



NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2016 and 2015

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

New York City School Construction Authority
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
YEARS ENDED JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities of the New York City School Construction Authority (the "Authority"), a component unit of The City of New York, which comprise the government-wide statements of net position as of June 30, 2016 and 2015 and the related statements of activities for the years then ended, and the governmental fund balance sheets as of June 30, 2016 and 2015 and the related statements of revenues, expenditures and changes in fund balance for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 of 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the New York City School Construction Authority as of June 30, 2016 and 2015, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, the schedule of funding progress for the other postemployment benefits plan on page 31, the schedule of the Authority's proportionate share of the net pension liability on page 32, and the schedule of contributions on page 33, be presented 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.



New York, NY
October 20, 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

New York City School Construction Authority Management's Discussion and Analysis As of and for the Years Ended June 30, 2016 and 2015 (Unaudited)

OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial activities of the New York City School Construction Authority (the "Authority") as of June 30, 2016 and 2015 and for the years then ended. It should be read in conjunction with the Authority's government-wide financial statements, governmental fund financial statements and the notes to the financial statements. The financial statements consist of four parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; (3) the governmental fund financial statements; and (4) the notes to the financial statements.

The government-wide financial statements, which include the statements of net position and the statements of activities, are presented to display information about the Authority as a whole, in accordance with Governmental Accounting Standards Board ("GASB") standards. This is to provide the reader with a broad overview of the Authority's finances. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and 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 reconciliations of the governmental fund balance sheets to the statements of net position and reconciliation of the governmental fund statements of revenues, expenditures and changes in fund balances to the statements of activities are presented to assist the reader in understanding the differences between government-wide and governmental funds financial statements.

OVERVIEW OF THE ORGANIZATION

The Authority, a public benefit corporation reported as a 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 Chair 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 position is 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").

Resource flows between the Authority and the City and DoE, have been reported as revenues and expenses/expenditures in the Authority's financial statements. 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 discretely presented component unit. The presentation of these activities as a net fund transfer was deemed to provide less useful information.

New York City School Construction Authority

Management's Discussion and Analysis

As of and for the Years Ended June 30, 2016 and 2015 (Unaudited)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

RESULTS OF OPERATIONS

For fiscal year 2016, the Authority awarded construction contracts for 35 new schools and additions with a construction value of \$781.5 million and 335 capital improvement or renovation projects with a construction value of \$761.4 million. The Authority completed 29 new schools and additions as of September 2016, which created 5,692 seat openings for the 2016/2017 school year.

For fiscal year 2015, the Authority awarded construction contracts for 38 new schools and additions with a construction value of \$488.9 million and 597 capital improvement or renovation projects with a construction value of \$1,191.8 million. The Authority completed 52 new schools and additions as of September 2015, which created 14,666 seat openings for the 2015/2016 school year.

The following chart summarizes the government-wide financial activities in the statement of activities of the Authority as of June 30, 2016, 2015 and 2014 (amounts are in thousand):

	2016	2015	2014	Changes 2016 vs 2015	Changes 2015 vs 2014
Revenues					
Operating revenues from The City of New York	\$ 2,413,293	\$ 2,481,238	\$ 2,001,076	\$ (67,945)	\$ 480,162
Operating revenues for DoE payments	233,092	192,903	189,273	40,189	3,630
Total Revenues	2,646,385	2,674,141	2,190,349	(27,756)	483,792
Expenses					
Pollution remediation costs	\$ 105,748	\$ 129,939	\$ 145,424	\$ (24,191)	\$ (15,485)
Transfer of completed contracts to the DoE	1,949,012	2,048,300	2,290,632	(99,288)	(242,332)
Pension expense - net of payments capitalized	(10,533)	(4,181)	1,029	(6,352)	(5,210)
Operating transfers to the DoE	233,092	192,903	189,273	40,189	3,630
Total Expenses	2,277,319	2,366,961	2,626,358	(89,642)	(259,397)
Other revenues and expenses, net	9,951	4,115	25,288	5,836	(21,173)
Change in net position	379,017	311,295	(410,721)	67,722	722,016
Net position - beginning of the year	1,991,234	1,679,939	2,090,660	311,295	(410,721)
Net position - end of the year	\$ 2,370,251	\$ 1,991,234	\$ 1,679,939	\$ 379,017	\$ 311,295

The Authority's revenue consists entirely of 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 2016 was \$2,646 million compared to fiscal year 2015 of \$2,674 million, a decrease of \$28 million. The decrease is mainly driven by a decrease in insurance cost in the 3rd term of the Authority's 3-year term Owner Controlled Insurance Program, offset by increase in DoE pass through expenditures.

Revenue in fiscal year 2015 was \$2,674 million compared to fiscal year 2014 of \$2,190 million, an increase of \$484 million. The increase in revenue from fiscal year 2014 to fiscal year 2015 was driven by an increase in construction expenditures and DoE pass through expenditures.

The Authority's expenses in fiscal year 2016 were \$2,277 million compared to \$2,367 million in fiscal year 2015, a decrease of \$90 million. The decrease in expenses is primarily due to decreases in completed contracts transferred to the DoE and pollution remediation expenses, offset by an increase in DoE pass through expenditures.

Costs related to completed contracts transferred to the DoE decreased from \$2,048 million in fiscal year 2015 to \$1,949 million in fiscal year 2016. All projects transferred were determined by the Authority's Project Management Division to be substantially completed or occupied as of June 30, 2016. This

New York City School Construction Authority

Management's Discussion and Analysis

As of and for the Years Ended June 30, 2016 and 2015 (Unaudited)

transfer of completed contracts allowed for the capitalization of these contracts as fixed assets by the City in the current fiscal year.

The Authority's expenses decreased \$259 million from fiscal year 2014 to fiscal year 2015. This decrease resulted from a decrease in the value of completed contracts transferred to the DoE for capitalization and decrease in pollution remediation expenses.

For fiscal year 2016, the Authority has classified \$106 million as expenditures incurred for pollution remediation costs. For fiscal year 2015, the Authority has classified \$130 million as expenditures incurred for pollution remediation costs (see Note 9 to the financial statements).

FINANCIAL HIGHLIGHTS

The following chart summarizes the government-wide financial net position reported in the statements of net position of the Authority as of June 30, 2016, 2015, and 2014 (amounts are in thousands):

	2016	2015	2014	Changes 2016 vs 2015	Changes 2015 vs 2014
Assets					
Cash and temporary investments	\$ 107,290	\$ 106,251	\$ 134,132	\$ 1,039	\$ (27,881)
Due from The City of New York	445,886	571,450	339,783	(125,564)	231,667
Prepaid expenses and other assets	191,600	216,815	161,458	(25,215)	55,357
Securities held in lieu of cash retainage	13,597	10,519	9,515	3,078	1,004
Fixed assets, net	4,076	4,329	3,283	(253)	1,046
Construction in progress	2,422,018	2,037,328	1,801,219	384,690	236,109
Total Assets	3,184,467	2,946,692	2,449,390	237,775	497,302
Liabilities					
Current liabilities	633,991	731,526	536,952	(97,535)	194,574
Long-term liabilities	170,140	198,665	195,509	(28,525)	3,156
Total Liabilities	804,131	930,191	732,461	(126,060)	197,730
Deferred outflows of resources	5,337	3,390	-	1,947	3,390
Deferred inflows of resources	15,422	28,657	36,990	(13,235)	(8,333)
Net Position - Restricted	\$ 2,370,251	\$ 1,991,234	\$ 1,679,939	\$ 379,017	\$ 311,295

The assets of the Authority exceeded its liabilities ("net position") at the close of fiscal year 2016 and 2015 by \$2,370 million and \$1,991 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.

The net position in the government-wide financials increased by \$379 million from fiscal year 2015 to fiscal year 2016. The increase was primarily driven by an increase in construction in progress. The net position in the government-wide financials increased by \$311 million from fiscal year 2014 to fiscal year 2015. The increase was primarily due to the increase in funds due from the City and insurance receivables from fiscal year 2014 to fiscal year 2015.

Total government-wide assets from fiscal year 2015 to fiscal year 2016 increased by \$238 million. This increase in total assets in fiscal year 2016 is primarily due to increase in construction in progress, offset by decrease in due from the City and cost of insurance under the Authority's Owner Controlled Insurance Program. From fiscal year 2014 to fiscal year 2015, total government-wide assets increased by \$497 million. The increase was primarily due to increase in construction in progress, due from the City, and insurance receivables.

New York City School Construction Authority

Management's Discussion and Analysis

As of and for the Years Ended June 30, 2016 and 2015 (Unaudited)

Cash and temporary investments in fiscal year 2016 increased by \$1 million in comparison to fiscal year 2015 and decreased by \$28 million in fiscal year 2015 in comparison to fiscal year 2014. The fluctuations in fiscal year 2015 is mainly due to transfer of \$14 million received from the Port Authority of NY/NJ to the City and Superstorm Sandy non-capital expenditures of \$8.5 million. Cash is secured through JP Morgan Chase and invested in U.S. Treasury Notes and various government sponsored entities, such as the Federal Home Loan Association and the Federal National Mortgage Association. The cash is held temporarily by the Authority for capital project expenditures.

The liabilities of the Authority decreased by \$126 million from fiscal year 2015 to fiscal year 2016. The decrease in liabilities is principally due to the decrease in accrual for construction and administrative expenditures in fiscal year 2016, which also attributes to the decrease in due from the City.

The liabilities of the Authority from fiscal year 2014 to fiscal year 2015 increased by \$198 million. As noted above, the increase in liabilities in fiscal year 2015 was principally due to the accrual for construction expenditures incurred in fiscal year 2015 and paid subsequent to June 30, 2015, as well as an increase in retainage held on contracts.

FUND FINANCIAL STATEMENTS

RESULTS OF OPERATIONS

The following chart summarizes the capital projects fund activities in the statement of revenues, expenditures and changes in fund balance of the Authority as of June 30, 2016, 2015, and 2014 (amounts are in thousands):

	2016	2015	2014	Changes 2016 vs 2015	Changes 2015 vs 2014
Revenues					
Operating revenues from The City of New York	\$ 2,413,293	\$ 2,481,238	\$ 2,001,076	\$ (67,945)	\$ 480,162
Operating revenues for DoE payments	233,092	192,903	189,273	40,189	3,630
Total Revenues	2,646,385	2,674,141	2,190,349	(27,756)	483,792
Expenses					
Capital project expenditures	\$ 2,331,976	\$ 2,284,407	\$ 1,841,484	\$ 47,569	\$ 442,923
Fixed assets	1,726	1,046	1,559	680	(513)
Pollution remediation expenditures	139,765	131,559	133,321	8,206	(1,762)
Operating transfers to the DoE	233,092	192,903	189,273	40,189	3,630
Total Expenses	2,706,559	2,609,915	2,165,637	96,644	444,278
Other revenues and expenses, net	9,951	4,115	25,288	5,836	(21,173)
Change in fund balance	(50,223)	68,341	50,000	(118,564)	18,341
Fund balance - beginning of the year	137,701	69,360	19,360	68,341	50,000
Fund balance - end of the year	\$ 87,478	\$ 137,701	\$ 69,360	\$ (50,223)	\$ 68,341

Revenue in fiscal year 2016 was \$2,646 million compared to fiscal year 2015 of \$2,674 million, a decrease of \$28 million. Revenue in fiscal year 2015 was \$2,674 million compared to fiscal year 2014 of \$2,190 million an increase of \$484 million. Please refer to page 4 for explanation of the fluctuations.

The Authority's expenditures in fiscal year 2016 were \$2,707 million compared to \$2,610 million in fiscal year 2015, an increase of \$97 million. This increase in expenditures primarily resulted from an increase in capital projects and capital-related work performed by the DoE.

The Authority's expenditures increased \$444 million from fiscal year 2014 to fiscal year 2015. This increase resulted from an increase in construction expenditures.

New York City School Construction Authority Management's Discussion and Analysis As of and for the Years Ended June 30, 2016 and 2015 (Unaudited)

FINANCIAL HIGHLIGHTS

The following chart summarizes the capital projects fund balance sheet of the Authority as of June 30, 2016, 2015, and 2014 (amounts are in thousands):

Assets	2016	2015	2014	Change 2016 vs 2015	Change 2015 vs 2014
Cash and temporary investments	\$ 107,290	\$ 106,251	\$ 134,132	\$ 1,039	\$ (27,881)
Due from The City of New York	414,612	540,578	306,119	(125,966)	234,459
Prepaid expenses and other assets	191,205	216,816	161,458	(25,611)	55,358
Securities held in lieu of cash retainage	13,597	10,519	9,515	3,078	1,004
Total Assets	726,704	874,164	611,224	(147,460)	262,940
Liabilities					
Current Liabilities	633,959	731,528	536,952	(97,569)	194,576
Long-term liabilities	5,267	4,935	4,912	332	23
Total Liabilities	639,226	736,463	541,864	(97,237)	194,599
Fund balance	\$ 87,478	\$ 137,701	\$ 69,360	\$ (50,223)	\$ 68,341

The Authority's capital projects fund balance decreased by \$50 million from fiscal year 2015 to fiscal year 2016. The decrease is primarily due to the decrease in funds due from the City, insurance costs in the 3rd term of the Authority's 3-year term Owner Controlled Insurance Program, and accrual for construction expenditures. The Authority's capital projects fund balance increased by \$68 million from fiscal year 2014 to fiscal year 2015. The increase was primarily due to the increase in funds due from the City and insurance receivables from fiscal year 2014 to fiscal year 2015.

Total governmental assets from fiscal year 2015 to fiscal year 2016 decreased by \$147 million, which as noted previously, is primarily due to a decrease in funds due from the City. From fiscal year 2015 to fiscal year 2014, total assets increased by \$263 million due to an increase in funds due from the City of New York.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2016 and 2015 by \$87 million and \$138 million, respectively.

The liabilities of the Authority decreased by \$97 million from fiscal year 2015 to fiscal year 2016. The liabilities of the Authority from fiscal year 2014 to fiscal year 2015 increased by \$195 million. As noted in page 6, the fluctuation within the liabilities is mainly attributed to decrease in accrued construction expenditures in fiscal year 2016.

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 Finance Dept., 30-30 Thomson Avenue, Long Island City, NY 11101.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY
STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015 (in thousands)

	<u>2016</u>	<u>2015</u>
ASSETS:		
Cash	\$ 107,290	\$ 106,251
Due from The City of New York	445,886	571,450
Prepaid expenses	69,064	113,193
Due from the Department of Education	13,003	16,237
Other Assets	109,533	87,385
Securities in lieu of cash retainage	13,597	10,519
Fixed assets, net	4,076	4,329
Construction in progress, asset held for The City of New York	<u>2,422,018</u>	<u>2,037,328</u>
Total assets	<u>3,184,467</u>	<u>2,946,692</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows from pensions	<u>5,337</u>	<u>3,390</u>
Total deferred outflows of resources	<u>5,337</u>	<u>3,390</u>
Total assets and deferred outflows	<u>\$ 3,189,804</u>	<u>\$ 2,950,082</u>
LIABILITIES:		
Accounts payable and accrued expenses	\$ 448,430	\$ 568,101
Retainage payable	185,561	163,425
Pollution remediation payable	76,123	110,140
Pension liability	57,478	52,718
OPEB liability	24,650	24,619
Accrued annual leave obligation	5,267	4,935
Accrued sick leave obligation	4,347	4,028
Accrued claims and contingencies	<u>2,275</u>	<u>2,225</u>
Total liabilities	<u>804,131</u>	<u>930,191</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows from pensions	<u>15,422</u>	<u>28,657</u>
Total deferred inflows of resources	<u>15,422</u>	<u>28,657</u>
NET POSITION:		
Total net position - restricted	<u>2,370,251</u>	<u>1,991,234</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,189,804</u>	<u>\$ 2,950,082</u>

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

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (in thousands)

	<u>2016</u>	<u>2015</u>
REVENUES:		
Operating revenues from or due from The City of New York	\$ 2,413,293	\$ 2,481,238
Operating revenues for payments made on behalf of the Department of Education	<u>233,092</u>	<u>192,903</u>
Total revenues	<u>2,646,385</u>	<u>2,674,141</u>
EXPENSES:		
Pollution remediation cost	105,748	129,939
Transfer of completed contracts to the Department of Education	1,949,012	2,048,300
Pension expense, net of payments capitalized	(10,533)	(4,181)
Operating transfers on behalf of the Department of Education	<u>233,092</u>	<u>192,903</u>
Total expenses	2,277,319	2,366,961
Net revenues	369,066	307,180
Other revenues and expenses, net	<u>9,951</u>	<u>4,115</u>
Net change in net position	379,017	311,295
NET POSITION - beginning of year	<u>1,991,234</u>	<u>1,679,939</u>
NET POSITION - end of year	<u><u>\$ 2,370,251</u></u>	<u><u>\$ 1,991,234</u></u>

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

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY
GOVERNMENTAL FUND BALANCE SHEETS
AS OF JUNE 30, 2016 AND 2015 (in thousands)

	2016	2015
	Capital Projects Fund	Capital Projects Fund
	<u> </u>	<u> </u>
ASSETS:		
Cash	\$ 107,290	\$ 106,251
Due from The City of New York	414,612	540,577
Prepaid expenses	69,064	113,193
Due from the Department of Education	13,003	16,237
Other assets	109,138	87,387
Securities in lieu of cash retainage	<u>13,597</u>	<u>10,519</u>
Total assets	<u>726,704</u>	<u>874,164</u>
LIABILITIES:		
Accounts payable and accrued expenses	\$ 448,398	\$ 568,103
Retainage payable	185,561	163,425
Accrued annual leave obligation	<u>5,267</u>	<u>4,935</u>
Total liabilities	<u>639,226</u>	<u>736,463</u>
FUND BALANCE:		
Nonspendable-prepaid expenses	69,064	113,193
Restricted for capital projects	<u>18,414</u>	<u>24,508</u>
Total fund balance	<u>87,478</u>	<u>137,701</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 726,704</u>	<u>\$ 874,164</u>

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

**NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY
GOVERNMENTAL FUND STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (in thousands)**

	2016 Capital Projects Fund	2015 Capital Projects Fund
REVENUES:		
Operating revenues from or due from The City of New York	\$ 2,413,293	\$ 2,481,238
Operating revenues for payments made on behalf of the Department of Education	<u>233,092</u>	<u>192,903</u>
Total revenues	<u>2,646,385</u>	<u>2,674,141</u>
EXPENDITURES:		
Capital projects	2,331,976	2,284,407
Fixed assets	1,726	1,046
Pollution remediation cost	139,765	131,559
Operating transfers on behalf of the Department of Education	<u>233,092</u>	<u>192,903</u>
Total expenditures	<u>2,706,559</u>	<u>2,609,915</u>
Net (expenditures)/revenues	(60,174)	64,226
Other revenues and expenses, net	<u>9,951</u>	<u>4,115</u>
Net change in fund balance	(50,223)	68,341
FUND BALANCE - beginning of year	<u>137,701</u>	<u>69,360</u>
FUND BALANCE - end of year	<u><u>\$ 87,478</u></u>	<u><u>\$ 137,701</u></u>

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

**NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEETS
TO THE STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015
(in thousands)**

	<u>2016</u>	<u>2015</u>
Total fund balance - governmental funds	\$ 87,478	\$ 137,701
Amounts reported for governmental activities in the statements of net position are different because:		
Construction in progress assets are not financial resources and therefore are not reported in the funds	2,422,018	2,037,328
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	4,076	4,330
Other long-term assets which will be used to pay for future liabilities and accordingly are not reported in the funds	31,670	30,872
Net pension liabilities accrued but not payable in the current period from financial resources available currently at year-end are reported as deferred outflows/inflows of resources in the governmental fund	(10,085)	(25,267)
Long-term liabilities not due and payable in the current period and accordingly are not reported in the funds. Those liabilities consist of:		
OPEB liability	(24,650)	(24,619)
Pollution remediation payable	(76,123)	(110,140)
Pension liability	(57,478)	(52,718)
Sick leave obligation	(4,347)	(4,028)
Contingent and other liabilities	<u>(2,308)</u>	<u>(2,225)</u>
Net position of governmental activities	<u>\$ 2,370,251</u>	<u>\$ 1,991,234</u>

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

**NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENTS OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO THE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (in thousands)**

	<u>2016</u>	<u>2015</u>
Net change in fund balances - governmental funds	\$ (50,223)	\$ 68,341
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds financial statements report capital outlays for costs incurred for construction projects as expenditures. However, in the government-wide financial statements, the cost of these assets are transferred to the City as capital assets upon substantial completion of a project.	382,964	236,106
Governmental funds financial statements report capital outlays as expenditures. However, in the statement of activities, the cost is allocated over the estimated useful lives and reported as depreciation expense.	1,726	1,046
Governmental funds financial statements report pollution remediation expenditures upon receipt of goods and services. However in government-wide financial statements expenses are incurred when expected outlays is reasonably estimable.	34,017	1,621
Net pension expense	<u>10,533</u>	<u>4,181</u>
Change in net position - governmental activities	<u>\$ 379,017</u>	<u>\$ 311,295</u>

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

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

1. ORGANIZATION

The New York City School Construction Authority (the "Authority"), a public benefit corporation reported as a 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 Chair 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 position is 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 2015 through 2019 is \$14.11 billion and for fiscal years 2010 through 2014 was \$11.24 billion.

The Authority also carries out certain projects funded through the City Council and Borough Presidents, pursuant to the City Charter. Appropriations of \$168,718 and \$98,827 were made in fiscal 2016 and 2015, 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

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"), as prescribed by the Governmental Accounting Standards Board ("GASB").

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.

The governmental 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. Based upon the nature of the operations of the Authority, only a capital projects fund is reported, as all transactions relate to expenditures and resources obtained for the acquisition, construction or improvement of capital facilities.

Fund balances are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned in accordance with GASB standards. Fund balances that cannot be spent because they are not in spendable form are defined as nonspendable.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

Resource flows between the Authority and DoE are reported as revenues and expenses/expenditures in the financial statements. 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.

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, but not yet paid to the Authority. This amount is related to liabilities, net of certain assets that have been incurred by the Authority for construction activities prior to the fiscal year end.

Fixed Assets

Fixed assets used by the Authority 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. Fixed assets and leasehold improvements are accounted for and reported in the government-wide financial statements.

Construction in Progress

Construction in progress is stated at cost and 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. These assets are transferred to the DoE upon substantial completion of the associated construction project. Refer to Note 7.

Pollution Remediation Obligations

Expenditures for pollution remediation costs are recorded in the fund financial statements in the period in which such expenditures are paid from current financial resources. Pollution remediation obligations which are payable in future subsequent years are recorded as a liability in the government-wide financial statements. Refer to Note 9.

Superstorm Sandy Expenditures

The Authority incurred expenditures of \$229,234 and \$75,258 in fiscal years 2016 and 2015 related to the restoration of New York City public schools damaged during Superstorm Sandy. In fiscal year 2015, non-capital eligible expenditures incurred by the Authority relating to Superstorm Sandy totaled \$8,515. FEMA has reimbursed, for Superstorm Sandy damages, approximately \$198 and \$53 million as of June 30, 2016 and 2015, respectively.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

Pensions

In fiscal year 2014, the Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). 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. Pension liability, expense, deferred outflow of resources and deferred inflow of resources are recognized by the Authority for its proportionate share of the collective pension amounts within the plan, measured based on an allocation methodology. Refer to Note 10.

Fair Value

The Authority measures fair value based on a three-level hierarchy valuation technique. The hierarchy is based on the inputs used to measure the fair value of the asset with the highest priority given to quoted prices in an active market for identical assets (Level 1) and lowest priority to unobservable inputs (Level 3). The hierarchy is as follows:

Level 1 – inputs are based on unadjusted quoted prices for identical assets or liabilities in an active market (examples include active exchange markets, brokered markets, money market mutual funds).

Level 2 – inputs that are observable for the asset or liability, either directly or indirectly and includes: (a) quoted prices for similar assets in active markets; (b) quoted prices for identical or similar assets in markets that are not active; (c) inputs other than quoted prices that are observable such as credit spreads, interest rates and yield curves; and (d) market-corroborated inputs.

Level 3 – inputs are based on unobservable inputs such as management's own assumptions.

Annual and Sick Leave

The Authority's full time employees are entitled to annual and sick leave benefits. 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. Sick leave is earned by employees with at least ten years of service, who are eligible for payout upon separation.

Annual and sick leave earned are recorded as an expenditure in the governmental fund financial statements when it is payable from current financial resources. Estimated value of vacation and sick leave earned by employees, which may be used in subsequent years or paid upon separation, is recorded as a liability in the government-wide financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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. Significant assumptions and estimates relate to the determination of accrued expenses, pensions and pollution remediation obligations. Actual results could differ from those estimates.

Reclassifications

Certain line items in the 2015 financial statements have been reclassified to conform to the 2016 financial statement presentation.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

Recent Accounting Pronouncements

As a component unit of the City, the Authority implements new GASB standards in the same fiscal year as they are implemented by the City. The following are standards adopted by the Authority in the current year and standards which may impact the Authority in future years.

- In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB 67 and GASB 68* ("GASB 73"). GASB 73 provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB 67 and GASB 68. The requirements for GASB 73 are effective for fiscal years beginning after June 15, 2015. The adoption of GASB 73 did not have an impact on SCA's financial statements.
- In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 74"). GASB 74 establishes financial reporting standards to state and local governmental other postemployment benefit ("OPEB") plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. SCA has not completed the process of evaluating GASB 74.
- In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). GASB 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employers. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. SCA has not completed the process of evaluating GASB 75.
- In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction of other event is not specified within the source of authoritative GAAP. The requirements of GASB 76 are effective for fiscal years beginning after June 15, 2015. The adoption of GASB 76 did not have an impact on SCA's financial statements.
- In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures* ("GASB 77"). GASB 77 requires state and local governments for the first time to disclose information about tax abatement agreements. GASB 77 is effective for financial statements for periods beginning after December 15, 2015 but was adopted by SCA in fiscal year 2016. The adoption of GASB 77 did not have an impact on SCA's financial statements.
- In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* ("GASB 78"). GASB 78 amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). GASB 78 is effective for financial statements for periods beginning after December 15, 2015 but was adopted by SCA in fiscal year 2016. The adoption of GASB 78 did not have an impact on SCA's financial statements.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

- In December 2015, the GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants*" ("GASB 79"). GASB 79 established specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. GASB 79 is effective for financial statements for periods beginning after December 15, 2015 but was adopted by SCA in fiscal year 2016. The adoption of GASB 79 did not have an impact on SCA's financial statements.
- In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units*" ("GASB 80"). GASB 80 is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. GASB 80 is effective for financial statements for periods beginning after June 15, 2016 but was adopted by SCA in fiscal year 2016. The adoption of GASB 80 did not have an impact on SCA's financial statements.
- In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split Interest Agreements*" ("GASB 81"). GASB 81 addresses the situations under which these types of arrangements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. GASB 81 is effective for financial statements for periods beginning after December 15, 2016 but was adopted by SCA in fiscal year 2016. The adoption of GASB 81 did not have an impact on SCA's financial statements.
- In March 2016, the GASB issued Statement No. 82, "*Pension Issues*" ("GASB 82"). GASB 82 addresses practice issues raised by stakeholders during implementation of the GASB's pension accounting and financial reporting standards for state and local governments. GASB 82 is effective for financial statements for periods beginning after June 15, 2016. SCA has not completed the process of evaluating GASB 82.

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, 2016 and 2015, uninsured cash balances totaled \$104,809 and \$110,008, respectively. Cash accounts are secured through collateral invested by JP Morgan Chase in Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and U.S. Treasury Bond/Notes. All securities held by the custodian as collateral are registered and are held in the Authority's name.

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 \$91,529 and \$86,400 as of June 30, 2016 and 2015, respectively.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

4. SECURITIES IN LIEU OF CASH RETAINAGE AND RETAINAGE PAYABLE

Securities in Lieu of Cash Retainage – The Authority permits contractors to substitute marketable securities in lieu of cash retainage. Permitted securities include (a) bonds or notes of the State of New York or the United States of America; or (b) bonds of any political subdivision in the State of New York, with a par and market value at least equal to the contract cash retainage amount requested for withdrawal. These securities in lieu of cash retainage are maintained by a custodian on behalf of and in the name of the Authority and are recorded by the Authority at an amount equal to the requested cash retainage withdrawal amount. A corresponding offset is recorded within the retainage payable account. Total securities in lieu of cash retainage totaled \$13,597 and \$10,519 as of June 30, 2016 and 2015, respectively. The fair value of these securities is \$16,474 and \$12,920 as of June 30, 2016 and 2015, respectively.

Retainage Payable – Retainage payable represents a portion of contractual payments withheld by the Authority which will be released upon substantial completion of the construction project in agreed upon amounts between the contractor and construction management.

Retainage payable consisted of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Securities retainage payable	\$ 13,597	\$ 10,519
Cash retainage withheld	171,964	152,906
Total retainage payable	<u>\$ 185,561</u>	<u>\$ 163,425</u>

5. FIXED ASSETS

The changes in fixed assets used by the Authority for the year ended June 30, 2016 is as follows:

Asset Category	Estimated Useful Lives	Fixed Assets			Fixed Assets
		6/30/2015	Additions	Dispositions	6/30/2016
Computer Hardware/Equipment	3	\$ 19,659	\$ 614	\$ -	\$ 20,273
Computer Software	3	7,901	538	-	8,439
Leasehold Improvements	12	10,774	-	-	10,774
Furniture & Fixtures	5-7	5,184	-	-	5,184
Automobiles	5	5,379	305	-	5,684
Office Equipment	3-5	2,662	269	-	2,931
Total Cost		<u>51,559</u>	<u>1,726</u>	<u>-</u>	<u>53,285</u>
Less:					
Accumulated Depreciation and amortization		(47,230)	(1,979)	-	(49,209)
Fixed Assets, net		<u>\$ 4,329</u>	<u>\$ (253)</u>	<u>\$ -</u>	<u>\$ 4,076</u>

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

The changes in fixed assets used by the Authority for the year ended June 30, 2015 is as follows:

Asset Category	Estimated Useful Lives	Fixed Assets			Fixed Assets 6/30/2015
		6/30/2014	Additions	Dispositions	
Computer Hardware/Equipment	3	\$ 18,597	\$ 1,062	\$ -	\$ 19,659
Computer Software	3	7,113	788	-	7,901
Leasehold Improvements	12	10,551	223	-	10,774
Furniture & Fixtures	5-7	5,184	-	-	5,184
Automobiles	5	5,034	662	(317)	5,379
Office Equipment	3-5	2,513	149	-	2,662
Total Cost		48,992	2,884	(317)	51,559
Less:					
Accumulated Depreciation and amortization		(45,709)	(1,838)	317	(47,230)
Fixed Assets, net		\$ 3,283	\$ 1,046	\$ -	\$ 4,329

Depreciation totaled \$1,979 and \$1,838 for fiscal 2016 and 2015, respectively.

6. CONSTRUCTION IN PROGRESS

Expenses for construction in progress for fiscal 2016 and 2015 include:

	2016	2015
Outside construction costs	\$2,184,639	\$2,135,782
Authority payroll and related fringe benefits	101,262	102,867
Authority general and administrative costs	47,801	45,760
Total Expenses	2,333,702	2,284,409
Construction in progress - beginning of year	2,037,328	1,801,219
Total before transfer to DoE during the year	4,371,030	4,085,628
Costs transferred to the DoE during the year	(1,949,012)	(2,048,300)
Construction in progress - end of year	\$2,422,018	\$2,037,328

The Authority transferred to the DoE costs associated with substantially completed contracts and administrative costs totaling \$1,949,012 and \$2,048,300 for fiscal 2016 and 2015, respectively. In addition, the DoE capitalized \$63,528 and \$44,843 during fiscal 2016 and 2015, respectively, for work performed by the Capital Task Force, a division of the DoE. This resulted in the DoE additions to fixed assets for fiscal 2016 and 2015 of \$2,012,540 and \$2,093,143, respectively.

7. 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, 2016 and 2015, pass-through purchases totaled \$198,246 and \$141,455, respectively, and have been included in operating transfers on behalf of the DoE in the accompanying statements of activities and governmental fund statements of revenues, expenditures and changes in fund balances. Included in these amounts are expenditures for technology enhancements, leasehold alterations and reconstruction.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

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

	<u>2016</u>	<u>2015</u>
Skilled trades, minor capital projects	\$ 28,701	\$ 39,919
Lead Paint Abatement	1,221	1,193
DoE Admin Staff	4,924	10,336
	<u>\$ 34,846</u>	<u>\$ 51,448</u>

Such costs are also included in operating transfers on behalf of the DoE in the accompanying statements of activities and governmental fund statements of revenues, expenditures and changes in fund balances.

8. 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. Rental expense totaled \$6,420 and \$7,370 in fiscal 2016 and 2015, respectively.

The following is a schedule of future minimum rental payments required under operating leases having initial or remaining noncancelable lease terms in excess of one year:

Years ending June 30,	Amount
2017	\$ 6,376
2018	6,539
2019	6,539
2020	6,539
2021	6,539
Thereafter	1,634
Total	<u>\$ 34,166</u>

Purchase Orders

Purchase orders, contracts and other commitments at June 30, 2016 and 2015 totaled \$2,960 and \$2,942, respectively, and represent the difference between the value of construction-related contracts and the amount incurred through the end of the year.

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 \$356 and \$4,255 as of June 30, 2016 and 2015, respectively, based on the insurance contract's terms and conditions and an actuarial assessment of OCIP loss activity, which is included in other assets.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

The Authority's contract for the OCIP is currently provided by ACE Insurance Company for the insurance coverage period from January 1, 2014 through December 31, 2016. The annual insurance premium for this program was \$123 million and \$213 million for 2016 and 2015, respectively. The Authority has recorded an estimated net receivable of \$96,431 and \$76,016 as of June 30, 2016 and 2015, respectively, based on the actuarial assessment of OCIP loss activity for the respective periods. The estimated net receivable is comprised of receivables of \$108,076 and \$82,176 for fiscal 2016 and 2015, respectively, which are included in other assets, and liabilities of \$11,645 and \$6,160 for fiscal 2016 and 2015, respectively, which are included in accounts payable and accrued expenses.

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, an accrued liability is recorded in the government-wide financial statements. The Authority, with the assistance of the City's Corporation Counsel, has estimated and recorded a liability of \$2,275 and \$2,225 at June 30, 2016 and 2015, respectively.

From time to time the Authority is involved in various litigations, claims and assessments. The Authority records those claims which are believed to be probable of settlement based upon 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.

9. POLLUTION REMEDIATION OBLIGATIONS

A pollution remediation obligation ("PRO") may arise as a result of: (1) violation of pollution-related laws or regulations, (2) danger to the public as a result of existing pollution condition, (3) designation as a responsible party in a lawsuit for pollution remediation, and/or (4) voluntary or legal commitment to commence remediation. Pollution remediation costs are identified as asbestos abatement, lead paint abatement, and soil contamination remediation project work performed at New York City public schools.

Pollution remediation expense are as follows:

	2016	2015
Opening balance as of 7/1	\$ 110,140	\$ 111,761
Pollution remediation costs	(17,390)	(29,057)
Less open obligations paid	(63,125)	(62,905)
Ending balance as of 6/30	76,123	110,140
Total expense	<u>\$ 105,748</u>	<u>\$ 129,939</u>

For the fiscal year 2016 and 2015, the Authority has classified \$105,748 and \$129,939, respectively, as expenses incurred and \$76,123 and \$110,140, respectively, as liabilities for known PROs. The PRO liability is based on the current value of outlays expected to be incurred and currently obligated to perform. Actual future outlays will differ from the estimated amounts due to such factors as changes in scope of work or techniques for remediation measures and/or when additional information about existing pollution conditions becomes known. The Authority does not anticipate recovering any of these costs from other parties or agencies.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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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 employed by the City may continue to participate in certain other retirement plans including those of the New York City Employees' Retirement System ("NYCERS").

Contributions to the pension plans are made by the Authority and the employees. Contributions paid or accrued by the Authority under these plans totaled \$10,387 and \$10,123 for fiscal year 2016 and 2015, 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 contribution rates as a percentage of covered payroll were 14% and 27% for the year ended June 30, 2016 for BERS and NYCERS, respectively. 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 adopted GASB No. 68 as of and for the year ended June 30, 2014. 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, GASB No. 68 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. GASB No. 68 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 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.

The Authority recognizes net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense based on its proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective pension expense in the BERS and NYCERS plan. The proportionate share allocation method utilized by BERS and NYCERS is the percentage of each employer's contribution to the total contributions to the plans.

The Authority's share of the pension liability of the BERS Plan represented 3.2 percent and 4.0 percent of the total net pension liability as of June 30, 2016 and 2015, respectively. The Authority has recorded a net pension liability of \$44 million and \$43 million as of June 30, 2016 and 2015, respectively. The Authority has recorded its proportionate share of pension plan expenses of \$5.3 million and \$5 million for the years ended June 30, 2016 and 2015, respectively.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

The Authority's share of the pension liability of the NYCERS Plan represented less than one percent of the total net pension liability as of June 30, 2016 and 2015. The Authority has recorded a net pension liability of \$13.4 million and \$10 million as of June 30, 2016 and 2015, respectively. The change in the Authority's proportionate share of the net pension liability for fiscal year 2016 since the prior measurement date was \$3 million. The Authority has recorded its proportionate share of pension plan expenses of \$2.2 million and \$1 million for the years ended June 30, 2016 and 2015, respectively.

For fiscal year 2016, the results of the collective net pension liability are based upon an actuarial valuation date of June 30, 2014 and a measurement date of June 30, 2016.

Mortality rates were based on the tables adopted by The City of New York Office of the Actuary and each plan's Board of Trustees during fiscal year 2016 based on an experience review of each system and the application of Mortality Improved Scale MP-2015 published by the Society of the Actuaries in October 2015. The probabilities of mortality for retirees differ depending upon whether they are receiving service retirement benefits or disability retirement benefits.

All other actuarial assumptions and methods used to value the BERS and NYCERS Plan are unchanged from those used in the prior valuation.

Actuarial assumptions used in determining employer contributions were as follows:

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

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 are conducted every two years.

Most recently Gabriel, Roeder, Smith & Company (GRS) had been retained to study the actuarial assumptions for fiscal years 2010 through 2013.

The previously 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.

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 real rates of return (expected returns, net of Plan investment expenses 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 real rates of return by the target asset allocation percentage and by adding expected inflation.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

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, 2014 actuarial valuation are summarized in the following table:

BERS

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
U.S. Public Market Equities	35.00%	6.60%
Int'l Public Market Equities	17.00%	7.00%
Emerging Public Market Equities	5.00%	7.90%
Private Market Equities	6.00%	9.90%
Fixed Income (Core, TIPS, HY, Opportunist, Convertible)	30.00%	2.70%
Alternatives (Real Estates, Hedge Funds)	7.00%	4.00%
Total	100.00%	

NYCERS

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
U.S. Public Market Equities	32.60%	6.60%
Int'l Public Market Equities	10.00%	7.00%
Emerging Public Market Equities	6.90%	7.90%
Private Market Equities	7.00%	9.90%
Fixed Income (Core, TIPS, HY, Opportunist, Convertible)	33.50%	2.70%
Alternatives (Real Estates, Hedge Funds)	10.00%	4.00%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2016 and June 30, 2015, respectively, was 7.00 percent per annum. 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 employer contributions will be made based at rates determined by the Office of the Actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available 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 Analysis

The following presents the net pension liability of each plan, calculated as of the measurement date of June 30, 2016, using the discount rate of 7.0% per annum (the "Current Rate").

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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, 2016

System	1% Decrease (6%)	Current Rate (7%)	1% Increase (8%)
NYCERS	\$ 18,366	\$ 13,363	\$ 9,232
BERS	61,938	44,002	28,968
Total	\$ 80,304	\$ 57,365	\$ 38,200

For the years ended June 30, 2016 and 2015, the Authority recognized pension expense, net of adjustments to restate prior year balances to agree to the revised June 30, 2015 actuarial valuation, of (\$145) and \$5,942, respectively. At June 30, 2016, 2015 and 2014, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	BERS		NYCERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
2014				
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 34,507	\$ -	\$ 2,483
2015				
Net difference between projected and actual earnings on pension plan investments	\$ 2,508	\$ 27,202	\$ 882	\$ 1,455
2016				
Differences between expected and actual experience	\$ 628	\$ 1,656	\$ -	\$ 379
Net difference between projected and actual earnings on pension plan investments	\$ 2,744	\$ 12,007	\$ 2,036	\$ 1,313
Change of assumptions	\$ 4,008	\$ -	\$ 986	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ (6,703)	\$ (124)	\$ 1,638	\$ 191

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.

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

The net amount of deferred outflows of resources and deferred inflows of resources reported as of June 30, 2016 that will be recognized in pension expense is as follows:

For the Fiscal Year Ended	BERS	NYCERS
2016	\$ (5,281)	\$ 56
2017	(5,281)	56
2018	(2,406)	306
2019	976	678
2020	428	293
Thereafter	(6,579)	1,444

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.

Separately issued financial statements for NYCERS, which includes financial statement information for the NYCERS plan can be obtained from NYCERS management at 338 Adams Street, Brooklyn, NY 11201 or at www.nycers.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.

Other Post-Employment Benefits

Plan Description – The Authority provides certain health and related benefits to eligible retirees of the Authority, which are known as other postemployment benefits ("OPEB"). OPEB is provided under the New York City Health Benefit Program ("Program"), which is a multi-employer defined benefit healthcare plan. The Authority's policy is to follow the eligibility criteria applicable to retirees of the City and to provide benefits substantially the same as those provided to City retirees and eligible beneficiaries/dependents. OPEB benefits include health insurance, Medicare Part B premium reimbursements, and employee welfare fund contributions. The OPEB plan issues a publicly available financial report that includes financial statements and required supplementary information ("RSI") for funding OPEB and the report can be obtained from NYC Comptroller website at www.comptroller.nyc.gov or upon request to the Office of the Comptroller, Bureau of Accountancy.

Funding Policy – The Authority is not required to provide funding for OPEB, other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. For the years ended June 30, 2016 and 2015, the Authority made contributions of \$477 and \$421, respectively. The Authority pays the full cost of basic coverage for non-Medicare-eligible/Medicare-eligible retiree participants. The Authority pays per capita contributions to the Welfare Funds, the amounts of which are based on negotiated contract provisions.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

Annual OPEB and Net OPEB Obligation – The Authority’s annual OPEB cost (expense) is calculated based on the actuarial annual required contribution (“ARC”) of the employer, an amount that was actuarially determined by using the Entry Age Actuarial Cost Method. The methodology remains unchanged from the actuarial cost method used in the prior OPEB actuarial valuation.

The following table shows the elements of the Authority’s annual OPEB cost for the year, the amounts contributed, and changes in the Authority’s net OPEB obligation for the fiscal years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Annual required contribution (ARC)	\$ 25,128	\$ 25,040
Interest on net OPEB obligation	984	1,072
Adjustment to annual required contribution	<u>(25,604)</u>	<u>(27,879)</u>
Annual OPEB cost (expense)	508	(1,767)
Employer Contribution	<u>(477)</u>	<u>(421)</u>
Increase (decrease) in net OPEB obligation	31	(2,188)
Net OPEB Obligation - beginning of year	<u>24,619</u>	<u>26,807</u>
Net OPEB Obligation - end of year	<u><u>\$ 24,650</u></u>	<u><u>\$ 24,619</u></u>

The Authority’s annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal years ended June 30, 2014 through 2016, were as follows:

	<u>\$</u>		<u>\$</u>
6/30/2016	508	93.9%	24,650
6/30/2015	(1,767)	ND (1)	24,619
6/30/2014	625	62.1%	26,807

(1) Not determined due to the annual OPEB cost being less than zero.

Funded Status and Funding Progress – As of June 30, 2015, the most recent actuarial valuation date, the cost was 0% funded. The AAL for benefits was \$17,711, and the actuarial value of plan assets was \$0, resulting in an UAAL of \$17,711. The covered payroll (annual payroll of active employees covered by the Program) was \$60,766, and the ratio of the UAAL to the covered payroll was 29.1%. The *Schedule of Funding Progress for the Other Postemployment Benefit Plan*, presented in the RSI section immediately following the notes to the financial statements, provides a three-year information trend about whether the actuarial values of assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future, such as assumptions about future employment, demographic, salary increase, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and employees to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

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NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2016 AND 2015 (amounts in thousands, except as noted)

The OPEB specific actuarial assumptions used in the June 30, 2015 actuarial valuation were as follows:

Valuation Date: June 30, 2015

Discount Rate: 4.0% per annum

Actuarial Cost Method: Entry age calculated on an individual basis with the Actuarial Value of Projected Benefits allocated on a level basis over earnings from hire through age of exit.

Amortization Method: All changes in the Unfunded Actuarial Accrued Liability as of June 30, 2015 are being amortized over a one-year period for purposes of calculating the ARC except for the amount of change in UAAL attributable to the change in the Actuarial Cost Method, established as of June 30, 2012, which is being amortized over a closed 10-year period using level-dollar amortization.

Welfare Funds: For the June 30, 2015 and June 30, 2014 valuation, the Welfare Fund contribution reported for fiscal year 2016 (including any reported retroactive amounts) was used as the per capita cost for valuation purposes. The amount used included the \$25 increase effective July 1, 2015 under the 2015 MLC-NYC Health Savings Agreement, \$100 for Fiscal Year 2016 (reflected in the June 30, 2015 valuation) as well as further \$25 annual increases effective July 1, 2016 and July 1, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

New York City School Construction Authority
Required Supplementary Information (Unaudited)
Schedule of Funding Progress for the Other Postemployment
Benefits Plan
As of and For the Years Ended June 30, 2016
(amounts in thousands, except as noted)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2016	June 30, 2015*	\$ -	\$ 17,712	\$ 17,712	0%	\$ 60,766	29.1%
June 30, 2015	June 30, 2014*	\$ -	\$ 16,716	\$ 16,716	0%	\$ 60,127	27.8%
June 30, 2014	June 30, 2013*	\$ -	\$ 17,900	\$ 17,900	0%	\$ 58,363	30.7%

* Beginning June 30, 2012 based on Entry Age Actuarial Cost Method.

**New York City School Construction Authority
Required Supplementary Information (Unaudited)
Schedule of the Authority's Proportionate Share of the
Net Pension Liability
June 30, (amounts in thousands, except as noted)**

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

For the Fiscal Year Ended	2016	2015	2014	2013	2012
The Authority's proportion of the net pension liability	3%	4%	4%	4%	4%
The Authority's proportionate share of the net pension liability (assets)	\$ 44,002	\$ 43,135	\$ 36,523	\$ 53,003	\$ 58,518
The Authority's covered employee payroll	\$ 58,500	\$ 34,406	\$ 40,673	\$ 40,063	\$ 49,318
The Authority's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	75.22%	125.37%	89.80%	132.30%	118.65%
Plan fiduciary net position as a percentage of the total pension liability	71.17%	75.77%	78.34%	66.85%	41.61%

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

For the Fiscal Year Ended	2016	2015	2014	2013	2012
The Authority's proportion of the net pension liability	0.055%	0.047%	0.048%	0.048%	0.048%
The Authority's proportionate share of the net pension liability (assets)	\$ 13,363	\$ 9,582	\$ 8,649	\$ 11,075	\$ 11,997
The Authority's covered employee payroll	\$ 6,871	\$ 6,705	\$ 6,657	\$ 6,939	\$ 6,657
The Authority's proportionate share of the net pension liability (asset) as a percentage of covered employee payroll	194.48%	142.91%	129.92%	159.61%	180.22%
Plan fiduciary net position as a percentage of the total pension liability	69.57%	73.39%	75.32%	67.18%	63.08%

New York City School Construction Authority
Required Supplementary Information (Unaudited)
Schedule of the Authority's Contributions
Years Ended June 30, (amounts in thousands, except as noted)

Schedule of Employers Contributions (in thousands) for BERS

Fiscal Year Ended June 30	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially Determined Contribution	\$8,440	\$8,803	\$8,645	\$7,850	\$8,546	\$7,208	\$5,894	\$5,369	\$5,724	\$5,193
Contribution in relation to the Actuarially Determined Contribution	\$8,440	\$8,803	\$8,645	\$7,850	\$8,546	\$7,208	\$5,894	\$5,369	\$5,724	\$5,193
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution as a percentage of Covered Employee Payroll	14.00%	17.81%	17.41%	16.46%	17.33%	20.46%	17.82%	17.77%	19.63%	18.64%

Schedule of Employers Contributions (in thousands) for NYCERS

Fiscal Year Ended June 30	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially Determined Contribution	\$1,851	\$1,675	\$1,504	\$1,462	\$1,448	\$1,146	\$1,055	\$1,032	\$ 900	\$ 706
Contribution in relation to the Actuarially Determined Contribution	\$1,851	\$1,675	\$1,504	\$1,462	\$1,448	\$1,146	\$1,055	\$1,032	\$ 900	\$ 706
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution as a percentage of Covered Employee Payroll	26.94%	24.98%	22.46%	21.07%	21.75%	19.99%	19.22%	19.74%	18.25%	14.93%