NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
New York City Educational Construction Fund
Long Island City, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the New York City Educational Construction Fund (the "Fund"), a component unit of The City of New York ("The City"), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions 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 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the New York City Educational Construction Fund, as of June 30, 2014 and 2013, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the financial statements of the Fund are intended to present the financial position and changes in financial position of only that portion of the governmental activities of the City that is attributable to the transactions of the Fund. They do not purport to, and do not present fairly, the financial position of the City as of June 30, 2014 and 2013, and the changes in financial position for the years then ended in conformity 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 4–7 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 audit 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2014, on our consideration of the New York City Educational Construction Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the New York City Educational Construction Fund's internal control over financial reporting and compliance

Isaeloff, Trattner & Co. P.C.

Garden City, New York
September 17, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

The following Management's Discussion and Analysis ("MD&A") of the financial performance of the New York City Educational Construction Fund (the "Fund") is for the fiscal years ended June 30, 2014 and 2013. This discussion and analysis is intended to serve as an introduction to the Fund's basic financial statements, which have the following components: (1) entity-wide financial statements; (2) governmental fund financial statements; and (3) notes to financial statements.

The MD&A is designed to focus on current activities, resulting changes, and currently known facts with respect to the Fund's financial position. It should be read in conjunction with the accompanying basic financial statements and related notes.

The entity-wide financial statements use the economic resource measurement focus and accrual basis of accounting. These statements are presented to display information about the reporting government as a whole. The following are the two statements that make up the entity-wide financial statements:

> The Statement of Net Position presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Fund has improved or has deteriorated.
>
> The Statement of Activities presents information showing how the Fund's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the Statement of Activities for some items that will only result in cash inflows or outflows in future fiscal periods.

The governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. These statements are the governmental funds – Balance Sheet and the governmental funds – Statement of Revenues, Expenditures and Changes in Fund Balances. They recognize revenue when it becomes both measurable and available to finance expenditures in the current fiscal year.

The governmental funds financial statements also include a reconciliation between the entity-wide and governmental fund statements, the notes to financial statements which are an integral part of the financial statements and provide more detailed information to supplement the basic financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

FINANCIAL HIGHLIGHTS

The Fund's net position increased by approximately $.1 million and $3.7 million in 2014 and 2013, respectively.

Total revenues increased this year due to the execution of the second amendment to the ground lease at 250 East 57th Street. The second amendment of the ground lease included among other items an extension of said ground lease to 99 years from its original 75 years. The second amendment also included an option to further amend the lease for an additional 26 years, if the owners so chose to exercise. Accordingly, the second amendment also included an additional $7 million payment to the Fund. Capital Assets decreased by $5 million due mainly to additional depreciation expense upon completion of construction at 250 East 57th Street. Current liabilities decreased due to the release of construction retainage.

Restricted investments in 2014 did not fluctuate as the schools are operating and there are minimal expenditures. In 2013 Restricted investments decreased due to the completion in 2012 of the 250 East 57th Street site.

The City of New York implemented Governmental Accounting Standards Board ("GASB") Statement No. 68 during Fiscal Year ("FY") 2014. The Fund could not follow suit as its Retirement System is the New York State and Local Employees Retirement System and the state will not implement GASB 68 until FY 2015, which is in compliance with GASB requirements. During the fiscal year ended June 30, 2013, the Fund implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. See Change In Accounting Principle in Note 2 of the financial statements for further details.

Below is a summary of the changes in total assets, liabilities and net position.

Summary of Net Position ($ in thousands)

	June 30, 2014	June 30, 2013
Capital assets	$ 281,227	$ 286,222
Other assets	86,951	88,407
Total assets	368,178	374,629
Current liabilities	6,465	10,990
Long-term liabilities	268,691	270,712
Total liabilities	275,156	281,702

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

RESULTS OF OPERATIONS

Invested in capital assets, net of related debt	12,164	14,996
Restricted for capital projects	9,497	10,055
Restricted for debt service	37,495	35,503
Unrestricted	33,866	32,373
Total net position	$ 93,022	$ 92,927

Rental and Tax equivalency income increased in FY 2014 due to the second amendment of the 250 East 57th Street site as discussed previously.

Rental and tax equivalency income decreased during Fiscal Year 2013 by approximately $5 million due to the revenue loss from the sale of the Norman Thomas High School site. General and administrative expenses increased in FY 2014 due to depreciation expense. General and administrative expenses for 2013 increased due to depreciation expense and payroll taxes that increased back to their former levels.

Summary of Revenues, Expenses, and Changes in Net Position ($ in thousands)

	June 30, 2014	June 30, 2013
Operating revenues	$ 13,644	$ 15,621
Other revenues	7,000	-
Total expenses	20,549	11,946
Change in Net Position	95	3,675
Net position, beginning of year	92,927	89,252
Net position, end of year	$ 93,022	$ 92,927

Other Selected Financial Information

Ratio of operating revenue to:	2014	2013
General and administrative expenses	1.79	1.98
General and administrative expenses net of depreciation	7.38	1 0.11
Total assets	0.04	0.04
Debt related ratios:		
Debt coverage ratio	0.69	0.63

Ratios relating to operating revenues decreased due to the decrease in revenues discussed above.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

DEVELOPMENT PROJECTS OF THE FUND

The Fund's current development activities may be summarized as follows:

The Fund anticipates that it will be involved in the development one or more projects by the end of 2015.

ECONOMIC FACTORS AND FUTURE RESULTS

In FY 2014 Management expected revenues to decrease due to the disposition of sites in 2013 which produced higher income. However due to the execution of the second amendment of the 57th street project and the additional 7 million in revenue collected as a result, ECF was able to show a small increase during FY 2014. Expenses will most likely increase due to the addition and training of a new employee in the finance department. Management expects FY 2015 revenues and expenses, with the exception of salaries, interest and depreciation expense, to remain at or near 2014 levels. Interest expense in FY 2013 is lower than in FY 2014 by $8.7 million. This is due to the capitalization of interest in FY 2013 during the construction phase of the 250 East 57th Street site.

Contact Information

This financial report is designed to provide a general overview of the New York City Educational Construction Fund's finances. Questions concerning any data provided in this report or request for additional information should be directed to Juanita Rosillo, Director of Finance, New York City Educational Construction Fund, 30-30 Thomson Avenue, 4th Floor, Long Island City, New York 11101.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash and cash equivalents (Notes 2 and 3)	$ 39,164,656	$ 40,250,462
Restricted investments (Notes 2 and 3)	47,160,748	47,542,062
Prepaid expenses	147,981	141,712
Interest receivable on investments	151,708	146,581
Interest subsidy receivable (Note 5)	270,356	270,491
Site evaluation and development costs (Note 2)	56,042	56,042
Capital assets: School buildings, net of accumulated depreciation (Notes 2 and 4)	281,226,826	286,222,063
Total Assets	368,178,317	374,629,413
LIABILITIES		
Advance rental receipts (Note 2)	493,023	3,244,649
Accrued interest on revenue bonds	3,615,123	3,632,785
Accrued expenses and other liabilities		
Due within one year	391,714	2,222,178
Accrued post-employment healthcare benefits (Notes 2 and 9)	1,593,433	1,376,273
Revenue Bonds, net of unamortized bond premium (Notes 2 and 5)		
Due within one year	1,965,000	1,890,000
Due in more than one year	267,097,750	269,336,039
Total Liabilities	275,156,043	281,701,924
NET POSITION (Note 6)		
Net investment in capital assets	12,164,076	14,996,024
Restricted for:		
Capital projects	9,496,616	10,055,292
Debt service	37,495,373	35,502,925
Unrestricted	33,866,209	32,373,248
Total Net Position	$ 93,022,274	$ 92,927,489

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
GENERAL REVENUE:		
Rental income and tax equivalency payments (net of refunds) (Note 2)	$ 13,087,120	$ 14,844,377
Investment income	557,197	777,239
Other income (Note 8)	7,000,000	-
Total General Revenue	20,644,317	15,621,616
EXPENSES:		
General and administrative expenses, including depreciation expense of $5,530,409 and $6,011,898 for 2014 and 2013, resprectively	7,304,658	7,479,467
Interest on bonds, net of amounts capitalized (Note 5)	13,244,874	4,466,196
Total Expenses	20,549,532	11,945,663
Change in Net Position	94,785	3,675,953
Net Position - beginning of year	92,927,489	89,251,536
Net Position - end of year	$ 93,022,274	$ 92,927,489

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
GOVERNMENTAL FUNDS - BALANCE SHEET
JUNE 30, 2014

	General	Capital Projects	Debt Service	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 39,164,656	$ -	$ -	$ 39,164,656
Restricted investments	-	9,785,604	37,375,144	47,160,748
Prepaid expenses	147,981	-	-	147,981
Interest receivable on investments	-	31,479	120,229	151,708
Total Assets	$ 39,312,637	$ 9,817,083	$ 37,495,373	$ 86,625,093
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accrued expenses and other liabilities	$ -	$ 320,467	$ -	$ 320,467
Advance rental receipts	493,023	-	-	493,023
Total Liabilities	493,023	320,467	-	813,490
FUND BALANCE				
Nonspendable	147,981	-	-	147,981
Spendable:				
Restricted	-	9,496,616	37,495,373	46,991,989
Unassigned	38,671,633	-	-	38,671,633
Total Fund Balances	38,819,614	9,496,616	37,495,373	85,811,603
Total Liabilities and Fund Balances	$ 39,312,637	$ 9,817,083	$ 37,495,373	$ 86,625,093

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
GOVERNMENTAL FUNDS - BALANCE SHEET
JUNE 30, 2013

	General	Capital Projects	Debt Service	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 40,250,462	$ -	$ -	$ 40,250,462
Restricted investments	-	12,148,263	35,393,799	47,542,062
Prepaid expenses	141,712	-	-	141,712
Interest receivable on investments	-	37,455	109,126	146,581
Total Assets	$ 40,392,174	$ 12,185,718	$ 35,502,925	$ 88,080,817
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accrued expenses and other liabilities	$ -	$ 2,130,426	$ -	$ 2,130,426
Advance rental receipts	3,244,649	-	-	3,244,649
Total Liabilities	3,244,649	2,130,426	-	5,375,075
FUND BALANCE				
Nonspendable	141,712	-	-	141,712
Spendable:				
Restricted	-	10,055,292	35,502,925	45,558,217
Unassigned	37,005,813	-	-	37,005,813
Total Fund Balances	37,147,525	10,055,292	35,502,925	82,705,742
Total Liabilities and Fund Balances	$ 40,392,174	$ 12,185,718	$ 35,502,925	$ 88,080,817

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
RECONCILIATIONS OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS
TO THE STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013

	2014	2013
Amounts reported for governmental activities in the Statements of Net Position are different because:		
Total Fund Balances - Governmental Funds	$ 85,811,603	$ 82,705,742
School property and related costs used in governmental activities are not financial resources and therefore, are not reported in the governmental fund	281,226,826	286,222,063
Bond premiums/discounts are reported as other financing sources in the governmental funds financial statements. However, in the statement of net position, bond premiums/discounts are reported as a component of bonds payable and amortized over the lives of the related debt	(2,907,751)	(3,180,961)
Long-term liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements. These liabilities are:		
Revenue bonds	(266,155,000)	(268,045,078)
Accrued interest on revenue bonds	(3,615,123)	(3,632,785)
Interest subsidy receivable	270,356	270,491
Accrued vacation and sick pay	(71,246)	(91,752)
Site evaluation and development costs	56,042	56,042
Accrued post-employment healthcare benefits	(1,593,433)	(1,376,273)
Net Position of Governmental Activities	$ 93,022,274	$ 92,927,489

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014

	General	Capital Projects	Debt Service	Total Governmental Funds
REVENUES				
Rental income and tax equivalency payments	$ 13,087,120	$ -	$ -	$ 13,087,120
Investment income	5,142	17,477	534,578	557,197
Total Revenues	13,092,262	17,477	534,578	13,644,317
EXPENDITURES				
General and administrative	1,536,613	40,981	-	1,577,594
Capital project expenses	-	535,172	-	535,172
Bond principal amount	-	-	1,890,000	1,890,000
Interest expense	-	-	13,535,690	13,535,690
Total expenditures	1,536,613	576,153	15,425,690	17,538,456
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	11,555,649	(558,676)	(14,891,112)	(3,894,139)
OTHER FINANCING SOURCES (USES):				
OTHER INCOME	7,000,000	-	-	7,000,000
INTER-FUND TRANSFERS	(16,883,560)	-	16,883,560	-
Fund balances, beginning of year	37,147,525	10,055,292	35,502,925	82,705,742
Fund balances, end of year	$ 38,819,614	$ 9,496,616	$ 37,495,373	$ 85,811,603

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2013

	General	Capital Projects	Debt Service	Total Governmental Funds
REVENUES				
Rental income and tax equivalency payments	$ 14,844,377	$ -	$ -	$ 14,844,377
Investment income	191,793	93,450	491,996	777,239
Total revenues	15,036,170	93,450	491,996	15,621,616
EXPENDITURES				
General and administrative	1,683,303	-	-	1,683,303
Capital projects expenses	-	11,513,537	8,919,000	20,432,537
Bond principal amount	-	-	6,390,000	6,390,000
Interest expense	-	-	4,632,318	4,632,318
Total expenditures	1,683,303	11,513,537	19,941,318	33,138,158
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	13,352,867	(11,420,087)	(19,449,322)	(17,516,542)
OTHER FINANCING SOURCES (USES):				
INTER-FUND TRANSFERS	(17,364,853)	(107,779)	17,472,632	-
Fund balances, beginning of year	41,159,511	21,583,158	37,479,615	100,222,284
Fund balances, end of year	$ 37,147,525	$ 10,055,292	$ 35,502,925	$ 82,705,742

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Amounts reported for governmental activities in the Statements of Activities are different because:		
Net Changes in Fund Balance - Governmental Funds	$ 3,105,861	$ (17,516,542)
Governmental funds report capital outlays as expenditures. However, in the Statements of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the period.		
Capital outlays	535,172	20,432,537
Depreciation expense	(5,530,409)	(6,011,898)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities (except effects of issuance costs). This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal payments of bonds	1,890,000	6,390,000
Interest subsidy receivable	(135)	(189,250)
Some net expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.	94,296	571,106
Change in Net Position of Governmental Activities	$ 94,785	$ 3,675,953

See accompanying notes to financial statements.

1. ORGANIZATION

The New York City Educational Construction Fund (the "Fund") was created as a New York State (the "State") public benefit corporation by Article 10 of the Education Law of the State. The Fund was established to develop combined occupancy structures, containing school and non-school portions and is authorized to issue bonds, notes or other obligations to finance those projects. For financial reporting purposes only, the Fund is considered a component unit of the City.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING / MEASUREMENT FOCUS

The Fund uses the governmental method of accounting as described in Governmental Accounting Standards Board ("GASB") Statement No. 34 ("GASB 34") *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The entity-wide financial statements of the Fund, which include the Statement of Net Position and the Statement of Activities, are presented to display information about the reporting entity as a whole, in accordance with GASB 34. The Statement of Net Position and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

Governmental fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances are presented using the current financial resources measurement focus and the modified accrual basis of accounting. They recognize revenue when it becomes both measurable and available to finance expenditures in the current fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are recognized when the related liability is incurred.

Reconciliation of Entity-wide and Governmental Fund Financial Statements – A summary reconciliation of the difference between the total fund balances as reflected on the Governmental Fund Balance Sheet and total net position for the fund activities as shown on the Entity-wide Statement of Net Position is presented in an accompanying statement to the Governmental Fund Balance Sheet.

A summary reconciliation of the difference between net change in fund balances as reflected on the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and changes in net position for activities as shown on the Entity-wide Statement of Activities is presented in an accompanying statement, as well.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING / MEASUREMENT FOCUS (CONTINUED)

The following accounts and funds have been established in accordance with the Fund's Revenue Bond Resolution:

General Fund: The General Fund is the principal operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund: The Capital Projects Fund was established to pay bond issuance and project costs. Separate accounts may be established within the Fund for each project.

Debt Service Fund: The Debt Service Fund consists mainly of two accounts for each debt issuance (2005A, 2007A, 2010A and 2011A). Amounts on deposit in the Debt Service Account are used for the payment of debt service on the Fund's bonds. The Debt Service Reserve Fund is required to maintain a balance equal to the maximum annual debt service on the bonds.

As of June 30, 2014 and 2013, the balances in the debt service reserve accounts totaled $25,905,982 and $23,405,381, respectively, held in the account to meet the required minimum.

The Debt Service Fund is funded by specific proceeds from the Revenue Bonds, Series 2005A, 2007A, 2010A and 2011A. There is one account established in the Debt Service Reserve Fund. All revenues are deposited in the operations account. Revenues are required to be disbursed in accordance with the priority set forth in the Series Bond Resolutions.

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 estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include accrued expenses and other liabilities, depreciable lives of school buildings, other post-employment healthcare benefit ("OPEB") obligations and contingencies. Actual results could differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of unrestricted money market funds as well as highly liquid debt investments with a maturity of three months or less from date of purchase. Cash equivalents are normally held to maturity and are carried at cost plus accrued interest. The Fund's policy is to invest idle cash balances.

FINANCIAL INSTRUMENTS

Significant financial instruments included in the Fund's assets consist of short-term investments. Investments are generally limited to: obligations of government sponsored agencies, U.S. Treasury obligations or repurchase agreements collateralized by U.S. Treasury obligations or other government or government sponsored agencies in accordance with the terms of the Fund's Revenue Bond Resolution and the Fund's Policy on Investments. Short term investments are carried at cost plus accrued interest, which approximates fair value due to the short maturity of these instruments.

Significant financial instruments included in the Fund's liabilities are revenue bonds payable. The fair value of the revenue bonds payable is estimated based on the quoted market price for the same or similar issues. The estimated fair value of the Fund's cash and cash equivalents and short term investments and revenue bonds payable are as follows:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investment	$ 86,325,404	$ 86,358,187	$ 87,792,524	$ 88,991,379
Revenue bonds payable	$ 269,062,750	$ 298,706,618	$ 271,226,039	$ 287,850,079

RESTRICTED ASSETS

Restricted assets represent cash and investments maintained in accordance with bond resolutions for the purpose of funding certain debt service payments and construction spending.

SITE EVALUATION AND DEVELOPMENT COSTS

The Fund capitalizes site evaluation and development costs. When the Fund determines that a project is not feasible, all related costs are charged to operations. When the Fund commences construction, all related costs are capitalized and added to the cost of construction.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SCHOOL PROPERTY AND RELATED COSTS

Buildings are carried at cost. Depreciation expense is calculated using the straight-line method based upon the estimated useful life of the buildings, which is approximately 40 or 75 years.

BOND ISSUANCE COSTS

Bond issuance costs are recognized as costs in the period incurred.

UNAMORTIZED BOND PREMIUM/DISCOUNT

Bond premiums and discounts are being amortized over the life of the bonds using the effective-interest method.

COMPENSATED ABSENCES

General leave for the Fund includes both vacation and sick pay. General leave is based on an employee's length of employment and is earned ratably during the span of employment. Upon termination, employees are paid full value for any accrued vacation and paid for up to 200 days of accrued sick leave.

Amounts of accumulated general leave that are not expected to be liquidated with expendable available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

ADVANCE RENTAL RECEIPTS

Advance rental receipts consists of advance rental payments for the non-school portion of the projects. It is reported in the entity-wide statements of net position and in the governmental funds balance sheets.

NET POSITION

The Fund's net position on its entity-wide financial statements is categorized as follows:

- Net investment in capital assets
- Restricted for:
    - Capital projects
    - Debt service
- Unrestricted

Net Investment in capital assets includes capital assets net of accumulated depreciation and liabilities for related revenue bonds.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NET POSITION (CONTINUED)

Restricted net position includes net position restricted for capital projects and debt service. Capital project funds can only be used for specific capital purposes.

Unrestricted net position includes all net position not classified as either net investment in capital assets or restricted net position.

FUND BALANCE

Fund Balances are categorized as follows:

- Nonspendable
- Spendable:
  - Restricted
  - Unassigned

Nonspendable
Includes amounts that cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. This includes fund balance related to prepaids.

Spendable:Restricted
Includes amounts that can be spent only for a specific purpose stipulated by a bond resolution, Restricted balances are restricted for capital spending and debt service.

Spendable:Unassigned
Includes the residual classification of the general fund and includes all spendable amounts not contained in other classifications.

REVENUES AND EXPENSES

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Fund. Operating revenues consist of rental revenues, t ax equivalency payments and other income. Non-operating revenues and expenses consist of revenues and expenses that are related to financing and investing types of activities.

When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits (Note 8), the Fund provides health insurance coverage for retired employees and their spouses. All of the Fund's employees become eligible for these benefits when they reach normal retirement age while working for the Fund. Health care benefits are provided through an insurance company. See Note 9 for additional information on other post employment benefits ("OPEB").

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CHANGES IN ACCOUNTING PRINCIPLES

During the year ended June 30, 2013 the Fund adopted GASB Statement No. 63 ("GASB 63"), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65 ("GASB 65"), *Items Previously Reported as Assets and Liabilities*. There was no impact on the Fund's financial statement as a result of the adoption of GASB 63 as the Fund has no deferred inflows or outflows of resources.

The changes required by GASB 63 are on the entity wide financial statements. Net assets is now called net position, investment in capital assets, net of related debt is now called net investment in capital assets. The format for the statement of Net Position is assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position. A balance sheet format of assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources plus net position may be used.

The changes required by Statement No. 65 are that bond issuance costs are now recorded as expenses in the year incurred in the entity wide statements and deferred rental income is now called advance rental receipts.

The Governmental Accounting Standards Board (GASB) has issued the following new statements:

ALREADY ADOPTED
Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, was adopted by the Fund and did not have an impact on the current year financial statements.

Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25*, was adopted by the Fund and did not have an impact on the current year financial statements.

NOT ADOPTED
Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27*, which will be effective for the year ending June 30, 2015;

Statement No. 69, *Government Combinations and Disposals of Government Operations*, which will be effective for the year ending June 30, 2015; and

Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, was adopted by the Fund and did not have an impact on the current year financial statements; and

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*, which will be effective for the year ending June 30, 2015.

The Fund is currently studying these statements to determine what, if any, effect they may have on the financial statements upon adoption in fiscal year 2015, as required.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Fund invests any monies held in any funds or accounts not required for immediate use or disbursement in obligations of the City, the New York State ("The State") or the United States government or obligations the principal of and interest on which are guaranteed by the City, the State or the United States government or obligations of agencies or instrumentalities of the United States government which may from time to time be legally purchased by savings banks of the state as investments of funds belonging to them or in their control.

The Fund maintains cash balances at several banks. Accounts at each bank are insured by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000. At June 30, 2014 and 2013, uninsured bank balances of approximately $38,900,000 and $39,700,000 respectively, were collateralized with securities held by the bank in the Fund's name.

The Fund's total cash, cash equivalents and investments at June 30, 2014 and 2013 were $86,325,404 ($39,164,656 unrestricted and $47,160,748 restricted, of which $2,700,077 is for the construction of MS 114 and $7,085,527 is for the construction of PS 59) and $87,792,524 ($40,250,462 unrestricted and $47,542,062 restricted, of which $2,711,435 is for the construction of MS 114 and $9,436,828 is for the construction of PS 59), respectively. Investments consist primarily of U.S. treasury bills and U.S. Government agency securities.

Interest rates on investments ranged from 0%-4.96% for the years ended June 30, 2014 and 2013.

Cash, cash equivalents and investments held at fiscal year end were as follows:

Depository Account	June 30, 2014	June 30, 2013
Insured	$ 49,553	$ 69,380
Collateralized:		
Bank of NY/Chase Investment Surplus	37,498,801	35,763,872
Chase Investment Administrative	1,614,570	1,512,687
Bank of NY – Cash Surplus	385	2,904,523
Bank of NY – Operating Account	1,347	-
Bank of NY/Chase Debt Service 2005A	546,718	574,543
Bank of NY/Chase Debt Service Resv. 2005A	2,786,156	6,153,295
Bank of NY/Chase Debt Service 2007A	5,481,755	5,479,551
Bank of NY/Chase Debt Service Resv. 2007A	8,054,338	7,761,219
Bank of NY/Chase Debt Service 2010A	1,544,894	2,038,564
Bank of NY/Chase Debt Service Resv. 2010A	4,524,788	1,793,983
Bank of NY/Chase Debt Service 2011A	3,895,795	3,895,760
Bank of NY/Chase Debt Service Resv. 2011A	10,540,700	7,696,884
Bank of NY/Chase Construction Acc. 2007	2,700,077	2,711,435
Bank of NY/Chase Construction Acc. 2011	7,085,527	9,436,828
Total Deposits	$ 86,325,404	$ 87,792,524

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits/Investments. Custodial credit risk for deposits exists when, in the event of the failure of a depository financial institution, a government may be unable to recover deposits or recover collateral securities that are in possession of an outside agency. Custodial credit risk for investments exists when, in the event of the failure of the counterparty, a government will be unable to recover the value of its investments or collateral securities that are in possession of an outside party.

Credit Risk. NYS Education Law authorizes the Fund to invest in obligations of the U.S. Treasury and federal agencies along with municipal obligations, commercial or finance company paper, repurchase obligations, securities bearing interest or sold at a discount that are issued by domestic corporations, and units of taxable money market funds rated in the highest rating category by Standard & Poor's and Moody's, and investment agreements or guaranteed investment contracts with a financial institution, corporation, registered broker/dealer or domestic commercial bank whose senior long term debt obligations are rated in one of the two highest long-term rating categories by at least two rating services.

Concentration of Credit Risk. The Fund places no limit on the amount invested in any one issuer. As of June 30, 2014 all investments were in obligations of the U.S. Treasury and federal agencies.

Interest Rate Risk - In accordance with its investment policy, the Fund manages its exposure to declines in fair values of its investment portfolio due to increases in interest rates by limiting the weighted average maturity of its investment portfolio to less than seven months. The Fund's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses. As of June 30, 2014 and 2013 all investment maturities were less than one year. Information about fair values of restricted investments by type of investment as of June 30, 2014 and 2013 is as follows:

	2014		2013	
Type of Investment	Carrying Value	Fair Value	Carrying Value	Fair Value
U.S. Government Securities	$27,520,232	$27,521,183	$25,538,384	$25,545,828
U.S. Government Agencies	9,850,076	9,933,813	9,850,515	9,986,003
Cash	9,790,440	9,790,440	12,153,163	12,153,163
Total Restricted Investments	$47,160,748	$47,245,436	$47,542,062	$47,684,994

4. SCHOOL BUILDINGS

The City conveyed land to the Fund at no cost for the development of seventeen schools. The land for fourteen schools is being used for combined schools and housing units and the land for two schools is being used for combined schools and commercial buildings. One school is still under

4. SCHOOL BUILDINGS (CONTINUED)

construction. All of the other schools are completed, in use, and classified as school buildings. Of the fourteen schools, seven were financed by the 1972 Series A Revenue Bonds, which have been defeased; eight were financed by the 1989 Series A Revenue Bonds, which were refunded by the 1994 Series Revenue Bonds (1994 Bonds); one was financed by the 2007A Series Revenue Bonds; and one was financed by the 2010A and 2011A Series Revenue Bonds. The 2005A Series Bonds were used to refinance the 1994 and 1996 Series Revenue Bonds.

The school's portion of these locations has been leased by the Fund to The City for a period of 40, 75 or 99 years. The leases expire on various dates between 2016 and 2080. In the event that the Fund's revenues from the non-school portion of the properties are not sufficient to pay the debt service requirements of the 2005A, 2007A, 2010A and 2011A Series Bonds, then the school leases provide for payments from the The City sufficient to support payment of an allocable portion of the debt service requirements of the 2005A, 2007A, 2010A and 2011A Bonds. The Fund has derived sufficient revenue from the non-school portion, combined with investment income, to meet the debt service requirements of the 2005A, 2007A, 2010A and 2011A Series Bonds. Accordingly, The City has not been required to make payments under the school leases.

During 2011, the Fund issued bonds in the amount of $137,525,000 to finance the construction of the High School of Art & Design, located at 250 East 57th Street, New York. $8,919,000 of interest incurred on these bonds in 2013 has been capitalized and is included in the cost of the building. No interest related to these bonds was capitalized in 2014.

The Fund has agreed to re-convey to The City, the land and improvements relating to assets classified as school property financed by the bonds without consideration at various dates pursuant to the lease agreements with The City.

A summary of the changes in School Buildings during the past two years is as follows:

Cost and Accumulated Depreciation of School Buildings

Description	June 30, 2013	Additions	June 30, 2014
School buildings	$ 403,286,481	$ 535,172	$ 403,821,653
Less: Accumulated depreciation	117,064,418	5,530,409	122,594,827
Net capital assets: School buildings	$ 286,222,063	$ (4,995,237)	$ 281,226,826

4. SCHOOL BUILDINGS (CONTINUED)

Description	June 30, 2012	Additions	Adjustments	June 30, 2013
School buildings	$ 212,742,642	$ 117,293	$ 190,426,546	$ 403,286,481
Construction in progress	170,111,302	20,315,244	(190,426,546)	-
Less: Accumulated depreciation	111,052,520	6,011,898	-	117,064,418
Net capital assets: School buildings	$ 271,801,424	$ 14,420,639	$ -	$ 286,222,063

Depreciation expense for the years ended June 30, 2014 and 2013 was $5,530,409 and $6,011,898,respectively.

5. REVENUE BONDS

The 2005A Bonds were issued pursuant to the New York City Educational Construction Fund Act, which is Article 10 of the New York State Education Law, as amended (the "Act"), and under and pursuant to the Fund's Revenue Bond Resolution adopted by the Fund on December 20, 2004 (the "General Resolution"), and a Series Resolution authorizing the 2005A Bonds (the "2005 Series A Resolution") adopted by the Fund on December 20, 2004 (the General Resolution and the 2005 Series A Resolution are referred to herein collectively as the "Resolution").

On January 6, 2005, the 2005A Bonds were issued for the purposes of (i) providing, together with other funds available to the Fund, the funds necessary to accomplish the refunding of all the Fund's outstanding bonds and (ii) paying Costs of Issuance of the 2005A Bonds. The Fund's outstanding bonds as of January 6, 2005 were comprised of: (1) $17,510,000 of Senior Revenue Bonds, Series 1994, originally issued in the aggregate principal amount of $69,320,000; (2) $19,065,000 Senior Subordinated Revenue Bonds, Series 1994, originally issued in the aggregate principal amount of $19,065,000; (3) $25,935,000 Junior Subordinated Revenue Bonds, Series 1994, originally issued in the aggregate principal amount of $49,365,000; and (4) $39,820,000 Junior Subordinated Revenue Bonds, Series 1996, originally issued in the aggregate principal amount of $44,880,000 (collectively the "Refunded Bonds").

On January 18, 2007, the Fund issued the 2007A Bond series in the amount of $51,340,000, to finance the construction of MS 114 located at 1765 1st Avenue, New York. The 2007A Bonds were issued pursuant to the Act and the Resolution, pursuant to the Fund's Revenue Bond resolution adopted by the Fund on December 8, 2006, for the purposes of (i) financing the costs of constructing the school portion of a combined occupancy structure, (ii) funding the Debt Service Reserve Fund, and (iii) paying the Costs of Issuance of the 2007A Bonds, all as described herein.

5. REVENUE BONDS (CONTINUED)

On April 28, 2010, the Fund issued the 2010A Bond series in the amount of $53,810,000, to finance phase 1 of the construction of PS 59 located at 250 East 57th Street, New York. The 2010A Bonds were issued pursuant to the Act and the Resolution, pursuant to the Fund's Revenue Bond resolution adopted by the Fund on February 26, 2010, for the purposes of (i) financing the costs of constructing the school portion of a combined occupancy structure, (ii) funding the Debt Service Reserve Fund, and (iii) paying the Costs of Issuance of the 2010A Bonds, all as described herein.

The bonds were issued as "Build America Bonds" and the Fund elected to receive cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the bonds.

On January 25, 2011, the Fund issued the 2011A Bond series in the amount of $137,525,000, to finance phase 2 of the construction of PS 59. The 2011A Bonds were issued pursuant to the Act and the Resolution, pursuant to the Fund's Revenue Bond resolution adopted by the Fund on December 23, 2010, for the purposes of (i) financing the costs of constructing the school portion of a combined occupancy structure, (ii) funding the Debt Service Reserve Fund, and (iii) paying the Costs of Issuance of the 2011A Bonds, all as described herein.

5. REVENUE BONDS (CONTINUED)

The following is a summary of changes in serial bonds payable for the years ended June 30, 2014 and 2013:

	Balance June 30, 2013	Principal Payments	Balance June 30, 2014
Revenue Bonds 2005A issued January 6, 2005 (2.25% to 4.375%) maturity dates 2005 to 2026. Payments due April and October	$ 26,695,000	$ 1,590,000	$ 25,105,000
Revenue Bonds 2007A issued January 18, 2007 (3.75% to 5%) maturity dates 2009 to 2037 Payments due April and October	50,015,000	300,000	49,715,000
Revenue Bonds 2010A issued April 28, 2010 (4.50% to 6.20%) maturity dates 2017 to 2040 Payments due April and October	53,810,000	-	53,810,000
Revenue Bonds 2011A issued January 25, 2011 (3.25% to 6.50%) maturity dates 2017 to 2041 Payments due April and October	137,525,000	-	137,525,000
Total	268,045,000	$ 1,890,000	266,155,000
Less/Add: Unamortized bond Discount/premium	3,181,039		2,907,750
Current portion	(1,890,000)		(1,965,000)
Long-term portion	$ 269,336,039		$ 267,097,750

5. REVENUE BONDS (CONTINUED)

The following is a summary of changes in serial bonds payable for the years ended June 30, 2013 and 2012:

	Balance June 30 2012	Principal Payments	Balance June 30, 2013
Revenue Bonds 2005A issued January 6, 2005 (2.25% to 4.375%) maturity date 2005 to 2026. Payments due April and October	$ 32,800,000	$6,105,000	$ 26,695,000
Revenue Bonds 2007A issued January 18, 2007 (3.75% to 5%) maturity dates 2009 to 2037 Payments due April and October	50,300,000	285,000	50,015,000
Revenue Bonds 2010A issued April 28, 2010 (4.50% to 6.20%) maturity dates 2017 to 2041 Payments due April and October	53,810,000	-	53,810,000
Revenue Bonds 2011A issued January 25, 2011 (3.25% to 6.50%) maturity dates 2017 to 2041 Payments due April and October	137,525,000	-	137,525,000
Total	274,435,000	$6,390,000	268,045,000
Less/Add: Unamortized bond discount/premium	3,475,322		3,181,0392
Current portion	(6,390,000)		(1,890,000)
	$ 271,520,322		$ 269,336,039

5. REVENUE BONDS (CONTINUED)

Debt service requirements on bond indebtedness at June 30, 2014 was as follows:

Fiscal	2005A Bonds			2007A Bonds		
Years	Principal	Interest	Total	Principal	Interest	Total
2015	$ 1,650,000	$ 1,093,435	$ 2,743,435	$ 315,000	$ 2,485,750	$ 2,800,750
2016	1,725,000	1,015,550	2,740,550	330,000	2,470,000	2,800,000
2017	1,790,000	947,538	2,737,538	345,000	2,453,500	2,798,500
2018	1,875,000	858,938	2,733,938	365,000	2,436,250	2,801,250
2019	1,955,000	783,938	2,738,938	380,000	2,418,000	2,798,000
2020-2024	11,055,000	2,620,575	13,675,575	5,700,000	11,699,750	17,399,750
2025-2029	5,055,000	330,094	5,385,094	13,185,000	9,316,000	22,501,000
2030-2034	-	-	-	16,835,000	5,672,500	22,507,500
2035-2039	-	-	-	12,260,000	1,245,750	13,505,750
2040-2041	-	-	-	-	-	-
Total	$ 25,105,000	$ 7,650,068	$ 32,755,068	$ 49,715,000	$ 40,197,500	$ 89,912,500

Fiscal	2010A Bonds			2011A Bonds		
Years	Principal	Interest	Total	Principal	Interest	Total
2015	$ -	$ 3,089,788	$ 3,089,788	$ -	$ 7,791,519	$ 7,791,519
2016	-	3,089,788	3,089,788	-	7,791,519	7,791,519
2017	1,435,000	3,089,788	4,524,788	2,745,000	7,791,519	10,536,519
2018	1,480,000	3,025,213	4,505,213	2,835,000	7,702,306	10,537,306
2019	1,525,000	2,955,653	4,480,653	2,940,000	7,595,994	10,535,994
2020-2024	8,440,000	13,581,069	22,021,069	16,880,000	35,806,688	52,686,688
2025-2029	10,135,000	11,168,577	21,303,577	22,550,000	30,143,275	52,693,275
2030-2034	12,350,000	7,970,560	20,320,560	30,220,000	22,471,577	52,691,577
2035-2039	15,055,000	3,919,980	18,974,980	39,965,000	12,725,039	52,690,039
2040-2041	3,390,000	210,180	3,600,180	19,390,000	1,687,913	21,077,913
Total	$ 53,810,000	$ 52,100,596	$ 105,910,596	$137,525,000	$ 141,507,349	$ 279,032,349

6. NET POSITION

The Fund's net position on its entity-wide financial statements is categorized as follows:

- Net Investment in Capital Assets
- Restricted for:
  - Capital projects
  - Debt service
- Unrestricted

6. NET POSITION (CONTINUED)

Net Investment in capital assets includes capital assets net of accumulated depreciation and liabilities for related revenue bonds.

Restricted net position includes net position restricted for capital projects and debt service. Capital project funds can only be used for specific capital purposes.

Unrestricted net position includes all net position not classified as either net investment in capital assets or restricted net position.

Other restricted net position amounts are calculated as follows:

	2014	2013
Net Investment in Capital Assets:		
School property, net	$ 281,226,826	$ 286,222,063
Less: Revenue bonds payable, net	(269,062,750)	(271,226,039)
Net Investment in capital assets	$ 12,164,076	$ 14,996,024
Restricted for Debt Service:		
Restricted assets	$ 47,160,748	$ 47,542,062
Less: MS 114/PS 59 construction funds	(9,785,604)	(12,148,263)
Debt service reserve requirements	(21,888,551)	(21,888,551)
Available for debt service	$ 15,486,593	$ 13,505,248

7. OTHER INCOME

The Fund extended the ground lease for an additional 24 years for a tenant from which the fund collects rent and tax equivalency income. As a result of this extension, the lessee paid the Fund $7,000,000 which was recognized as income in FY 2014.

8. PENSION PLAN

PLAN DESCRIPTION

The Fund participates in the New York State and Local Employees' Retirement System ("ERS"). This is a cost-sharing multiple-employer retirement system. The ERS provides retirement benefits as well as death and disability benefits.

The obligations of employers and employees to contribute and the benefits employees will receive are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). As set forth in the NYSRSSL, the Comptroller of the State of New York ("Comptroller") serves as sole trustee and administrative head of the ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of their funds.

8. PENSION PLAN (CONTINUED)

A publicly available annual report containing financial statements and required supplemental information for the ERS may be obtained by writing to The New York State Retirement System, Office of The State Comptroller, State Office Building, 110 State Street, Albany, New York 12236.

FUNDING POLICY

The system is noncontributory, except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 and contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as a proportion of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Fund is required to contribute at an actuarially determined rate. The actual contributions were equal to the actuarially required amounts. The required contributions to the ERS for the current year and two preceding fiscal years ended June 30, 2014, 2013 and 2012 were $78,425, $56,584 and $2,627, respectively.

9. OTHER POST-EMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)

PLAN DESCRIPTION

The Fund's defined benefit post-employment healthcare plan (the "Plan") which is provided under the New York State Health Insurance Program (the "NYSHIP"), provides medical and dental insurance benefits to eligible employees, retirees and their dependents. NYSHIP is administered by the Department of Civil Service of the State of New York. According to the Department of Civil Service, NYSHIP is a cost sharing multiple-employer healthcare plan that is not administered as a trust or trust equivalent, and is therefore treated as an agent multiple-employer plan for purposes of analysis of post-employment benefit costs. The Fund has the authority to establish and amend benefit provisions of the Plan. NYSHIP issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to The Department of Civil Service, The State Campus, Albany, NY 12239.

FUNDING POLICY

The combined contribution requirements of Plan members and the Fund are established and may be amended by The Department of Civil Service. The Fund determines the portion of contributions required by retirees, subject to maximums established by The Department of Civil Service. The Fund currently provides coverage under the Plan at no cost to its retired members.

At this time, there is no New York State statute providing local governments with the requisite authority for establishing another post-employment benefits trust; therefore, the benefits are funded on a pay-as-you-go ("PAYG") basis until a funding mechanism is authorized for government entities by New York State Statute. The Annual Required Contribution ("ARC") represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and

9. OTHER POST-EMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE) (CONTINUED)

FUNDING POLICY (CONTINUED)

amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

ANNUAL OTHER POST EMPLOYMENT BENEFITS COST AND NET OBLIGATION

Annual OPEB Cost: For the year ended June 30, 2014, the Fund's Annual OPEB Cost (expense) was $274,860 and the Fund made $57,700 in PAYG employer contributions. The Fund's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the Plan, and the Net OPEB Obligation for the current year and two preceding fiscal years ended June 30, 2014, 2013 and 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/14	$ 274,860	21%	$ 1,593,433
6/30/13	$ 23,912	251%	$ 1,376,273
6/30/12	$ 98,634	59%	$ 1,412,476

Components of Annual OPEB Cost:

	2014	2013
Annual Required Contribution	$1,651,133	$1,436,388
Interest on Net OPEB Obligation	55,051	56,499
ARC Adjustment	(1,431,324)	(1,468,975)
Annual OPEB Cost	274,860	23,912
Payments made	(57,700)	(60,115)
Increase (Decrease) in net OPEB obligation	217,160	(36,203)
Net OPEB Obligation-beginning of year	1,376,273	1,412,476
Net OPEB Obligation-end of year	$ 1,593,433	$1,376,273

ACTUARIAL METHODS AND ASSUMPTIONS

An actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented below as Required Supplementary Information, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

9. OTHER POST-EMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE) (CONTINUED)

ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided as of the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

In the June 30, 2013 actuarial valuation, the Entry Age Actuarial Cost Method was used. The method was unchanged from the Actuarial Cost Method used in the prior evaluation. The actuarial assumptions included a 4.0 percent investment rate of return and an annual healthcare cost trend rate of 9.5 percent initially for medical benefits not coordinated with Medicare, for dental benefits and for prescription drugs, 6.5 percent for Medicare Part B premiums and 5 percent for medical benefits coordinating with Medicare, respectively, reduced by decrements to an ultimate rate of 5 percent. All rates include a 2.5 percent inflation assumption. The Fund's Unfunded Actuarial Accrued Liability ("UAAL") at June 30, 2013 is being amortized over a closed one-year period except for the UAAL attributable to the change in actuarial cost method, established as of June 30, 2012 which is being amortized over a closed ten-year period using level dollar amortization. The actuarial valuation assumed that no assets will be set aside by the Fund to prefund its retiree medical liabilities.

Required Supplementary Information
Schedule of Funding Progress for the Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL-(b))*	Unfunded AAL (UAAL) (b - a)
6/30/13	$ -	$ 1,380,469	$ 1,380,469
6/30/12	$ -	$ 1,153,280	$ 1,153,280
6/30/11	$ -	$ 1,372,315	$ 1,372,315

*Based on Entry Age Actuarial Cost Method as of June 30, 2013 and June 30, 2012. Based on the Frozen Entry Age Actuarial Cost Method as of June 30, 2011.

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) / c
0%	$ 344,574	400.6%
0%	$ 373,329	308.9%
0%	$ 373,329	367.6%

10. COMMITMENTS AND CONTINGENCIES

TAX EQUIVALENCY ADJUSTMENTS

Tenants may receive tax equivalency adjustments as a result of filing protests with The City. Additionally, non-school tenants may receive shelter rent adjustments.

Tax equivalency actions may be pending. The result of these actions, if any, cannot be determined and, accordingly, no provisions have been made.

RENT

The Fund occupies, rent free, office space located in a building owned by The City. The fair market value of the lease is not considered material and therefore rent expense has not been recorded at June 30, 2014 and 2013, respectively.

LITIGATION

The Fund experiences routine litigation and claims incidental to the construction of its projects, the conduct of its affairs and the ownership of its properties. Such litigation is being defended either by insurance companies on behalf of the Fund or other counsel retained by the Fund. Th e probable recoveries and the estimated costs and expenses of the defense of such litigation will, in the opinion of the Fund, be entirely within the Fund's applicable insurance policy limits (subject to applicable deductibles) and, accordingly, will not have a material adverse affect on the Fund's operations or financial condition.

CRANE ACCIDENT

A crane rented by the concrete subcontractor engaged by the project developer collapsed on May 30, 2008 at the site of the Fund's MS 114 project. The accident has resulted in two deaths, several injuries and property damage. The Development Agreement requires the Developer to indemnify the Fund against claims arising out of construction not arising from the Fund's own negligence. Claims asserted against the Fund, to date, have been tendered to the Fund's insurer as well as to the Developer.

The litigation is still in an early stage and it is not feasible, at this time, to predict the magnitude of the Fund's exposure. In addition to tendering claims to its insurer, the Fund has also tendered the claims to the insurance companies whose policies were procured by the Developer and the Construction Manager for the project.

No reason appears at this time to anticipate that the Fund will incur losses in excess of the available insurance coverage.

11. ARBITRAGE REBATE PROGRAM

In accordance with the Internal Revenue Code of 1986, as amended, the Fund is required to pay the United States Treasury certain amounts related to the Fund's tax-exempt bond issues. The estimated amount of non-purpose arbitrage payable represents the excess of amounts earned on "taxable" investments over the interest cost of the tax-exempt borrowing, plus income attributable to the excess. Rebate payments are due 60 days after January 6, 2015 for the Series 2005A Bonds, 60 days after January 18, 2017 for the Series 2007A Bonds, 60 days after April 28, 2015 for the Series 2010A and 60 days after January 25, 2016 for the Series 2011A. At June 30, 2014 and 2013, the estimated liability for non-purpose interest arbitrage rebate was $0 for each bond series.

12. SUBSEQUENT EVENTS

The Fund's management has evaluated subsequent events through September 17, 2014, the date the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
New York City Educational Construction Fund
Long Island City, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the New York City Educational Construction Fund (the "Fund") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 17, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with government.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Israeloff, Trattner & Co. P.C.

Garden City, New York
September 17, 2014