New York City School Construction Authority

Financial Statements

At June 30, 2014 and 2013 and for the fiscal years then ended

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, 2014 and June 30, 2013 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.

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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, 2014 and June 30, 2013, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 and 12 to the financial statements, the Authority changed the manner in which it accounts for pensions in 2014 and 2013. As described within the Note to the financial statements, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

The accompanying identify accompanying required supplementary information, the management discussion and analysis on pages 3 through 6, the Schedules of the Authority's Proportionate Share of Net Pension Liability and the Schedule of the Authority's Contributions on pages 22 and 23 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

New York, NY
October 29, 2014

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, 2014 and 2013.

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 total appropriation for this five-year capital plan is $11.24 billion for the fiscal years 2010 through 2014. In fiscal year 2014, the Authority committed $2,204 million in total contract obligations for school construction projects as compared to $2,325 million in fiscal year 2013 a decrease of $121 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 of New York's ("The City") budgeting process. The Authority processed $1,842 million in construction payments and payments related to general and administrative expenses during fiscal year 2014 as compared to $1,697 million in fiscal year 2013. 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 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. The Authority processed approximately $1,697 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 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) and The City 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 for capital expenditures of the Authority for the fiscal year, including operating and administrative costs. Revenue in fiscal year 2014 was $2,190 million compared to fiscal year 2013 of $1,840 million an increase of $350 million.

For fiscal year 2014, the Authority awarded construction contracts for 17 new schools and additions with a construction value of $603.5 million and 459 capital improvement or renovation projects with a construction value of $752.3 million. The Authority completed 11 new schools and additions as of September 2014, which created 5,062 seat openings for the 2014/2015 school year.

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 2013/2014 school year.

Revenue in fiscal year 2013 was $1,840 million compared to fiscal year 2012 of $2,109 million a decrease of $269 million. The decrease in revenue from fiscal year 2013 to fiscal year 2013 was driven by a decrease in construction expenditures, DoE pass through expenditures and the amount due from the City.

The Authority's expenses in fiscal year 2014 were $2,625 million compared to $2,377 million in fiscal year 2013, an increase of $248 million. This increase in expenses primarily resulted from an increase in completed contracts transferred to the DoE of $195 million.

Completed contracts transferred to the DoE increased from $2,095 in fiscal year 2013 to $2,290 in fiscal year 2014. All projects transferred were determined by the Authority's Project Management Division to be substantially completed or occupied as of June 30, 2014. 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 increased $413 million from fiscal year 2012 to fiscal year 2013. This increase resulted from an increase in the value of completed contracts transferred to the DoE for capitalization as fixed assets.

In fiscal years 2013 and 2014, the Authority incurred $56 million and $45 million respectively of expenditures for the restoration of schools damaged by Hurricane Sandy. The amount of these expenditures determined to be non-capital eligible was $39 million and $8 million for fiscal years 2013 and 2014, respectively . The Authority is working with FEMA to be reimbursed for expenditures incurred due to damage caused by Hurricane Sandy to NYC Public Schools.

Financial Highlights

In fiscal year 2013, The City 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 2013. The implementation of GASB 63 resulted in a nomenclature change in the Authority's financial statements from a "Statement of Net Assets" to a "Statement of Net Position."

In fiscal year 2014, The City implemented Government Accounting Standard No.68 "Accounting and Financial Reporting for Pensions." The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The Authority has recorded a net pension liability of $64 million and $45 million as of June 30, 2013 and 2014, respectively. The Authority has recorded its proportionate share of pension plan expenses of $20 million and $11 million as of June 30, 2013 and 2014, respectively.

The Authority's net position in the Government-wide financials decreased by $411 million from fiscal year 2013 to fiscal year 2014. The decrease was primarily due to the decrease in construction in-progress from fiscal year 2013 to fiscal year 2014 due to lower volume of construction expenditures and an increase in completed contracts transferred to the DoE as fixed assets.

The Authority's beginning of the year net position in the statement of activities for the fiscal year ended June 30, 2013 has been restated to reflect the Fiscal Year 2012 impact of the Net Pension Liability for BERS and NYCERS of $70 million.

Total Government-wide assets from fiscal year 2013 to fiscal year 2014 decreased by $366 million. This decrease in total assets in fiscal year 2014 was primarily due to a decrease in construction in progress. From fiscal year 2012 to fiscal year 2013, total Government-wide assets decreased by $358 million. The decrease in total assets in fiscal year 2013 was principally due an increase in completed contracts transferred to the DoE for capitalization as fixed assets reducing construction in progress.

The Authority's net position in the Government-wide financials decreased by $576 million from fiscal year 2012 to fiscal year 2013. This decrease was primarily due to the decrease in construction-in-progress of $395 million from fiscal year 2012 due to lower volume of construction expenditures.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2014 and 2013 by $1,680 million and $2,091 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.

Cash and Temporary Investments from fiscal year 2013 to fiscal year 2014 increased by $63 million. The increase is principally due to the receipt of $20 million from Liberty Mutual for the return of collateral for the years 2003 and 2004 and the payment by the DoE of $39 million for the non-capital expenditures incurred for Hurricane Sandy restoration of schools. 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 from fiscal year 2012 to fiscal year 2013 was substantially unchanged.

The liabilities of the Authority increased by $24 million from fiscal year 2013 to fiscal year 2014. The increase in liabilities is principally due to the accrual for the DoE Capital Task Force claims for FY'13 and FY14 of $4 million and $38 million respectively.

The liabilities of the Authority from fiscal year 2012 to fiscal year 2013 increased by $101 million.

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 2014, the Authority has classified $145 million as expenditures incurred for pollution remediation costs. For the fiscal year 2013, the Authority classified $127 million as expenditures incurred for pollution remediation costs (see 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. Requests for additional financial information or inquiries 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, 2014 and 2013

(in thousands)

	2014			2013		
	Capital Project Fund	Adjustments (See Note 1)	Government Wide	Capital Project Fund	Adjustments (See Note 1)	Government Wide
Assets:						
Cash	$ 74,165		$ 74,165	$ 30,646		$ 30,646
Temporary investments	59,967		59,967	39,966		39,966
Due from the City of New York	306,119	33,664	339,783	348,862	33,238	382,100
Prepaid expenses & other assets	107,779		107,779	42,353		42,353
Due from DoE	7,721		7,721	38,849		38,849
Other Assets	45,958		45,958	21,798		21,798
Securities in lieu of cash retainage	9,515		9,515	8,137		8,137
Fixed assets, net		3,283	3,283		3,666	3,666
Construction in progress, assets held for City of New York		1,801,219	1,801,219		2,248,425	2,248,425
Total Assets	$ 611,224	$ 1,838,166	$ 2,449,390	$ 530,611	$ 2,285,329	$ 2,815,940
Liabilities:						
Accounts payable and accrued liabilities	$ 404,526	$ 26,807	$ 431,333	$ 371,442	$ 26,570	$ 398,012
Retainage payable	132,426		132,426	134,622		134,622
Pollution Remediation payable		111,761	111,761		99,658	99,658
Pension Liability (GASB 68)		45,172	45,172		64,079	64,079
Accrued annual leave obligation	4,912		4,912	5,187		5,187
Accrued sick leave obligation		4,057	4,057		4,168	4,168
Accrued claims and contingencies		2,800	2,800		2,500	2,500
Total Liabilities	541,864	190,597	732,461	511,251	196,975	708,226
Deferred inflow						
Deferred inflow of resources (GASB 68)		36,990	36,990		17,054	17,054
Total Deferred Inflows	-	36,990	36,990	-	17,054	17,054
Fund balances/Net Position:						
Total Fund Balances - Restricted	69,360	1,610,579		19,360	2,071,300	
Total Net Position			$ 1,679,939			$ 2,090,660
Total Liabililties and Fund Balances	$ 611,224	$ 1,838,166		$ 530,611	$ 2,285,329	

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

New York City School Construction Authority
Statements of Activities
Years Ended June 30, 2014 and 2013

(in thousands)

	2014			2013		
	Capital Project Fund	Adjustments (See Note 1)	Government Wide	Capital Project Fund	Adjustments (See Note 1)	Government Wide
Revenues						
Operating revenues from or due from the City of New York	$ 2,001,076		$ 2,001,076	$ 1,696,080		$ 1,696,080
Operating revenues for payments made on behalf of DOE	$ 189,273		$ 189,273	$ 144,081	$ -	$ 144,081
Total Revenues	$ 2,190,349	$ -	$ 2,190,349	$ 1,840,161	$ -	$ 1,840,161
Expenditures/expenses						
Capital projects	$ 1,841,484	$ (1,851,625)	$ (10,141)	$ 1,686,866	$ (1,696,234)	$ (9,368)
Fixed assets	$ 1,559	$ (1,559)	$ -	$ 1,768	$ (1,768)	$ -
Pollution Remediation Costs (GASB 49)	$ 133,321	$ 12,103	$ 145,424	$ 101,648	$ 25,491	$ 127,139
Transfer of completed contracts to the Department of Education		$ 2,290,632	$ 2,290,632		$ 2,095,527	$ 2,095,527
Pension expense		$ 11,170	$ 11,170		$ 19,986	$ 19,986
Operating transfers on behalf of the Department of Education	$ 189,273		$ 189,273	$ 144,081		$ 144,081
Total Expenses	$ 2,165,637	$ 460,721	$ 2,626,358	$ 1,934,363	$ 443,002	$ 2,377,365
Net Revenues/(Expenses)	$ 24,712	$ (460,721)	$ (436,009)	$ (94,202)	$ (443,002)	$ (537,204)
Other revenues and expenses, net	$ 25,288	$ -	$ 25,288	$ 31,681	$ -	$ 31,681
Excess/(Deficit) of Revenues over expenses	$ 50,000	$ (460,721)	$ (410,721)	$ (62,521)	$ (443,002)	$ (505,523)
Fund balances/Net Position						
Beginning of year net position	$ 19,360	$ 2,071,300	$ 2,090,660	$ 81,881	$ 2,584,817	$ 2,666,698
Restatement of beginning net position	$ -		$ -	$ -	$ (70,515)	$ (70,515)
End of year	$ 69,360	$ 1,610,579	$ 1,679,939	$ 19,360	$ 2,071,300	$ 2,090,660

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

(in thousands)

1. Description of the Entity

The New York City School Construction Authority (the “Authority”), a public benefit corporation and blended component unit of The City of New York (The “City”), was created by the State of New York Legislature in December, 1988. The Authority’s responsibilities as defined in the enabling legislation are the design, construction, reconstruction, improvement, rehabilitation and repair of 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 $11.24 billion.

The Authority carries out certain projects funded by the City Council and Borough Presidents, pursuant to the City Charter. Appropriations of $136,979 and $119,396 were made in fiscal 2014 and 2013, respectively, by the City Council and Borough Presidents for this purpose.

As the Authority is 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.

(in thousands)

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

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

Resource flows between the Authority (a blended component unit of The City of New York) and 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 2014" and "fiscal 2013").

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, 2014.

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.

(in thousands)

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.

Hurricane Sandy Expenditures

The Authority incurred expenditures of $45,013 and $56,203 in fiscal years 2014 and 2013 related to the restoration of NYC Public Schools damaged during Hurricane Sandy. It was determined that $7,721 and $38,849, respectively incurred for fiscal years 2014 and 2013, were non-capital eligible. As of June 30, 2014 the Authority has received $27 million from FEMA for reimbursement of Hurricane Sandy damage.

Accounting and Financial Reporting for Pensions
In fiscal year 2014, The City implemented Government Accounting Standard No.68 “Accounting and Financial Reporting for Pensions.” The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense equal to their contractually required contribution to the plan. Upon the adoption of GASB Statement No. 68, employers participating in cost-sharing plans will recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology. The financial impact resulting from the implementation of GASB No. 68 is the restatement of 2012 beginning net position by $70 million for the Authority’s portion of the net pension liability incurred in prior years. See financial statement disclosure 12 for further details on the impact to the Authority.

Statement of Net Position
The City 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 2013. 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.

(in thousands)

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, 2014 and 2013 uninsured cash balances total $73,915 and $30,396, 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 $35,192 and $37,113 as of June 30, 2014 and 2013, 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, 2014		
US Treasury Bills, 0.06%, due on April 30, 2015	$ 59,963	$ 59,967
	$ 59,963	$ 59,967

(in thousands)

	Amortized Cost	Fair Market Value
As of June 30, 2013		
US Treasury Bills, 0.09%, due on April 26, 2014	$ 39,962	$ 39,966
	$ 39,962	$ 39,966

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, 2014	June, 30, 2013
Securities retainage payable	$ 9,515	$ 8,137
Cash Retainage withheld	$ 122,911	$ 126,485
Total Retainage Payable	$ 132,426	$ 134,622

The fair market value of the securities retained payable is $11,860 and $10,269 in fiscal 2014 and 2013, respectively.

(in thousands)

6. Fixed Assets

Fixed assets consist of the following:

Asset Category	Estimated Useful Lives	Fixed Assets at June 30, 2013	Additions	Dispositions	Fixed Assets at June 30, 2014
Computer Hardware/Equipments	3	$18,040	557		$18,597
Computer Software	3	6,912	201		7,113
Leasehold Improvements	12	10,551			10,551
Furniture & Fixtures	5 -7	5,184			5,184
Automobiles	5	4,956	348	(270)	5,034
Office Equipment	3-5	2,042	471		2,513
		47,685	1,577	(270)	48,992
Less:					
Accumulated Depreciation		(44,019)	(1,942)	252	(45,709)
Fixed Assets, net		$3,666	(365)	(18)	$3,283

Depreciation capitalized into construction in progress totaled $1,942 and $2,171 for fiscal 2014 and 2013, respectively.

7. Construction in Progress

Expenditures for construction in progress for fiscal 2014 and 2013 include:

	2014	**2013**
Outside construction costs	$1,711,956	$1,556,825
Authority payroll and related fringe benefits	87,395	89,523
Authority general and administrative costs	44.076	42,680
Total Expenditures	1.843,426	1,689,037
Construction in progress - beginning of year	2,248,425	2,654,915
Total before transfer to DoE during the year	4,091,851	4,343,952
Costs transferred to the DoE during the year	(2,290,632)	(2,095,527)
Construction in progress - end of year	$1,801,219	$2,248,425

During fiscal 2014, the Authority transferred $2,290,632 to the DoE representing costs associated with substantially completed contracts and administrative costs. In addition, the DoE capitalized $41,273 during fiscal 2014 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 2014 of $2,331,905. 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. This resulted in the DoE additions to fixed assets for the fiscal 2013 of $2,124,001.

(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 are transferred directly to the DoE. For the years ended June 30, 2014 and 2013, pass-through purchases totaled $110,025 and $133,071, 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, 2014	June, 30, 2013
Skilled trades, minor capital projects	$ 72,090	$ 4,044
Lead Paint Abatement	864	1,132
DOE Admin Staff	6,294	5,834
	$ 79,248	$ 11,010

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
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	$ 45,947

Rent expense, in the Fund financial statements, totaled $7,425 and $6,333 in fiscal 2014 and fiscal 2013, respectively.

(in thousands)

Purchase Orders
Purchase orders, contracts and other commitments at June 30, 2014 and 2013 totaled $2,974 and $3,131, 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 $5,670 and $19,835 as of June 30, 2014 and 2013, respectively, based on the insurance contract's terms and conditions and an actuarial assessment of OCIP loss activity

The Authority's contract for the Owner Controlled Insurance Program was provided by Liberty Mutual for the insurance coverage period from January 1, 2008 through December 31, 2013. The Authority has recorded an additional liability for the policy years 2008 through 2013 in the amount of $7,180 as of June 30, 2014.

The Authority's contract for the Owner Controlled Insurance Program is currently provided by ACE Insurance Company for the insurance coverage period is from January 1, 2014 through December 31, 2014 with an option to renew for 2015 and 2016. The insurance premium for this one year program was $200 million. The Authority has recorded an estimated receivable of $37,852 as of June 30, 2014 based on the actuarial assessment of OCIP loss activity for this period.

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 $2,800 at June 30, 2014 and $2,500 at June 30, 2013.

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 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.

(in thousands)

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 2014, the Authority has classified $145,424 as expenditures incurred for pollution remediation costs. For the fiscal year 2013, the Authority classified $127,139 as expenditures incurred for pollution remediation costs. The Authority does not anticipate recovering any of these costs from other parties or agencies.

	2014	2013
Open Balance as of 7/1	$ 99,658	$ 74,167
Pollution remediation costs	33,663	27,481
Less open obligations paid	(99,658)	(74,167)
Ending balances as of 6/30	111,761	99,658
	$ 145,424	$ 127,139

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.

Contributions to the pension plans are made by the Authority and the employees. Contributions paid or accrued by the Authority under these plans totaled $10,136 and $10,696 for fiscal year 2014 and 2013, 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.

The Authority together with New York City has elected to adopt GASB No. 68 as of June 30, 2014, a year earlier than required under the provision of the Statement. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This Statement requires the liability of employers to employees for defined benefit plans (net pension liability) to be measured as the portion of the present value of projected benefit payments to

(in thousands)

be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position In addition, prior to implementing GASB Statement No. 68, employers participating in a cost-sharing plan recognized annual pension expense equal to their contractually required contribution to the plan. Upon the adoption of GASB Statement No. 68, employers participating in cost-sharing plans will recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology.

Accordingly, the Authority recognized its proportion of the BERS and NYCERS Net Pension Liability, Deferred Outflows of Resources, Deferred Inflows of Resources and Pension Expense as of June 30, 2014 and 2013. The Total Pension Liability was determined by actuarial valuations as of June 30, 2012 and rolled forward to the respective measurement dates. The proportion allocation method utilized by BERS and NYCERS was the percentage of each employers Fiscal Year 2014 contribution to the total contributions to the Plan.

The Authority's share of the pension liability of the BERS Plan represents four percent of the total net pension liability. The Authority has recorded a net pension liability of $53 million and $36 million as of June 30, 2013 and 2014, respectively. The Authority has recorded its proportionate share of pension plan expenses of $19 million and $10 million as of June 30, 2013 and 2014, respectively. The Authority restated its 2012 beginning net position by $70 million for the Authority's portion of the net pension liability incurred in prior years.

The Authority's share of the pension liability of the NYCERS Plan represents less than one percent of the total net pension liability. The Authority has recorded a net pension liability of $11 million and $9 million as of June 30, 2013 and 2014, respectively. The Authority has recorded its proportionate share of pension plan expenses $1 million for June 30, 2013 and 2014.

Actuarial assumptions used in determining employer contributions were as follows:

Rate of return on investments	7% per annum, net investment expenses
Salary increases	3% assumed as a general wage increase
Inflation	1.5% using long-term CPI assumption of 2.5% per year

Mortality rates were based on the tables adopted by the Board of Trustees during Fiscal Year 2012 based on an experience review. The probabilities of mortality for retirees differ depending upon whether they are receiving Service Retirement benefits or Disability Retirement benefits.

Pursuant to Section 96 of the New York City Charter, studies of the actuarial assumptions used to value liabilities of the five actuarially-funded New York City Retirement Systems (NYCERS) are conducted every two years.

The most recently completed study was published by The Hay Group ("Hay"), dated December 2011, and analyzed experience for Fiscal Years 2006 through 2009. Hay made recommendations with respect to the actuarial assumptions and methods based on their analysis.

The previously completed study was published by The Segal Company ("Segal"), dated November 2006, and analyzed experience for Fiscal Years 2002 through 2005. Segal made recommendations with respect to the actuarial assumptions and methods based on their analysis.

(in thousands)

Currently, Gabriel, Roeder, Smith & Company (GRS) has been retained to study the actuarial assumptions for Fiscal Years 2010 through 2013.

Expected rate of Return on Investments

The long-term expected rate of return on the Plans investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major assets class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in Plan's target asset allocation as of the June 30, 2012 actuarial valuation are summarized in the following table:

BERS

Asset Class	Target Allocation	Real Return Arithmetic Basis	Expected Real Rate of Return
U.S. Equity	63.00%	31.40%	4.49%
Fixed Income	30.00%	27.00%	8.10%
Alternatives	7.00%	4.00%	2.80%
Total	100.00%		5.58%

NYCERS

Asset Class	Target Allocation	Real Return Arithmetic Basis	Expected Real Rate of Return
U.S. Equity	63.50%	31.40%	4.09%
Fixed Income	33.50%	27.00%	0.90%
Alternatives	10.00%	4.00%	0.40%
Total	100.00%		5.39%

The Office of the Actuary has determined its expected rate of return on investments to be 7 percent. This is based on expected real rate of return from investments of 5.58 percent and a long-term Consumer Price Inflation assumption of 2.5 percent per year, which is offset by investment related expenses.

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2014, June 30, 2013, and June 30, 2012, respectively was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employee contributions will be made based on rates determine by the Actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available

(in thousands)

to make all projected future benefit payments of current active and non-active Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate.

The following presents the net pension liability of each plan, calculated as of the Measurement Date of June 30, 2014, using the Discount Rate of 7.0% per annum (the "Current Rate"). The Table shows what the Net Pension Liability would be if it were calculated using a Discount Rate that is 1-percentage-point lower (i.e., 6.0% per annum) or 1-percentage-point-higher (i.e., 8.0% per annum) than the Current Rate.

SENSITIVITY ANALYSIS

NET PENSION LIABILITY AS OF JUNE 30, 2014

System	1% Decrease (6%)	Current Rate (7%)	1% Increase (8%)
NYCERS	$ 12,475	$ 8,649	$ 5,099
BERS	$ 55,071	$ 36,524	$ 20,428
Total	$ 67,546	$ 45,173	$ 25,527

For the year ended June 30, 2013 and June 30, 2014, the authority recognized pension expense of $19,986 and $11,170, respectively. At June 30, 2013 and June 30, 2014 the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	BERS		NYSCER	
	Deferred Outflows of Resources	Deferred inflows of Resources	Deferred Outflows of Resources	Deferred inflows of Resources
2013				
Net difference between projected and actual earnings on pension plan investments	$ -	$ 16,288	$ -	$ 765
2014				
Net difference between projected and actual earnings on pension plan investments	$ -	$ 34,507	$ -	$ 2,483

The components of deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual earnings on Plan investments, are amortized into pension expense over a 5 year closed period, which reflects the weighted average remaining service life of all Plan members, beginning the year in which the deferred amount occurs. The annual difference between the projected and actual earnings on Plan investments is amortized over a five-year closed period beginning the year in which the difference occurs. The cumulative amounts of deferred outflows of resources and deferred inflows of resources reported as of June 30, 2014 will be recognized in pension expense as follows:

(in thousands)

For the Fiscal Year Ended

		BERS		NYCERS
2015	$	9,576	$	669
2016	$	9,576	$	669
2017	$	9,576	$	669
2018	$	5,533	$	477

Separately issued financial statements for BERS, which includes financial statement information for the BERS Plan can be obtained from BERS management at 65 Court Street, Brooklyn, NY 11201 or at www.nycbers.org.

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 $26,807 and $26,570 with respect to its post-employment welfare fund benefits as of June 30, 2014 and 2013, respectively.

13. Subsequent Events

The Authority has performed an evaluation of subsequent events through October 29, 2014, the date the financial statements were available for issuance.

(in thousands)

Schedules of Required Supplementary Information (Unaudited)

Schedule of The Authority's Proportionate Share of the Net Pension Liability (BERS)

For the Fiscal Year Ended	2014	2013	2012
The Authority's proportion of the net pension liability	4%	4%	4%
The Authority's proportionate share of the net pension liability (assets)	$ 36,523	$ 53,003	$ 58,518
The Authority's covered employee payroll	$ 49,318	$ 47,698	$ 49,318
the Authority's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	74.06%	111.12%	118.65%
Plan fiduciary net position as a percentage of the total pension liability	78.34%	66.85%	41.61%

Schedule of The Authority's Proportionate Share of the Net Pension Liability (NYCERS)

For the Fiscal Year Ended	2014	2013	2012
The Authority's proportion of the net pension liability	0.048%	0.048%	0.048%
The Authority's proportionate share of the net pension liability (assets)	$ 8,649	$ 11,075	$ 11,997
The Authority's covered employee payroll	$ 6,657	$ 6,939	$ 6,657
the Authority's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	129.92%	159.61%	180.22%
Plan fiduciary net position as a percentage of the total pension liability	75.32%	67.18%	63.08%

(in thousands)

Schedule of Employers Contributions (in thousands) for BERS

Fiscal Year Ended June 30	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Actuarially Determined Contribution	$ 8,584	$ 7,850	$ 8,546	$ 7,208	$ 5,894	$ 5,369	$ 5,724	$ 5,193	$ 3,634	$ 4,254
Contribution in relation to the Actuarially Determined Contribution	$ 8,584	$ 7,850	$ 8,546	$ 7,208	$ 5,894	$ 5,369	$ 5,724	$ 5,193	$ 3,634	$ 3,866
Contribution Deficency (Excess)	0	0	0	0	0	0	0	0	0	$ 388
Contribution as a percentage of Covered Employee Payroll	17.41%	16.46%	17.33%	20.46%	17.82%	17.77%	19.63%	18.64%	14.93%	14.05%

Schedule of Employers Contributions (in thousands) for NYCERS

Fiscal Year Ended June 30	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Actuarially Determined Contribution	$ 1,495	$ 1,462	$ 1,448	$ 1,146	$ 1,055	$ 1,032	$ 900	$ 706	$ 492	$ 490
Contribution in relation to the Actuarially Determined Contribution	$ 1,495	$ 1,462	$ 1,448	$ 1,146	$ 1,055	$ 1,032	$ 900	$ 706	$ 492	$ 490
Contribution Deficency (Excess)	0	0	0	0	0	0	0	0	0	$ (95)
Contribution as a percentage of Covered Employee Payroll	22.46%	21.07%	21.75%	19.99%	19.22%	19.74%	18.25%	14.93%	106.76%	8.63%