiscal 2012, the Authority transferred \$1,667,987 to the DoE representing costs associated with substantially completed contracts and administrative costs. In addition, the DoE capitalized \$28,474 during fiscal 2012 for work performed by the Capital Task Force, a division of the DoE. This resulted in the DoE additions to fixed assets for the fiscal 2012 of \$1,696,461. 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.

**New York City School Construction Authority**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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(in thousands)

**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 is transferred directly to the DoE. For the years ended June 30, 2012 and 2011, pass-through purchases totaled \$161,410 and \$125,809, 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:

|                                        | 2012             | 2011             |
|----------------------------------------|------------------|------------------|
| Skilled trades, minor capital projects | \$ 36,593        | \$ 43,495        |
| Lead paint abatement                   | 1,819            | 2,279            |
| DOE admin staff                        | 7,308            | 6,463            |
|                                        | <u>\$ 45,720</u> | <u>\$ 52,237</u> |

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

**9. Commitments and Contingencies**

**Rent**

The Authority executed a lease modification agreement effective October 2011 for office space. This lease agreement expires in 2021 with an option for an extension through September 30, 2026. 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.

| Years Ending June 30, | Amount           |
|-----------------------|------------------|
| 2013                  | \$ 5,891         |
| 2014                  | 5,891            |
| 2015                  | 5,891            |
| 2016                  | 5,891            |
| 2017                  | 6,375            |
| 2018                  | 6,539            |
| 2019                  | 6,538            |
| 2020                  | 6,539            |
| 2021                  | 6,539            |
| 2022                  | 1,635            |
| Total                 | <u>\$ 57,729</u> |

Rent expense, in the Fund financial statements, totaled \$5,140 and \$6,100 in fiscal 2012 and fiscal 2011, respectively.

# **New York City School Construction Authority**

## **Notes to Financial Statements**

### **June 30, 2012 and 2011**

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*(in thousands)*

#### **Purchase Orders**

Purchase orders, contracts and other commitments at June 30, 2012 and 2011 totaled \$2,784 and \$2,417, 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 for the policy years 2003 through 2004 of \$17,325 and \$15,140 as of June 30, 2012 and 2011, 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, 2008 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 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, 2012 and 2011 to be \$2,500 and \$1,100, respectively.

From time to time the Authority is involved in various litigations, claims and assessments. The Authority records those claims which are believed 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 are disclosed.

**New York City School Construction Authority**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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(in thousands)

**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. 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 2012, the Authority has classified \$88,358 as expenditures incurred for pollution remediation costs. For the fiscal year 2011, the Authority classified \$118,955 as expenditures incurred for pollution remediation costs. The Authority does not anticipate recovering any of these costs from other parties or agencies.

| <b>Open Commitments</b>           | <b>2012</b>      | <b>2011</b>       |
|-----------------------------------|------------------|-------------------|
| <b>Beginning of year</b>          | \$ 107,265       | \$ 120,066        |
| Pollution remediation costs       | 88,358           | 118,955           |
| Payments made on open commitments | (121,456)        | (131,756)         |
| <b>Total expenditures</b>         | <b>\$ 74,167</b> | <b>\$ 107,265</b> |

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

The fund balances reported by the Authority in the financial statements are considered restricted under the definition in GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definition", 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 \$10,998 and \$10,966 for fiscal year 2012 and 2011, 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

# **New York City School Construction Authority**

## **Notes to Financial Statements**

### **June 30, 2012 and 2011**

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*(in thousands)*

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. 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. The Authority has recorded net obligations of \$25,726 and \$23,492 with respect to its post-employment welfare fund benefits as of June 30, 2012 and 2011, respectively.

### **13. Subsequent Events**

The Authority has performed an evaluation of subsequent events through September 14, 2012 the date the financial statements were available for issuance.