

**New York City School
Construction Authority**
Financial Statements
June 30, 2013 and 2012

New York City School Construction Authority

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June 30, 2013 and 2012

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the New York City School Construction Authority (the "Authority"), which comprise the Statements of Net Position and the related Statements of Activities as of June 30, 2013 and June 30, 2012 for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New York City School Construction Authority at June 30, 2013 and June 30, 2012, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.



The management's discussion and analysis for the year ended June 30, 2013 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

New York, NY
October 2, 2013

New York City School Construction Authority Management's Discussion and Analysis (Unaudited) June 30, 2013 and 2012

This section of the New York City School Construction Authority's (the "Authority") Annual Financial Report ("AFR") presents Management's Discussion and Analysis ("MD&A") of the Authority's financial performance during the fiscal years ended June 30, 2013 and 2012.

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 MD&A. The MD&A 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 fourth year of the five-year capital plan for the fiscal years 2010 through 2014. The total appropriation for this five-year capital plan is \$11.89 billion. In fiscal year 2013, the Authority committed over \$2,325 million in total contract obligations for school construction projects as compared to \$2,603 million in fiscal year 2012 a decrease of \$278 million. Contractual obligations made by the Authority during the fiscal year are based on the DoE's five year capital plan. The funding for the capital plan for each fiscal year is determined by The City's budgeting process. The Authority processed \$1,687 million in construction payments and payments related to general and administrative expenses during fiscal year 2013 as compared to \$1,787 million in fiscal year 2012. 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 2012, the Authority committed over \$2,603 million in total contract obligations for school construction projects as compared to \$1,742 million in fiscal year 2011. The Authority processed approximately \$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 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 Statement 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 2013 was \$1,840 million compared to fiscal year 2012 of \$2,109 million a decrease of \$269 million.

For fiscal year 2013, the Authority awarded construction contracts for 13 new schools and additions with a construction value of \$448.7 million and 475 capital improvement or renovation projects with a construction value of \$739.7 million. The Authority completed 19 new schools and additions as of September 2013, which created 9,356 seat openings for the 2013/2014 school year.

New York City School Construction Authority Management's Discussion and Analysis (Unaudited) June 30, 2013 and 2012

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 as of September 2012, which created 9,453 seat openings for the 2012/2013 school year.

Revenue in fiscal year 2012 compared to fiscal year 2011 was substantially unchanged.

The Authority's expenses in fiscal year 2013 were \$2,366 million compared to \$1,963 million in fiscal year 2012, an increase of \$403 million. This increase in expenses primarily resulted from an increase in completed contracts transferred to the DOE of \$427 million. Additionally in fiscal year 2013, the Authority incurred \$62 million of expenditures for the restoration of schools damaged by Hurricane Sandy. The amount of these expenditures determined to be noncapital eligible was \$39 million and were accounted for as a pass through on the Statement of Net Position for payments made on behalf of the DOE. The Authority is working with FEMA to be reimbursed for expenditures incurred due to damage caused by Hurricane Sandy to NYC Public Schools.

Completed contracts transferred to the DoE increased from \$1,668 million in fiscal year 2012 to \$2,095 million in fiscal year 2013. All projects transferred were determined by the Authority's Project Management Division to be substantially completed or occupied as of June 30, 2013. 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 expenses decreased \$871 million from fiscal year 2011 to fiscal year 2012. This decrease resulted from a decrease in the value of completed contracts transferred to the DoE for capitalization as fixed assets.

Financial Highlights

The City of New York implemented GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" ("GASB No. 63") beginning in fiscal year 2012. The implementation of GASB 63 resulted in a report change in the Authority's financial statements from a "Statement of Net Assets" to a "Statement of Net Position."

The Authority's net position in the Government-wide financials decreased by \$495 million from fiscal year 2012 to fiscal year 2013. The decrease was primarily due to the decrease in construction in-progress of \$407 million from fiscal year 2012 to fiscal year 2013 due to lower volume of construction expenditures.

Total Government-wide assets from fiscal year 2012 to fiscal year 2013 decreased by \$458 million. This decrease in total assets in fiscal year 2013 was primarily due to an increase in completed contracts transferred to the DOE for capitalization as fixed assets reducing construction in progress. From fiscal year 2011 to fiscal year 2012, total Government-wide assets increased by \$59 million. The increase in total assets in fiscal year 2012 was principally due an increase in construction in progress offset by a decrease in the receivable Due from The City of New York for accrued expenditures.

The Authority's net position 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.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2013 and 2012 by \$2,172 million and \$2,667 million, respectively. The Authority's net position 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.

New York City School Construction Authority Management's Discussion and Analysis (Unaudited) June 30, 2013 and 2012

Cash and Temporary Investments from fiscal year 2012 to fiscal year 2013 was substantially unchanged. Cash is secured 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 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.

The Liabilities of the Authority from fiscal year 2012 to fiscal year 2013 was substantially unchanged.

Liabilities decreased \$115 million from fiscal year 2011 to fiscal year 2012, as a result of a 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 2013, the Authority has classified \$127 million as expenditures incurred for pollution remediation costs. For the fiscal year 2012, the Authority classified \$88 million as expenditures incurred for pollution remediation costs (Note 10 to the Financial Statements).

Reconciliation of Net Position and Change in Net Position

The change in "fund balance/ net position" is calculated based on the change from prior year between assets and liabilities of the Authority. The change in "net position" 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. Additional financial information request should be addressed to 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 Position
June 30, 2013 and 2012

	2013			2012		
	Capital Project Fund	Adjustments (Note 1)	Government Wide	Capital Project Fund	Adjustments (Note 1)	Government Wide
Assets						
Cash	\$ 30,646		\$ 30,646	\$ 37,117		\$ 37,117
Temporary investments	39,966		39,966	35,000		35,000
Due from the City of New York	348,862	33,238	382,100	450,973	32,325	483,298
Prepaid expenses and other assets	42,353		42,353	27,609		27,609
Due from DoE	38,849		38,849	21,716		21,716
Other assets	21,798		21,798	9,755		9,755
Securities in lieu of cash retainage	8,137		8,137		4,069	4,069
Fixed assets, net		3,666	3,666			
Construction in progress, assets held for City of New York		2,248,425	2,248,425		2,654,915	2,654,915
Total assets	\$ 530,611	\$ 2,285,329	\$ 2,815,940	\$ 582,170	\$ 2,691,309	\$ 3,273,479
Liabilities						
Accounts payable and accrued liabilities	\$ 371,442	\$ 26,570	\$ 398,012	\$ 348,214	\$ 25,726	\$ 373,940
Retainage payable	134,622		134,622	146,918		146,918
Pollution remediation payable		99,658	99,658		74,167	74,167
Accrued annual leave obligation	5,187		5,187	5,157		5,157
Accrued sick leave obligation	4,168		4,168		4,099	4,099
Accrued claims and contingencies		2,500	2,500		2,500	2,500
Total liabilities	511,251	132,896	644,147	500,289	106,492	606,781
Fund Balances/Net Position						
Total fund balances - Restricted	19,360	2,152,433		81,881	2,584,817	
Total net position			\$ 2,171,793			\$ 2,666,698
Total liabilities and fund balances	\$ 530,611	\$ 2,285,329	\$ 2,171,793	\$ 582,170	\$ 2,691,309	\$ 2,666,698

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

New York City School Construction Authority
Statements of Activities
Years Ended June 30, 2013 and 2012

	2013			2012		
	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	\$ 1,696,080	\$ -	\$ 1,696,080	\$ 1,902,106	\$ -	\$ 1,902,106
Operating revenues for payments made on behalf of DOE	144,081	-	144,081	207,130	-	207,130
Total revenues	<u>1,840,161</u>	<u>-</u>	<u>1,840,161</u>	<u>2,109,236</u>	<u>-</u>	<u>2,109,236</u>
Expenditures/expenses						
Capital projects	1,686,866	(1,686,866)	-	1,786,849	(1,786,849)	-
Fixed assets	1,768	(1,768)	-	1,685	(1,685)	-
Pollution remediation costs (GASB 49)	101,648	25,491	127,139	121,456	(33,098)	88,358
Transfer of completed contracts to the Department of Education		2,095,527	2,095,527		1,667,987	1,667,987
Operating transfers on behalf of the Department of Education	144,081		144,081	207,130		207,130
Total expenses	<u>1,934,363</u>	<u>432,384</u>	<u>2,366,747</u>	<u>2,117,120</u>	<u>(153,645)</u>	<u>1,963,475</u>
Net revenues/(expenses)	(94,202)	(432,384)	(526,586)	(7,884)	153,645	145,761
Other revenues and expenses, net	31,681	-	31,681	28,810	-	28,810
Excess/(deficit) of revenues over expenses	<u>(62,521)</u>	<u>(432,384)</u>	<u>(494,905)</u>	<u>20,926</u>	<u>153,645</u>	<u>174,571</u>
Fund balances/net position						
Beginning of year net position	81,881	2,584,817	2,666,698	60,955	2,431,172	2,492,127
End of year	<u>\$ 19,360</u>	<u>\$ 2,152,433</u>	<u>\$ 2,171,793</u>	<u>\$ 81,881</u>	<u>\$ 2,584,817</u>	<u>\$ 2,666,698</u>

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

New York City School Construction Authority

Notes to Financial Statements

June 30, 2013 and 2012

(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 appointed the School's Chancellor, to serve as the Chairman of the Board of Trustees, and 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 based on a 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 \$11.89 billion.

The Authority carries out certain projects funded by the City Council and Borough Presidents, pursuant to the City Charter. Appropriations of \$119,396 and \$119,557 were made in fiscal 2013 and 2012, 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 construction of capital projects, all costs incurred are capitalized into construction in progress. Upon completion of construction in progress projects, the assets are transferred to the DoE.

2. Summary of Significant Accounting Policies

Basis of Accounting

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

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

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 in the fund financial statements.

New York City School Construction Authority

Notes to Financial Statements

June 30, 2013 and 2012

(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 Statement of Net Position. 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 2013" and "fiscal 2012").

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, 2013.

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, 2013 and 2012

(in thousands)

Hurricane Sandy Expenditures

The Authority incurred expenditures of \$62,511 in fiscal year 2013 related to the restoration of NYC Public Schools damaged during Hurricane Sandy. It was determined that \$38,849 of these expenditures were noncapital eligible. The Authority is working with FEMA to obtain reimbursement of expenditures incurred due to Hurricane Sandy damage.

The Authority revised its June 30, 2013 Statement of Activities to correct an error in the presentation of the \$38,849 of non-capital expenditures as it was determined that these costs were the expense of the DOE and should be recorded as a pass-through on the Statement of Net Position. As a result revenue of \$1,879,010 and expense of \$2,405,596 were each reduced by \$38,849 to \$1,840,161 and \$2,366,747, respectively. In addition, assets of \$2,777,091 and liabilities of \$605,298 were each increased \$38,849 to reflect the receivable from the DOE for reimbursement of such cost and a payable to the City of New York for repayment of the previously reimbursed amount.

Statement of Net Position

The City of New York implemented GASB Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" ("GASB No. 63") beginning in fiscal year 2012. The Statement specifies that the statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Statement 63 specifies that the statement of net position should report the residual amount as net position rather than net assets in the financial statements.

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.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2013 and 2012

(in thousands)

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, 2013 and 2012 uninsured cash balances total \$30,396 and \$36,867, respectively. Cash accounts are secured 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 \$37,113 and \$53,098 as of June 30, 2013 and 2012, 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.

Investments consist of the following:

	Amortized Cost	Fair Market Value
As of June 30, 2013		
US Treasury Bills, 0.09%, due on April 26, 2014	\$ 39,962	\$ 39,966
	<u>\$ 39,962</u>	<u>\$ 39,966</u>
	Amortized Cost	Fair Market Value
As of June 30, 2012		
US Treasury Bills, 0.16%, due on March 3, 2013	\$ 34,961	\$ 35,000
	<u>\$ 34,961</u>	<u>\$ 35,000</u>

New York City School Construction Authority
Notes to Financial Statements
June 30, 2013 and 2012

(in thousands)

5. Securities in Lieu of Cash Retainage and Retainage Payable

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

Retainage payable consists of the following:

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Securities retainage payable	\$ 8,137	\$ 9,755
Cash retainage withheld	<u>126,485</u>	<u>137,163</u>
Total retainage payable	<u>\$ 134,622</u>	<u>\$ 146,918</u>

The fair market value of the securities retained payable is \$10,269 and \$12,375 in fiscal 2013 and 2012, respectively.

6. Fixed Assets

Fixed assets consist of the following:

Asset Category	Estimated Useful Lives	Fixed Assets at June 30, 2012	Additions	Dispositions	Fixed Assets at June 30, 2013
Computer hardware/equipments	3	\$ 17,567	\$ 473	\$ -	\$ 18,040
Computer software	3	6,388	524		6,912
Leasehold improvements	12	10,435	116		10,551
Furniture and fixtures	5-7	5,184			5,184
Automobiles	5	4,476	480		4,956
Office equipment	3-5	<u>1,867</u>	<u>175</u>		<u>2,042</u>
		45,917	1,768	-	47,685
Less: Accumulated depreciation		<u>(41,848)</u>	<u>(2,171)</u>		<u>(44,019)</u>
Fixed assets, net		<u>\$ 4,069</u>	<u>\$ (403)</u>	<u>\$ -</u>	<u>\$ 3,666</u>

Depreciation capitalized into construction in progress totaled \$2,171 and \$3,896 for fiscal 2013 and 2012, respectively.

New York City School Construction Authority
Notes to Financial Statements
June 30, 2013 and 2012

(in thousands)

7. Construction in Progress

Expenditures for construction in progress for fiscal 2013 and 2012 include:

	2013	2012
Outside construction costs	\$ 1,556,826	\$ 1,657,006
Authority payroll and related fringe benefits	89,523	93,971
Authority general and administrative costs	<u>42,689</u>	<u>39,768</u>
Total expenditures	1,689,038	1,790,745
Construction in progress - beginning of year	<u>2,654,915</u>	<u>2,532,157</u>
Total before transfer to DoE during the year	4,343,953	4,322,902
Costs transferred to the DoE during the year	<u>(2,095,527)</u>	<u>(1,667,987)</u>
Construction in progress - end of year	<u>\$ 2,248,426</u>	<u>\$ 2,654,915</u>

During fiscal 2013, the Authority transferred \$2,095,527 to the DoE representing costs associated with substantially completed contracts and administrative costs. In addition, the DoE capitalized \$28,474 during fiscal 2013 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 2013 of \$2,124,001. 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. This resulted in the DoE additions to fixed assets for the fiscal 2012 of \$1,696,461.

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 titles for such purchases are transferred directly to the DoE. For the years ended June 30, 2013 and 2012, pass-through purchases totaled \$133,071 and \$161,410, 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:

	June 30,	
	2013	2012
Skilled trades, minor capital projects	\$ 4,044	\$ 36,593
Lead paint abatement	1,132	1,819
DOE admin staff	<u>5,834</u>	<u>7,308</u>
	<u>\$ 11,010</u>	<u>\$ 45,720</u>

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

New York City School Construction Authority
Notes to Financial Statements
June 30, 2013 and 2012

(in thousands)

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
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
	<u>\$ 51,838</u>

Rent expense, in the Fund financial statements, totaled \$6,333 and \$5,140 in fiscal 2013 and fiscal 2012, respectively.

Purchase Orders

Purchase orders, contracts and other commitments at June 30, 2013 and 2012 totaled \$3,131 and \$2,784, 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 \$19,835 and \$17,235 as of June 30, 2013 and 2012, respectively, based on the insurance contract's terms and conditions and an actuarial assessment of OCIP loss activity. This increase is due to a reduction in anticipated losses for the 2003 and 2004 program.

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.

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(in thousands)

Legal

In the normal course of its operations, the Authority has received notices of claims alleging amounts due related to contracts, financial loss, including loss through condemnation, and personal injuries sustained by individuals. After giving effect to available insurance coverage related to such claims, expenses, if any, are recorded in accordance with the GASB No. 10, "Accounting and Financial Reporting for Risk Financing and related insurance issues". The Authority, with the assistance of The City's Corporation Counsel, has estimated and recorded the liability of \$2,500 at June 30, 2013 and 2012.

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 the best estimate of such settlements. Disclosure is made for those claims considered to be reasonably possible of settlement along with the range of such possible settlements.

10. Accounting and Financial Reporting for Pollution Remediation Obligations

GASB No. 49 identifies the accounting and financial reporting requirements for pollution remediation obligations. GASB No. 49 specifies that costs incurred for the remediation of pollution, except for in certain circumstances, may not be afforded capital treatment for accounting purposes. Pollution remediation obligations are those obligations which are or will be incurred to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities. GASB No. 49 requires that the Authority report actual remediation costs or expenditures incurred. 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 2013, the Authority has classified \$127,139 as expenditures incurred for pollution remediation costs. For the fiscal year 2012, the Authority classified \$88,358 as expenditures incurred for pollution remediation costs. The Authority does not anticipate recovering any of these costs from other parties or agencies.

	2013	2012
Beginning of year as of 7/1	\$ 74,167	\$ 107,265
Pollution remediation costs	27,481	14,191
Less open obligations paid	(74,167)	(107,265)
Ending balances as of 6/30	<u>99,658</u>	<u>74,167</u>
Total Expenditures	<u>\$ 127,139</u>	<u>\$ 88,358</u>

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.

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(in thousands)

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 \$10,696 and \$10,998 for fiscal year 2013 and 2012, respectively. The Authority's contributions are actuarially determined at rates that are designed to accumulate sufficient assets to pay benefits when due. Member contributions are determined by law and vary by plan. The retirement plans provide pension benefits to retired employees based on salary and length of service. In addition, the pension systems may provide for cost-of-living and other supplemental benefits to qualified retirees and beneficiaries. In the event of disability during employment, participants are entitled to retirement allowances based on satisfaction of certain service requirements and other provisions. The plans also provide death benefits.

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

The Authority's obligation associated with the Pension Plans is limited to its contributions to The City.

Deferred Compensation Plan

The employees of the Authority are eligible to participate in a deferred compensation plan administered by The City, in accordance with Internal Revenue Code Section 457 (the "Plan"). The Plan is available to all Authority employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable hardship. 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.

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(in thousands)

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 \$26,570 and \$25,726 with respect to its post-employment welfare fund benefits as of June 30, 2013 and 2012, respectively.

13. Subsequent Events

The Authority has performed an evaluation of subsequent events through October 2, 2013, the date the financial statements were available for issuance.