

# **New York City School Construction Authority**

**Financial Statements**

**At June 30, 2008 and 2007 and for the  
fiscal years then ended**

**New York City School Construction Authority**  
**Index**  
**June 30, 2008 and 2007**

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**Report of Independent Auditors**

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

In our opinion, the accompanying statements of net assets and the related statements of activities present fairly, in all material respects, the financial position of the New York City School Construction Authority (the "Authority") at June 30, 2008 and 2007, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The MD&A has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the information.

*PricewaterhouseCoopers LLP*

September 30, 2008

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

This section of the New York City School Construction Authority's (the "Authority") Annual Financial Report ("AFR") presents management's discussion and analysis of the Authority's financial performance during the Fiscal years ended on June 30, 2008 and 2007.

### **Overview of Financial Statements**

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

In fiscal year 2008, the Authority committed over \$3,194 million in total contract obligations for school construction projects as compared to \$3,043 million in fiscal year 2007. The Authority processed approximately \$2,251 million in construction payments and payments related to general and administrative expenses (the "Operating Budget") during fiscal year 2008 as compared to \$1,752 million in fiscal year 2007. This represents a 28% increase from the prior year. The largest portion of the Authority's assets is in construction in progress, which is eventually transferred to the Department of Education (DoE) for capitalization.

In fiscal year 2007, the Authority committed over \$3,043 million in total contract obligations for school construction projects as compared to \$1,891 million in fiscal year 2006. The Authority processed approximately \$1,752 million in construction payments and payments related to general and administrative expenses (the "Operating Budget") during fiscal year 2007 as compared to \$1,525 million in fiscal year 2006. This represents a 15% increase from the prior year. The largest portion of the Authority's assets is in construction in progress, which is eventually transferred to the Department of Education (DoE) for capitalization.

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

In management's opinion, the financial statements present fairly the financial position and results of operations of the Authority in conformity with accounting principles generally accepted in the United States of America.

### **Results of Operations**

The Authority's revenue is entirely funded by capital appropriations made by the City for capital expenditures of the Authority for the fiscal year, including operating and administrative costs. Sources of funding for the appropriations include City and State bonds. The state bonds will total \$1.8 billion pursuant to state legislation passed in April 2006, which created Expanding our Children's Education and Learning Program ("EXCEL").

The increase in revenue from fiscal year 2007 to fiscal year 2008 was \$497 million or 26%. Operating revenues in fiscal year 2008 were \$2,376 million as compared to \$1,879 million in fiscal year 2007. This increase was driven by an increase in capital project expenditures of 28% from fiscal year 2007 to fiscal year 2008.

For fiscal year 2008 the SCA awarded construction contracts for twenty-seven new schools and additions with a construction value of \$996 million and seven hundred seventy-six capital improvement or

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

renovation projects with a construction value of \$1.4 billion. The SCA completed eighteen new schools and additions as of September 2008 which created 11,471 seat openings for the school year.

During fiscal year 2007, the SCA awarded construction contracts for six hundred eighty-seven capital improvement or renovation projects with a construction value of \$1.3 billion and twenty-nine new schools and additions with a construction value of \$1.0 billion. The SCA completed twelve capacity projects or new schools as of September 2007 which created 4,394 seat openings for the school year.

The increase in revenue from fiscal year 2006 to fiscal year 2007 was \$152 million or 9%. Operating revenues in fiscal year 2007 were \$1,879 million as compared to \$1,727 million in fiscal year 2006. This increase was driven by an increase in capital project expenditures of 15% from fiscal year 2006 to fiscal year 2007.

The Authority's operating expenses increased \$101 million from fiscal year 2007 to fiscal year 2008. Operating expenses in fiscal year 2008 were \$1,495 million as compared to \$1,394 million in fiscal year 2007. In fiscal year 2008, the value of completed contracts transferred to the Department of Education for capitalization as fixed assets was \$1,390 million as compared to \$1,276 million in fiscal year 2007. The increase in completed contracts transferred to the Department of Education from year to year was \$114 million. Operating transfers on behalf of the Department of Education decreased by \$13 million from year to year. Operating transfers on behalf of the Department of Education are defined as technology enhancements, reconstruction, and athletic field refurbishment.

The Authority's operating expenses increased \$222 million from fiscal year 2006 to fiscal year 2007. Operating expenses in fiscal year 2007 were \$1,394 million as compared to \$1,172 million in fiscal year 2006. In fiscal year 2007, the value of completed contracts transferred to the Department of Education for capitalization as fixed assets was \$1,276 million as compared to \$972 million in fiscal year 2006. The increase in completed contracts transferred to the Department of Education from year to year was \$304 million. Operating transfers on behalf of the Department of Education increased by \$81 million from year to year. Operating transfers on behalf of the Department of Education are defined as technology enhancements, reconstruction, and athletic field refurbishment.

### **Financial Highlights**

The Authority's fund balances/net assets in the Government-wide financials increased by \$883 million from fiscal year 2007 to fiscal year 2008. This increase in net assets is principally due to the higher volume of payment activity for ongoing construction projects netted against the transfer of completed projects to the Department of Education and Operating transfers on behalf of the Department of Education. All projects transferred were determined by the Authority's Project Management Division to be substantially completed or occupied as of June 30, 2008. This transfer of completed contracts allowed for the capitalization of these contracts as fixed assets by the City in the current fiscal year.

The Authority's fund balances/net assets increased by \$482 million from fiscal year 2006 to fiscal year 2007. The increase in net assets in fiscal year 2007 was principally due to the higher volume of payment activity for ongoing construction projects netted against the transfer of completed projects to the Department of Education and operating transfers on behalf of the Department of Education.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2008 by \$2,980. The assets of the Authority exceeded its liabilities at the close of fiscal year 2007 by \$2,097 million. The balance in net assets primarily represents the investment in capital assets for construction work performed at New York City Public Schools. These assets are not available for future spending.

The change in net assets for the Capital Project Fund from fiscal year 2007 to fiscal year 2008 is principally attributable to the increase in construction project activity from year to year.

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

The change in net assets for the Capital Project Fund from fiscal year 2006 to fiscal year 2007 is principally attributable to the increase in construction project activity from year to year.

Total government-wide assets from fiscal year 2007 to fiscal year 2008 increased by \$1,003 million. The increase in total assets in fiscal year 2008 was primarily due to an increase in construction in progress. From fiscal year 2006 to fiscal year 2007 total assets increased by \$612 million. The increase in total assets in fiscal year 2007 was principally due to an increase in construction in progress.

Liabilities increased \$120 million from fiscal year 2007 to fiscal year 2008, principally, as a result of an increase in the accounts payable and accrued liabilities and retainage held for construction projects.

Liabilities increased \$129 million from fiscal year 2006 to fiscal year 2007, principally, as a result of increase in accounts payable and accrued liabilities and retainage held for construction projects.

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

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

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

As a component unit of the City of New York, the Authority is not required to present a statement of cash flows.

### **Contacting the NYC School Construction Authority's Management**

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

**New York City School Construction Authority**  
**Statements of Net Assets**  
**June 30, 2008 and 2007**

(in thousands)

	2008			2007		
	Capital Project Fund	Adjustments (See Note 1)	Government Wide	Capital Project Fund	Adjustments (See Note 1)	Government Wide
<b>Assets:</b>						
Cash	\$ 8,928	\$ -	\$ 8,928	\$ 10,211	\$ -	\$ 10,211
Temporary investments	34,898	-	34,898	10,576	-	10,576
Due from the City of New York	413,556	23,222	436,778	311,411	21,146	332,557
Prepaid expenses & other assets	78,881	-	78,881	65,667	-	65,667
Securities in lieu of cash retainage	3,258	-	3,258	1,353	-	1,353
Fixed assets, net	-	5,273	5,273	-	4,911	4,911
Construction in progress, assets held for City of New York	-	2,931,969	2,931,969	-	2,071,481	2,071,481
Total Assets	\$ 539,521	\$ 2,960,464	\$ 3,499,985	\$ 399,218	\$ 2,097,538	\$ 2,496,756
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 361,492	\$ 18,369	\$ 379,861	\$ 287,535	\$ 17,352	\$ 304,887
Retainage payable	130,869	-	130,869	87,285	-	87,285
Accrued annual leave obligation	4,611	-	4,611	3,955	-	3,955
Accrued sick leave obligation	-	2,653	2,653	-	2,294	2,294
Accrued claims and contingencies	-	2,200	2,200	-	1,500	1,500
Total Liabilities	496,972	23,222	520,194	378,775	21,146	399,921
<b>Fund balances/net Assets:</b>						
Total fund balances/net assets	42,549	2,937,242	2,979,791	20,443	2,076,392	2,096,835
Total liabilities and fund balances/net assets	\$ 539,521	\$ 2,960,464	\$ 3,499,985	\$ 399,218	\$ 2,097,538	\$ 2,496,756

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

**New York City School Construction Authority**  
**Statements of Activities**  
**Years Ended June 30, 2008 and 2007**

(in thousands)

	2008			2007		
	Capital Project Fund	Adjustments (See Note 1)	Government Wide	Capital Project Fund	Adjustments (See Note 1)	Government Wide
<b>Revenues</b>						
Operating revenues from or due from the City of New York	\$ 2,270,656	\$ -	\$ 2,270,656	\$ 1,760,270	\$ -	\$ 1,760,270
Operating revenues for payments made on behalf of DOE	105,502	-	105,502	118,662	-	118,662
Total Revenues	2,376,158	-	2,376,158	1,878,932	-	1,878,932
<b>Expenditures/expenses</b>						
Capital projects	2,250,731	(2,250,731)	-	1,752,396	(1,752,396)	-
Fixed assets	363	(363)	-	2,395	(2,395)	-
Transfer of completed contracts to the Department of Education	-	1,390,244	1,390,244	-	1,275,778	1,275,778
Operating transfers on behalf of the Department of Education	105,502	-	105,502	118,662	-	118,662
Total Expenses	2,356,596	(860,850)	1,495,746	1,873,453	(479,013)	1,394,440
Net Revenues	19,562	860,850	880,412	5,479	479,013	484,492
Other revenues and expenses, net	2,544	-	2,544	(2,258)	-	(2,258)
Excess of Revenues over expenses	22,106	860,850	882,956	3,221	479,013	482,234
<b>Fund balances/net Assets:</b>						
Beginning of year	20,443	2,076,392	2,096,835	17,222	1,597,379	1,614,601
End of year	\$ 42,549	\$ 2,937,242	\$ 2,979,791	\$ 20,443	\$ 2,076,392	\$ 2,096,835

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

# **New York City School Construction Authority**

## **Notes to Financial Statements**

**June 30, 2008 and 2007**

**Amounts are in thousands except where otherwise indicated**

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### **1. Description of the Entity**

The New York City School Construction Authority (the "Authority"), a public benefit corporation and component unit of the City of New York (the "City"), was created by the State of New York Legislature in December, 1988. The Authority's responsibilities as defined in the enabling legislation are the design, construction, reconstruction, improvement, rehabilitation and repair of the New York City public schools. The Authority's capital projects include: new construction; building additions; major modernization and rehabilitation; construction, reconstruction or renovation of athletic fields, playgrounds and pools; and system replacements, including electrical, plumbing, elevators, roofs, security devices and system installation. Effective July 1, 2002, as a result of a change in legislation, the composition of the Board of Trustees changed such that the Mayor appoints the School's Chancellor, who serves as the Chairman of the Board of Trustees, and the Mayor also appoints the other two trustees.

The Authority's operations are funded by appropriations made by the City. Sources of funding for the appropriations include City and State bonds. The state bonds will total \$1.8 billion pursuant to state legislation passed in April 2006, which created Expanding our Children's Education and Learning Program (EXCEL).

All of the Authority's net assets are the property of the City and as such have been recorded as net assets - "Total Fund Balances/Net Assets." Appropriations are guided by five-year capital plans, developed by the New York City Department of Education (the "DoE"). The City's appropriations for the five-year capital plan for the fiscal years 2006 through 2009 is \$13.9 billion.

The Authority carries out certain projects funded by the City Council and Borough Presidents, pursuant to the City Charter. Appropriations of \$100,291 and \$88,003 were made in fiscal 2008 and 2007, respectively, for this purpose.

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

### **2. Summary of Significant Accounting Policies**

#### **Basis of Accounting**

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

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

# **New York City School Construction Authority**

## **Notes to Financial Statements**

**June 30, 2008 and 2007**

**Amounts are in thousands except where otherwise indicated**

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

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

### **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 2008" and "fiscal 2007").

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

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

### **Fixed Assets and Construction in Progress**

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

Construction in progress includes such costs as construction contract costs, construction management fees, architecture and engineering fees, administrative costs of the Authority, and certain allocated DoE costs including salaries, related fringe benefits and overhead costs.

### **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.

### **Statement of Cash Flows**

As a component unit of the City, as defined in GASB Statement No. 34, no statement of cash flows is required to be presented.

### **Annual and Sick Leave**

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

# **New York City School Construction Authority**

## **Notes to Financial Statements**

**June 30, 2008 and 2007**

**Amounts are in thousands except where otherwise indicated**

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

### **Use of Estimates**

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

### **3. Cash**

The Authority maintains cash accounts with a bank which are covered by FDIC insurance up to the maximum allowed by law. At June 30, 2008 and 2007 uninsured cash balances total \$8,828 and \$10,111, respectively.

Additionally, the Authority maintains a zero balance checking account, which is funded by the City. As checks are presented at the bank, funds are transferred from the City into the zero balance account. Negative book balances, representing checks issued but not yet presented for payment, have been classified as accounts payable in the accompanying financial statements and the aggregated amounts are \$68,768 and \$45,798 as of June 30, 2008 and June 30, 2007, respectively.

Additionally, at June 30, 2008 and 2007, \$108 and \$107, respectively, is held in escrow pending settlement of liens placed by a subcontractor against a primary contractor.

### **4. Temporary Investments**

In accordance with Statement of Governmental Accounting Standards (SGAS) No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements," the Authority categorizes its investments to give an indication of the level of risk assumed by the Authority at year end. The three categories of levels of credit risk are: (1) insured or registered, or securities held by the Authority or its agent in the Authority's name, (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, 2008 and 2007**  
**Amounts are in thousands except where otherwise indicated**

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At June 30, 2008 investments consist of the following:

	Amortized Cost	Fair Market Value
<b>As of June 30, 2008</b>		
U.S. Government Series Money Market Merrimac Fund, 3.80%, due on call	\$ 35	\$ 36
US Treasury Bills, 3.02%, due on 7/3/08	9,849	9,999
US Treasury Bills, 1.66%, due on 8/28/08	9,917	9,976
US Treasury Bills, 1.82%, due 11/13/08	14,863	14,887
Total	\$ 34,664	\$ 34,898
	<b>Amortized Cost</b>	<b>Fair Market Value</b>
<b>As of June 30, 2007</b>		
US Government Series Money Market Merrimac Fund, 4.89% due on call	\$ 10,282	\$ 10,576
Total	\$ 10,282	\$ 10,576

**5. Securities in Lieu of Cash Retainage and Retainage Payable**

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

Retainage payable consists of the following:

	June 30, 2008	June 30, 2007
Securities retained payable (FMV - 2008 - \$4,286; 2007 - \$1,508)	\$ 3,258	\$ 1,353
Cash Retainage withheld	127,612	85,932
Total Retainage Payable	\$ 130,870	\$ 87,285

**New York City School Construction Authority**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**  
**Amounts are in thousands except where otherwise indicated**

**6. Fixed Assets**

Fixed assets consist of the following:

<b>Asset Category</b>	<b>Estimated Useful Lives</b>	<b>Fixed Assets at June 30, 2007</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Fixed Assets at June 30, 2008</b>
Leasehold Improvements	12	\$ 12,843	\$ 317	\$ -	\$ 13,160
Furniture & Fixtures	5 -7	5,167	-	-	5,167
Computer Equipment	3	13,734	944	-	14,678
Office Equipment	3-5	2,508	133	-	2,641
Computer Software	3	3,570	278	-	3,848
Automobiles	5	2,584	459	(295)	2,748
		<u>40,406</u>	<u>2,131</u>	<u>(295)</u>	<u>42,242</u>
Less:					
Accumulated Depreciation		(35,495)	(1,769)	295	(36,969)
Fixed Assets, net		<u>\$ 4,911</u>	<u>\$ 362</u>	<u>\$ -</u>	<u>\$ 5,273</u>

In the Government-wide Financial Statements, depreciation is capitalized into construction in progress which totaled \$1,769 and \$1,400 for fiscal 2008 and 2007, respectively.

**7. Construction in Progress**

Expenditures for construction in progress for fiscal 2008 and fiscal 2007 include:

	<b>2008</b>	<b>2007</b>
Outside construction costs	\$ 2,140,959	\$ 1,640,086
Authority payroll and related fringe benefits	65,368	78,260
Authority general and administrative costs	45,204	35,454
Total expenditures	<u>2,250,731</u>	<u>1,753,800</u>
Construction in progress - beginning of year	<u>2,071,481</u>	<u>1,593,459</u>
Total before transfer to DoE	4,322,212	3,347,259
Costs transferred to the DoE during the year	<u>(1,390,244)</u>	<u>(1,275,778)</u>
Construction in progress - end of year	<u>\$ 2,931,968</u>	<u>\$ 2,071,481</u>

Included in outside construction costs are expenditures for site acquisition, construction, design/engineering, construction management, wrap-up insurance, initial outfitting and other outside construction costs.

During fiscal 2008, the Authority transferred \$1,390,244 to the DoE representing costs associated with substantially completed contracts and administrative costs. During fiscal 2007, the Authority transferred \$1,275,778 representing costs associated with substantially completed contracts and administrative costs.

**New York City School Construction Authority**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**  
**Amounts are in thousands except where otherwise indicated**

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**8. Transactions with the Department of Education and Operating Transfers**

In addition to construction and renovation of school facilities, the Authority makes payments for certain asset purchases made by the DoE. The title for such purchases transfers directly to the DoE. For the years ended June 30, 2008 and 2007 pass-through purchases totaled \$83,719 and \$96,042, respectively, and have been recorded as operating transfers on behalf of the DoE. Included in these amounts are expenditures for technology enhancements, leasehold alterations and reconstruction.

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

	June 30, 2008	June 30, 2007
Skilled trades, minor capital projects	\$ 18,735	\$ 8,486
Lead Paint Abatement	3,047	1,932
DOE Admin Staff	-	12,202
	<u>\$ 21,782</u>	<u>\$ 22,620</u>

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

During the fiscal years ended June 30, 2008 and 2007, the Authority disbursed \$0 and \$4,309, respectively, for construction work performed at non-City schools. These amounts have been recorded as other revenues and expenses, net.

**9. Commitments and Contingencies**

**Rent**

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

Future minimum annual rental payments under the non-cancelable operating lease agreement, having a term in excess of one year are as follows:

2009	\$ 4,808
2010	4,808
2011	4,808
Thereafter	803
	<u>\$ 15,227</u>

**New York City School Construction Authority**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**  
**Amounts are in thousands except where otherwise indicated**

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Rent expense, in the Fund financial statements, totaled \$5,241 and \$5,401 in fiscal 2008 and fiscal 2007, respectively.

**Purchase Orders**

Purchase orders, contracts and other commitments at June 30, 2008 and 2007 totaled \$3,879 and \$3,156, respectively, and represent the difference between the value of construction-related contracts and the amount incurred to date through the end of the year. At June 30 of each fiscal year, the City has encumbered funds to meet these obligations.

**Insurance**

On January 1, 2003, the Authority entered into a contract with Liberty Mutual to provide General Liability (GL) and Worker's Compensation (WC) insurance coverage for the Owner Controlled Insurance Program. The insurance policies covered all contractors and sub-contractors working on construction projects for the Authority from January 1, 2003 through December 31, 2004. This policy coverage was in the form of a large deductible program for GL and a retrospectively rated program for WC. The Authority has recorded an estimated receivable of \$15,236 and estimated receivable of \$5,511 as of June 30, 2008 and 2007, respectively, based on the insurance contract's terms and conditions and an actuarial assessment of OCIP loss activity.

On January 2005, the Authority contracted with AIG to provide insurance coverage for the Owner Controlled Insurance Program. The insurance coverage period was from January 1, 2005 through December 31, 2007. The Authority has recorded an estimated receivable of \$6,373 and a receivable of \$14,203 as of June 30, 2008 and 2007, respectively.

The current SCA contract for the Owner Controlled Insurance Program is provided by Liberty Mutual. The insurance coverage period is from January 1, 2008 through December 31, 2010.

**Legal**

In the normal course of its operations, the Authority has received notices of claims alleging amounts due related to contracts, financial loss, including loss through condemnation, and personal injuries sustained by individuals. After giving effect to available insurance coverage related to such claims, expenses, if any, are recorded in accordance with FASB No. 5. The Authority, with the assistance of the City's Corporation Counsel, has estimated and recorded the liability at June 30, 2008 and 2007 to be \$2,200 and \$1,500, respectively.

From time to time the Authority is involved in various litigations, claims and assessments ("claims"). The Authority records those claims which they believe to be probable of settlement based upon their best estimate of such settlements and discloses those claims considered to be reasonably possible of settlement along with the range of such possible settlements. As of June 30, 2008, the Authority has estimated that there are reasonably possible claims in the range of \$10 million to \$13 million outstanding.

**10. 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

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employed by the City may continue to participate in certain other retirement plans including those of the New York City Employee Retirement System and the Teachers' Retirement System of the City.

Contributions to the pension plans are made by the Authority and the employees. Contributions paid or accrued by the Authority under these plans totaled \$7,006 and \$5,383 for fiscal 2008 and fiscal 2007, respectively. The Authority's contributions are actuarially determined at rates that are designed to accumulate sufficient assets to pay benefits when due. Member contributions are determined by law and vary by Plan. The retirement plans provide pension benefits to retired employees based on salary and length of service. In addition, the pension systems may provide for cost-of-living and other supplemental benefits to qualified retirees and beneficiaries. In the event of disability during employment, participants are entitled to retirement allowances based on satisfaction of certain service requirements and other provisions. The plans also provide death benefits.

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

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

### **Deferred Compensation Plan**

The employees of the Authority are eligible to participate in a deferred compensation plan administered by the City, in accordance with Internal Revenue Code Section 457 (the "Plan"). The Plan is available to all Authority employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable hardship. Pursuant to SGAS No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans", the City complied with the Internal Revenue Code 457 subsection (g) by establishing a fully funded trust account for employees (including those of the Authority), effective January 1, 1999. Consequently, all assets held under the Plan are restricted to the exclusive use of plan participants and their beneficiaries and are no longer subject to the claims of the City's general creditors.

### **Other Post-Employment Benefits**

Subject to the provisions of the City's retirement system, the Authority provides other post-employment benefits through various welfare funds that cover retirees for various healthcare benefits not provided through the basic coverage. Welfare fund benefits may include, but are not limited to, prescription drug coverage and vision and dental coverage.

Effective June 30, 2006, the City early adopted GASB 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions". This statement establishes standards for the measurement, recognition, and presentation of Other Post-Employment Benefits

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(OPEB) expenditures/expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare, as well as other forms of post-employment benefits when provided separately from a pension plan.

The Authority has recorded net OPEB obligations of \$18.4 million and \$17.4 million with respect to its post-employment welfare fund benefits as of June 30, 2008 and 2007.