



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, 2017 and 2016

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, 2017 AND 2016

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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, 2017 and 2016 and the related statements of activities for the years then ended, and the governmental fund balance sheets as of June 30, 2017 and 2016 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, 2017 and 2016, 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 8, the schedule of changes in total OPEB liability and related ratios on page 32, the schedule of the Authority's proportionate share of the net pension liability on page 33, and the schedule of contributions on page 34, 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.

Marks Paneth LLP

New York, NY
October 10, 2017

New York City School Construction Authority

Management's Discussion and Analysis

As of and for the Years Ended June 30, 2017 and 2016 (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, 2017 and 2016 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.

Resource flows between the Authority and the City and the New York City Department of Education (the "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, 2017 and 2016 (Unaudited)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

RESULTS OF OPERATIONS

For fiscal year 2017, the Authority awarded construction contracts for 26 new schools and additions with a construction value of \$932.7 million and 328 capital improvement or renovation projects with a construction value of \$1,038.6 million. The Authority completed 25 new schools and additions as of September 2017, which created 8,390 seat openings for the 2017/2018 school year.

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.

The following chart summarizes the government-wide financial activities in the statement of activities of the Authority as of June 30, 2017, 2016 and 2015 (amounts are in thousands):

	2017	2016	2015	Changes 2017 vs 2016	Changes 2016 vs 2015
Revenues					
Operating revenues from The City of New York	\$ 2,388,246	\$ 2,413,293	\$ 2,481,238	\$ (25,047)	\$ (67,945)
Operating revenues for DoE payments	355,672	233,092	192,903	122,580	40,189
Total Revenues	2,743,918	2,646,385	2,674,141	97,533	(27,756)
Expenses					
Pollution remediation costs	79,304	105,748	129,939	(26,444)	(24,191)
Transfer of completed contracts to the DoE	2,283,240	1,949,012	2,048,300	334,228	(99,288)
Pension expense - net of payments capitalized	(4,456)	(10,533)	(4,181)	6,077	(6,352)
Operating transfers to the DoE	355,672	233,092	192,903	122,580	40,189
Total Expenses	2,713,760	2,277,319	2,366,961	436,441	(89,642)
Other revenues and expenses, net	3,421	9,951	4,115	(6,530)	5,836
Change in net position	33,579	379,017	311,295	(345,438)	67,722
Net position - beginning of the year	2,370,251	1,991,234	1,679,939	379,017	311,295
Net position - end of the year	\$ 2,403,830	\$ 2,370,251	\$ 1,991,234	\$ 33,579	\$ 379,017

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 2017 was \$2,744 million compared to fiscal year 2016 revenue of \$2,646 million, an increase of \$98 million. The increase is primarily driven by an increase in skilled trades and capital projects performed by DoE as noted in Note 8.

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

The Authority's expenses in fiscal year 2017 were \$2,714 million compared to \$2,277 million in fiscal year 2016, an increase of \$437 million. The increase in expenses is primarily due to an increase in completed contracts transferred to the DoE, and capital projects and skilled trades performed by the DoE.

Costs related to completed contracts transferred to the DoE increased from \$1,949 million in fiscal year 2016 to \$2,283 million in fiscal year 2017. All projects transferred were determined by the Authority's Project Management Division to be substantially completed or occupied as of June 30, 2017. This

New York City School Construction Authority

Management's Discussion and Analysis

As of and for the Years Ended June 30, 2017 and 2016 (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 \$90 million from fiscal year 2015 to fiscal year 2016. 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.

The Authority has classified \$79 million as expenses incurred for pollution remediation costs for fiscal year 2017. For fiscal year 2016, the Authority has classified \$106 million as expenses incurred for pollution remediation costs (see Note 10 to the financial statements).

For fiscal year 2017, the Authority implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). The effect of the implementation did not have a material impact to the Authority's 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, 2017, 2016, and 2015 (amounts are in thousands):

	2017	2016	2015	Changes 2017 vs 2016	Changes 2016 vs 2015
Assets					
Cash and short-term investments	\$ 93,089	\$ 107,290	\$ 106,251	\$ (14,201)	\$ 1,039
Due from The City of New York	514,589	445,886	571,450	68,703	(125,564)
Prepaid expenses and other assets	187,606	191,600	216,815	(3,994)	(25,215)
Securities held in lieu of cash retainage	10,147	13,597	10,519	(3,450)	3,078
Fixed assets, net	3,972	4,076	4,329	(104)	(253)
Construction in progress	2,417,094	2,422,018	2,037,328	(4,924)	384,690
Total Assets	3,226,497	3,184,467	2,946,692	42,030	237,775
Liabilities					
Current liabilities	665,512	639,258	736,461	26,254	(97,203)
Long-term liabilities	144,677	164,873	193,730	(20,196)	(28,857)
Total Liabilities	810,189	804,131	930,191	6,058	(126,060)
Deferred outflows of resources	21,997	5,337	3,390	16,660	1,947
Deferred inflows of resources	34,475	15,422	28,657	19,053	(13,235)
Net Position - Restricted	\$ 2,403,830	\$ 2,370,251	\$ 1,991,234	\$ 33,579	\$ 379,017

The assets of the Authority exceeded its liabilities ("net position") at the close of fiscal year 2017 and 2016 by \$2,404 million and \$2,370 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 \$34 million from fiscal year 2016 to fiscal year 2017. The increase is primarily driven by an increase in receivables due from The City of New York and accrued construction expenses, offset by a decrease in construction in progress. 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.

Total government-wide assets from fiscal year 2016 to fiscal year 2017 increased by \$42 million. The change in total assets in fiscal year 2017 is primarily due to an increase in due from the City offset by a decrease in cash and short-term investments. From fiscal year 2015 to fiscal year 2016, total

New York City School Construction Authority
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2017 and 2016 (Unaudited)

government-wide assets increased by \$238 million. This change in total assets in fiscal year 2016 is primarily due to an increase in construction in progress, offset by a decrease in due from the City and the cost of insurance under the Authority's Owner Controlled Insurance Program.

Cash and short-term investments in fiscal year 2017 decreased by \$14 million in comparison to fiscal year 2016 and increased by \$1 million in fiscal year 2016 in comparison to fiscal year 2015. The fluctuation in cash and short-term investments in fiscal year 2017 is primarily due to increased insurance premium for the Owners Controlled Insurance Program renewal.

During fiscal year 2017, the Authority purchased investments of \$39 million in US Treasury securities recorded at fair market value. Investment purchases are in accordance with General Municipal Law Section Eleven.

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 increased by \$6 million from fiscal year 2016 to fiscal year 2017. The increase in liabilities is principally due to the increase in accrual for construction expenditures in fiscal year 2017, which also attributes to the increase in due from the City.

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

**New York City School Construction Authority
Management's Discussion and Analysis
As of and for the Years Ended June 30, 2017 and 2016 (Unaudited)**

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, 2017, 2016, and 2015 (amounts are in thousands):

Revenues					
Operating revenues from The City of New York	\$ 2,388,246	\$ 2,413,293	\$ 2,481,238	\$ (25,047)	\$ (67,945)
Operating revenues for DoE payments	355,672	233,092	192,903	122,580	40,189
Total Revenues	2,743,918	2,646,385	2,674,141	97,533	(27,756)
Expenses					
Capital project expenditures	2,244,011	2,331,976	2,284,407	(87,965)	47,569
Fixed assets	1,996	1,726	1,046	270	680
Pollution remediation expenditures	93,219	139,765	131,559	(46,546)	8,206
Operating transfers to the DoE	355,672	233,092	192,903	122,580	40,189
Total Expenses	2,694,898	2,706,559	2,609,915	(11,661)	96,644
Other revenues and expenses, net	3,421	9,951	4,115	(6,530)	5,836
Change in fund balance	52,441	(50,223)	68,341	102,664	(118,564)
Fund balance - beginning of the year	87,478	137,701	69,360	(50,223)	68,341
Fund balance - end of the year	\$ 139,919	\$ 87,478	\$ 137,701	\$ 52,441	\$ (50,223)

Revenue in fiscal year 2017 was \$2,744 million compared to fiscal year 2016 of \$2,646 million, an increase of \$98 million. Revenue in fiscal year 2016 decreased by \$28 million, from \$2,674 million in fiscal year 2015 to \$2,646 in fiscal year 2016. Please refer to page 4 for explanation of the fluctuations.

The Authority's expenditures in fiscal year 2017 were \$2,695 million compared to \$2,707 million in fiscal year 2016, a decrease of \$12 million. In comparison to fiscal year 2016, the Authority's expenditures increased \$97 million from fiscal year 2015 to fiscal year 2016. This increase in expenditures in fiscal year 2016 primarily resulted from an increase in capital projects and capital-related work performed by the DoE.

FINANCIAL HIGHLIGHTS

The following chart summarizes the capital projects fund balance sheet of the Authority as of June 30, 2017, 2016, and 2015 (amounts are in thousands):

	2017	2016	2015	Changes 2017 vs 2016	Changes 2016 vs 2015
Assets					
Cash and short-term investments	\$ 93,089	\$ 107,290	\$ 106,251	\$ (14,201)	\$ 1,039
Due from The City of New York	514,589	414,612	540,578	99,977	(125,966)
Prepaid expenses and other assets	187,606	191,205	216,816	(3,599)	(25,611)
Securities held in lieu of cash retainage	10,147	13,597	10,519	(3,450)	3,078
Total Assets	805,431	726,704	874,164	78,727	(147,460)
Liabilities					
Current Liabilities	665,512	639,226	736,463	26,286	(97,237)
Total Liabilities	665,512	639,226	736,463	26,286	(97,237)
Fund balance	\$ 139,919	\$ 87,478	\$ 137,701	\$ 52,441	\$ (50,223)

The Authority's capital projects fund balance increased by \$52 million from fiscal year 2016 to fiscal year 2017. The increase is primarily due to the increase in funds due from the City and accrual for construction

New York City School Construction Authority Management's Discussion and Analysis As of and for the Years Ended June 30, 2017 and 2016 (Unaudited)

expenditures, offset by a decrease in cash and short-term investments. 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 a decrease in funds due from the City, insurance costs in the third term of the Authority's 3-year term Owner Controlled Insurance Program, and accrual for construction expenditures.

Total governmental assets from fiscal year 2016 to fiscal year 2017 increased by \$79 million. As previously noted, the fluctuation is primarily due to increase in funds due from the City offset by a decrease in cash and short-term investments. The fluctuation in due from the City is a result of an increase in accrued construction expenditures. From fiscal year 2015 to fiscal year 2016, total assets decreased by \$147 million driven by a decrease in funds due from the City.

The assets of the Authority exceeded its liabilities at the close of fiscal year 2017 and 2016 by \$140 million and \$87 million, respectively.

The liabilities of the Authority increased by \$26 million from fiscal year 2016 to fiscal year 2017. The liabilities of the Authority from fiscal year 2015 to fiscal year 2016 decreased by \$97 million. As noted in page 6, the fluctuation within the liabilities is mainly attributed to an increase in accrued construction expenditures in fiscal year 2017.

CONTACTING THE NYC SCHOOL CONSTRUCTION AUTHORITY'S MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors, creditors, and other entities 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, 2017 AND 2016 (in thousands)

	<u>2017</u>	<u>2016</u>
ASSETS:		
Cash	\$ 53,206	\$ 107,290
Short-term investments	39,883	-
Due from The City of New York	514,589	445,886
Prepaid expenses	81,477	69,064
Due from the Department of Education	21,919	13,003
Other assets	84,210	109,533
Securities in lieu of cash retainage	10,147	13,597
Fixed assets, net	3,972	4,076
Construction in progress, asset held for The City of New York	<u>2,417,094</u>	<u>2,422,018</u>
Total assets	<u>3,226,497</u>	<u>3,184,467</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows from pensions	<u>21,997</u>	<u>5,337</u>
Total deferred outflows of resources	<u>21,997</u>	<u>5,337</u>
Total assets and deferred outflows	<u>\$ 3,248,494</u>	<u>\$ 3,189,804</u>
LIABILITIES:		
Accounts payable and accrued expenses	\$ 465,661	\$ 448,430
Retainage payable	194,409	185,561
Pollution remediation payable	62,208	76,123
Pension liability	53,933	57,478
OPEB liability	20,015	24,650
Accrued annual leave obligation	5,442	5,267
Accrued sick leave obligation	4,396	4,347
Accrued claims and contingencies	<u>4,125</u>	<u>2,275</u>
Total liabilities	<u>810,189</u>	<u>804,131</u>
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows from pensions and OPEB	<u>34,475</u>	<u>15,422</u>
Total deferred inflows of resources	<u>34,475</u>	<u>15,422</u>
NET POSITION:		
Total net position - restricted	<u>2,403,830</u>	<u>2,370,251</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,248,494</u>	<u>\$ 3,189,804</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, 2017 AND 2016 (in thousands)

	<u>2017</u>	<u>2016</u>
REVENUES:		
Operating revenues from or due from The City of New York	\$ 2,388,246	\$ 2,413,293
Operating revenues for payments made on behalf of the Department of Education	<u>355,672</u>	<u>233,092</u>
Total revenues	<u>2,743,918</u>	<u>2,646,385</u>
EXPENSES:		
Pollution remediation costs	79,304	105,748
Transfer of completed contracts to the Department of Education	2,283,240	1,949,012
Pension expense, net of payments capitalized	(4,456)	(10,533)
Operating transfers on behalf of the Department of Education	<u>355,672</u>	<u>233,092</u>
Total expenses	<u>2,713,760</u>	<u>2,277,319</u>
Net revenues	30,158	369,066
Other revenues and expenses, net	<u>3,421</u>	<u>9,951</u>
Net change in net position	33,579	379,017
NET POSITION - beginning of year	<u>2,370,251</u>	<u>1,991,234</u>
NET POSITION - end of year	<u><u>\$ 2,403,830</u></u>	<u><u>\$ 2,370,251</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, 2017 AND 2016 (in thousands)

	2017	2016
	Capital	Capital
	Projects Fund	Projects Fund
	<u> </u>	<u> </u>
ASSETS:		
Cash	\$ 53,206	\$ 107,290
Short-term investments	39,883	-
Due from The City of New York	514,589	414,612
Prepaid expenses	81,477	69,064
Due from the Department of Education	21,919	13,003
Other assets	84,210	109,138
Securities in lieu of cash retainage	10,147	13,597
	<u> </u>	<u> </u>
Total assets	<u>\$ 805,431</u>	<u>\$ 726,704</u>
LIABILITIES:		
Accounts payable and accrued expenses	\$ 465,661	\$ 448,398
Retainage payable	194,409	185,561
Accrued annual leave obligation	5,442	5,267
	<u> </u>	<u> </u>
Total liabilities	<u>665,512</u>	<u>639,226</u>
FUND BALANCE:		
Nonspendable-prepaid expenses	81,477	69,064
Restricted for capital projects	58,442	18,414
Total fund balance	<u>139,919</u>	<u>87,478</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 805,431</u>	<u>\$ 726,704</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, 2017 AND 2016 (in thousands)**

	2017 Capital Projects Fund	2016 Capital Projects Fund
REVENUES:		
Operating revenues from or due from The City of New York	\$ 2,388,246	\$ 2,413,293
Operating revenues for payments made on behalf of the Department of Education	<u>355,672</u>	<u>233,092</u>
Total revenues	<u>2,743,918</u>	<u>2,646,385</u>
EXPENDITURES:		
Capital projects	2,244,011	2,331,976
Fixed assets	1,996	1,726
Pollution remediation cost	93,219	139,765
Operating transfers on behalf of the Department of Education	<u>355,672</u>	<u>233,092</u>
Total expenditures	<u>2,694,898</u>	<u>2,706,559</u>
Net revenues/(expenditures)	49,020	(60,174)
Other revenues and expenses, net	<u>3,421</u>	<u>9,951</u>
Net change in fund balance	52,441	(50,223)
FUND BALANCE - beginning of year	<u>87,478</u>	<u>137,701</u>
FUND BALANCE - end of year	<u>\$ 139,919</u>	<u>\$ 87,478</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, 2017 AND 2016
(in thousands)**

	<u>2017</u>	<u>2016</u>
Total fund balance - governmental funds	\$ 139,919	\$ 87,478
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	2,417,094	2,422,018
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	3,972	4,076
Other long-term assets which will be used to pay for future liabilities and accordingly are not reported in the funds	-	31,670
Deferred outflows/inflows of resources relating to the net pension and OPEB liabilities are not financial resources and therefore are not reported in the funds	(12,478)	(10,085)
Long-term liabilities not due and payable in the current period accordingly are not reported in the funds. Those liabilities consist of:		
OPEB liability	(20,015)	(24,650)
Pollution remediation payable	(62,208)	(76,123)
Pension liability	(53,933)	(57,478)
Sick leave obligation	(4,396)	(4,347)
Contingent and other liabilities	(4,125)	(2,308)
Net position of governmental activities	<u>\$ 2,403,830</u>	<u>\$ 2,370,251</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, 2017 AND 2016 (in thousands)**

	<u>2017</u>	<u>2016</u>
Net change in fund balances - governmental funds	\$ 52,441	\$ (50,223)
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.	(39,229)	382,964
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.	1,996	1,726
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 are reasonably estimable.	13,915	34,017
Net pension expense	<u>4,456</u>	<u>10,533</u>
Change in net position - governmental activities	<u>\$ 33,579</u>	<u>\$ 379,017</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, 2017 AND 2016 (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. The City's appropriation for the five-year capital plan for the fiscal years 2015 through 2019 is \$15.25 billion.

The Authority also carries out certain projects funded through the City Council and Borough Presidents, pursuant to the City Charter. Appropriations of \$175,776 and \$168,476 were made in fiscal 2017 and 2016, 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 sick leave, pension 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 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

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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 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 10.

Superstorm Sandy Expenditures

The Authority incurred expenditures of \$170,671 and \$229,234 in fiscal years 2017 and 2016 related to the restoration of New York City public schools damaged during Superstorm Sandy. FEMA has reimbursed, for Superstorm Sandy damages, approximately \$216 and \$198 million as of June 30, 2017 and 2016, respectively.

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

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

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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 11.

Short-term Investments

The Authority invests in obligations in accordance with Section 11 of the General Municipal Law.

The Authority records its investments at fair value. Fair value measurement is 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 three valuation techniques used to measure fair value are 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 include: (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.

Securities held by the Authority are categorized as Level 1 inputs.

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 eligible for payout upon separation to employees with at least ten years of service.

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.

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.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

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AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (amounts in thousands, except as noted)

- 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. GASB 74 concerns financial reporting by OPEB plans and is not applicable to the Authority.
- 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. GASB 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. In fiscal year 2017, the Authority adopted GASB 75. The effect from the adoption did not have a material financial impact to the Authority. Refer to Note 11 for further details.
- 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. The adoption of GASB 82 did not have an impact on the Authority's financial statements.
- In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations* ("GASB 83"). GASB 83 addresses accounting and financial reporting for certain asset retirement obligation ("AROs"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. GASB 83 is effective for reporting period beginning after June 15, 2018. The Authority has not completed the process of evaluating GASB 83.
- In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* ("GASB 84"). The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 is effective for reporting periods beginning after December 15, 2018. The Authority has not completed the process of evaluating GASB 84.
- In March 2017, GASB issued Statement No. 85, *Omnibus 2017* ("GASB 85"). The objective of GASB 85 is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). GASB 85 is effective for reporting periods beginning after June 15, 2017. The Authority has not completed the process of evaluating GASB 85.
- In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, ("GASB 86"). The primary objective of GASB 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets are acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

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in substance. GASB 86 is effective for reporting periods beginning after June 15, 2017. The adoption of GASB 86 did not have an impact on the Authority's financial statements.

- In June 2017, GASB issued Statement No. 87, *Leases* ("GASB 87"). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 is effective for reporting periods beginning after December 15, 2019. The Authority has not completed the process of evaluating GASB 87.

3. CASH

The Authority maintains cash accounts with a bank which are covered by Federal Deposit Insurance Corporation (FDIC) insurance up to the maximum allowed by law. At June 30, 2017 and 2016, uninsured cash balances totaled \$53,204 and \$104,809, 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 \$65,043 and \$91,529 as of June 30, 2017 and 2016, respectively.

4. SHORT-TERM INVESTMENTS

The Authority's investments consist of the following at June 30, 2017:

	<u>Cost</u>	<u>Fair Value</u>
U.S Treasury Bills	\$ 19,892	\$ 19,903
U.S. Treasury Notes	19,987	19,980
Total U.S. Treasury Securities	<u>\$ 39,879</u>	<u>\$ 39,883</u>

The Authority's investments consist of U.S. Treasury bills and notes with maturities not more than one year. The investments are recorded at fair value. U.S. Treasury Bills and Notes are valued using quoted market prices, as such, these securities are categorized in Level 1 of the fair value hierarchy.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment maturities are not more than one year.

Credit Risk: Credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. U.S. Treasury securities are obligations of the U.S. government and are not considered to have credit risk exposure.

The Authority did not hold any investments at June 30, 2016.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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5. 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 \$10,147 and \$13,597 as of June 30, 2017 and 2016, respectively. The fair value of these securities is \$12,610 and \$16,474 as of June 30, 2017 and 2016, 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>2017</u>	<u>2016</u>
Securities retainage payable	\$ 10,147	\$ 13,597
Cash retainage withheld	184,262	171,964
Total retainage payable	<u>\$ 194,409</u>	<u>\$ 185,561</u>

6. FIXED ASSETS

The changes in fixed assets used by the Authority for the year ended June 30, 2017 are as follows:

<u>Asset Category</u>	<u>Estimated Useful Lives</u>	<u>Fixed Assets</u>			<u>Fixed Assets</u>
		<u>6/30/2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>6/30/2017</u>
Computer Hardware/Equipment	3	\$ 20,273	\$ 1,401	\$ -	\$ 21,674
Computer Software	3	8,439	224	-	8,663
Leasehold Improvements	12	10,774	55	-	10,829
Furniture & Fixtures	5-7	5,184	-	-	5,184
Automobiles	5	5,684	230	-	5,914
Office Equipment	3-5	2,931	86	-	3,017
Total Cost		<u>53,285</u>	<u>1,996</u>	<u>-</u>	<u>55,281</u>
Less:					
Accumulated Depreciation and Amortization		(49,209)	(2,100)	-	(51,309)
Fixed Assets, net		<u>\$ 4,076</u>	<u>\$ (104)</u>	<u>\$ -</u>	<u>\$ 3,972</u>

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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The changes in fixed assets used by the Authority for the year ended June 30, 2016 are 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		51,559	1,726	-	53,285
Less:					
Accumulated Depreciation and Amortization		(47,230)	(1,979)	-	(49,209)
Fixed Assets, net		\$ 4,329	\$ (253)	\$ -	\$ 4,076

Depreciation totaled \$2,100 and \$1,979 for fiscal 2017 and 2016, respectively.

7. CONSTRUCTION IN PROGRESS

Expenses for construction in progress for fiscal 2017 and 2016 include:

	2017	2016
Outside construction costs	\$2,113,354	\$2,184,639
Authority payroll and related fringe benefits	113,968	101,262
Authority general and administrative costs	50,994	47,801
Total Expenses	2,278,316	2,333,702
Construction in progress - beginning of year	2,422,018	2,037,328
Total before transfer to DoE during the year	4,700,334	4,371,030
Costs transferred to the DoE during the year	(2,283,240)	(1,949,012)
Construction in progress - end of year	\$2,417,094	\$2,422,018

The Authority transferred to the DoE costs associated with substantially completed contracts and administrative costs totaling \$2,283,240 and \$1,949,012 for fiscal 2017 and 2016, respectively. In addition, the DoE capitalized \$63,627 and \$63,528 during fiscal 2017 and 2016, 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 2017 and 2016 of \$2,346,867 and \$2,012,540, respectively.

8. TRANSACTIONS WITH THE DEPARTMENT OF EDUCATION AND OPERATING TRANSFERS

In addition to construction and renovation of school facilities, the Authority makes payments for certain asset purchases made by the DoE. The title for such purchases are transferred directly to the DoE. For the years ended June 30, 2017 and 2016, pass-through purchases totaled \$177,554 and \$198,246, 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.

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

	<u>2017</u>	<u>2016</u>
Skilled trades, minor capital projects	\$ 171,835	\$ 28,701
Lead Paint Abatement	790	1,221
DoE Admin Staff	5,493	4,924
	<u>\$ 178,118</u>	<u>\$ 34,846</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.

9. COMMITMENTS AND CONTINGENCIES

Rent

The Authority executed a lease modification agreement effective October 2011 for office space. This lease agreement expires in 2021 with an option for an extension through September 30, 2026. Rental expense totaled \$6,780 and \$6,420 in fiscal 2017 and 2016, 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
2018	\$ 6,539
2019	6,539
2020	6,539
2021	6,539
2022	1,634
Total	<u>\$ 27,790</u>

Purchase Commitments

Purchase orders, contracts and other commitments at June 30, 2017 and 2016 totaled \$3,339 and \$2,960, 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 \$592 and \$356 as of June 30, 2017 and 2016, respectively, based on the insurance contract's terms and conditions and an actuarial assessment of OCIP loss activity, which is included in other assets.

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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, 2017. The annual insurance premium for this program was \$146 million and \$123 million for 2017 and 2016, respectively. The Authority has recorded an estimated net receivable of \$69,597 and \$96,431 as of June 30, 2017 and 2016, respectively, based on the actuarial assessment of OCIP loss activity for the respective periods. The estimated net receivable is comprised of receivables of \$82,597 and \$108,076 for fiscal 2017 and 2016, respectively, which are included in other assets, and liabilities of \$13,000 and \$11,645 for fiscal 2017 and 2016, 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 \$4,125 and \$2,275 at June 30, 2017 and 2016, 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.

10. 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.

For the fiscal year 2017 and 2016, the Authority has classified \$79,304 and \$105,748, respectively, as expenses incurred and \$62,208 and \$76,123, 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

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11. 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 \$15,157 and \$10,387 for fiscal year 2017 and 2016, respectively. The Authority's contributions are actuarially determined at rates that are designed to accumulate sufficient assets to pay benefits when due. Member contributions are determined by law and vary by plan. The retirement plans provide pension benefits to retired employees based on salary and length of service. In addition, the pension systems may provide for cost-of-living and other supplemental benefits to qualified retirees and beneficiaries. In the event of disability during employment, participants are entitled to retirement allowances based on satisfaction of certain service requirements and other provisions. The plans also provide death benefits.

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 plans. 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 4.7 percent and 3.2 percent of the total net pension liability as of June 30, 2017 and 2016, respectively. The Authority has recorded a net pension liability of \$45.6 million and \$44.0 million as of June 30, 2017 and 2016, respectively. The Authority has recorded its proportionate share of pension plan expenses of \$9.5 million and \$5.3 million for the years ended June 30, 2017 and 2016, respectively.

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, 2017 and 2016. The Authority has recorded a net pension liability of \$8.3 million and \$13.4 million as of June 30, 2017 and 2016, respectively. The Authority has recorded its proportionate share of pension plan expenses of \$0.9 million and \$2.2 million for the years ended June 30, 2017 and 2016, respectively.

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For fiscal year 2017, the results of the collective net pension liability are based upon an actuarial valuation date of June 30, 2015 and a measurement date of June 30, 2017. Updated procedures were used to roll forward the total pension liability to the measurement date.

The post-retirement 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 2017 based primarily on the 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.

Bolton Partners, Inc, is currently retained to review the actuarial assumptions for fiscal years 2014 through 2017.

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.

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AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (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, 2015 actuarial valuation are summarized in the following table:

BERS

Asset Class	Target Allocation	Real Return Arithmetic Basis	Long-Term Expected Real Rate of Return
U.S. Public Market Equities	30.00%	5.70%	1.71%
International Public Market Equities	13.00%	6.10%	0.79%
Emerging Public Market Equities	7.00%	7.60%	0.53%
Private Market Equities	9.00%	8.10%	0.73%
U.S. Fixed Income	28.00%	3.00%	0.84%
Alternatives	13.00%	4.70%	0.61%
Total	100.00%		5.21%

NYCERS

Asset Class	Target Allocation	Real Return Arithmetic Basis	Long Term Expected Real Rate of Return
U.S. Public Market Equities	29.00%	5.70%	1.65%
International Public Market Equities	13.00%	6.10%	0.79%
Emerging Public Market Equities	7.00%	7.60%	0.53%
Private Market Equities	7.00%	8.10%	0.57%
U.S. Fixed Income	33.00%	3.00%	0.99%
Alternatives	11.00%	4.70%	0.52%
Total	100.00%		5.05%

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2017 and June 30, 2016, respectively, was 7.0% 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, 2017, using the discount rate of 7.0% per annum (the "Current Rate").

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (amounts in thousands, except as noted)

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, 2017

System	1% Decrease (6%)	Current Rate (7%)	1% Increase (8%)
NYCERS	\$ 12,019	\$ 8,317	\$ 5,063
BERS	73,529	45,616	22,218
Total	\$ 85,548	\$ 53,933	\$ 27,281

For the years ended June 30, 2017 and 2016, the Authority recognized pension expense of \$10,701 and (\$145), respectively. At June 30, 2017 and 2016, 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
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
2017				
Differences between expected and actual experience	\$ 967	\$ 1,327	\$ -	\$ 222
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 26,987	\$ -	\$ 339
Change of assumptions	\$ 3,210	\$ -	\$ 409	\$ -
Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 19,678	\$ 2,752	\$ (2,267)	\$ (568)

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.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (amounts in thousands, except as noted)

The net amount of deferred outflows of resources and deferred inflows of resources reported as of June 30, 2017 that will be recognized in pension expense is as follows:

	For the Fiscal Year Ended	
	BERS	NYCERS
2018	\$ (2,754)	\$ (551)
2019	(1,265)	2,747
2020	(1,506)	(662)
2021	(1,695)	(3,260)
2022	9	(125)

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

In fiscal year 2017, the Authority implemented GASB 75, which addresses accounting and financial reporting for postemployment benefits or other postemployment benefits ("OPEB") provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures as well as the methods and assumptions that are required for the valuation of total OPEB liability.

General Information about the OPEB Plan

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 single-employer defined benefit healthcare plan administered by New York City Office of Labor Relations ("OLR"). No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75.

Benefits Provided – 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.

Employees Covered by Benefit Terms – At June 30, 2017, the following employees were covered by the benefit terms:

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (amounts in thousands, except as noted)

Inactive employees or beneficiaries currently receiving benefit payments		267
Inactive employees entitled to but not yet receiving benefit payments		23
Active employees		<u>650</u>
	Total	<u><u>940</u></u>

Total OPEB Liability

The Authority's total OPEB liability of \$20,015 was measured as of June 30, 2017, with actuarial valuation date as of June 30, 2016. Updated procedures were used to roll forward the total OPEB liability to the measurement date.

Actuarial Assumptions and Other Inputs – Significant actuarial assumptions and other inputs used in determining the total OPEB liability in the June 30, 2017 actuarial valuation are as follows:

Inflation	2.50%
Salary increases	3.00%, including inflation
Healthcare cost trend rate	0% for 2017 and 2018, increasing to an ultimate 3.5% for 2019 and later
Discount rate	3.13%

The discount rate was based on the Municipal Bond 20-year Index Rate.

Mortality rates are based on the Mortality Improvement Scale MP-2015 published by the Society of Actuaries in October 2015.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2016	\$ 24,650
Reduction of liability due to adoption of GASB 75	<u>(1,730)</u>
Balance at June 30, 2016 under GASB 75	22,920
Changes for the year:	
Service cost	1,050
Interest	615
Differences between expected and actual experience	(762)
Changes in assumptions	(3,259)
Benefit payments	<u>(549)</u>
Net changes	<u>(2,905)</u>
Balance at June 30, 2017	<u><u>\$ 20,015</u></u>

The effect of the adoption of GASB 75 was a \$1.7 million reduction in the OPEB liability as of June 30, 2016 recorded in the government-wide financial statements. The prior year government-wide financial statements were not restated and the \$1.7 million was reported as a reduction in current year OPEB expense due to immateriality.

NEW YORK CITY SCHOOL CONSTRUCTION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 (amounts in thousands, except as noted)

Changes of assumptions and other inputs reflect a change in discount rate from 2.71 percent in 2016 to 3.13 percent in 2017.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Authority, as well as what the Authority’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 23,409	\$ 20,015	\$ 17,284

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the Authority, as well as what the Authority’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Total OPEB Liability	\$ 16,877	\$ 20,015	\$ 24,077

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2017, the Authority recognized OPEB (revenue) expense of \$(1,912) after the \$1,730 reduction. At June 30, 2017, the Authority reported deferred outflows and deferred inflows of resources related to OPEB from the following:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 665
Changes of assumptions	-	2,751
Total	<u>\$ -</u>	<u>\$ 3,416</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended June 30:	<u>Amount</u>
2018	\$ (632)
2019	(632)
2020	(632)
2021	(632)
2022	(632)
Thereafter	(256)

REQUIRED SUPPLEMENTARY INFORMATION

**New York City School Construction Authority
Required Supplementary Information (Unaudited)
Schedule of Changes in Total OPEB Liability and Related Ratios
As of and For the Years Ended June 30, 2017 and 2016
(amounts in thousands, except as noted)**

	<u>2017</u>	<u>2016</u>
Total OPEB Liability		
Service Cost	\$ 1,050	\$ 1,282
Interest Cost	615	611
Changes of Assumptions	(3,259)	-
Differences between Expected and Actual Experience	(762)	(32)
Benefit Payments	<u>(549)</u>	<u>(477)</u>
Net Change in Total OPEB Liability	<u>(2,905)</u>	<u>1,384</u>
Total OPEB Liability - Beginning	<u>22,920</u>	<u>21,536</u>
Total OPEB Liability - Ending	<u>\$ 20,015</u>	<u>\$ 22,920</u>
Covered Employee Payroll	\$ 68,027	\$ 60,766
Total OPEB Liability as a Percentage of Covered Employee Payroll	29.4%	37.7%

Notes to Schedule:

This schedule is intended to present the 10 most current fiscal years of data. However, only two fiscal years of data are available with the adoption of GASB 75 in fiscal year 2017.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB No.75.

Changes of assumptions

Changes of assumptions reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

<u>Fiscal Year</u>	<u>Percentage</u>
2017	3.13%
2016	2.71%

The Authority funds OPEB benefits on a pay-as-you-go basis and contributions are not actuarially determined. Therefore, the required supplementary information related to actuarially determined contributions for the 10 most current fiscal years is not applicable.

**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	2017	2016	2015	2014	2013	2012
The Authority's proportion of the net pension liability	5%	3%	4%	4%	4%	4%
The Authority's proportionate share of the net pension liability (assets)	\$ 45,616	\$ 44,002	\$ 43,135	\$ 36,523	\$ 53,003	\$ 58,518
The Authority's covered payroll	\$ 65,124	\$ 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 payroll	70.04%	75.22%	125.37%	89.80%	132.30%	118.65%
Plan fiduciary net position as a percentage of the total pension liability	80.80%	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	2017	2016	2015	2014	2013	2012
The Authority's proportion of the net pension liability	0.040%	0.055%	0.047%	0.048%	0.048%	0.048%
The Authority's proportionate share of the net pension liability (assets)	\$ 8,317	\$ 13,363	\$ 9,582	\$ 8,649	\$ 11,075	\$ 11,997
The Authority's covered payroll	\$ 7,104	\$ 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 payroll	117.07%	194.48%	142.91%	129.92%	159.61%	180.22%
Plan fiduciary net position as a percentage of the total pension liability	74.80%	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	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially Determined Contribution	\$ 13,502	\$ 8,440	\$ 8,803	\$ 8,645	\$ 7,850	\$ 8,546	\$ 7,208	\$ 5,894	\$ 5,369	\$ 5,724
Contribution in relation to the Actuarially Determined Contribution	\$ 13,836	\$ 8,440	\$ 8,803	\$ 8,645	\$ 7,850	\$ 8,546	\$ 7,208	\$ 5,894	\$ 5,369	\$ 5,724
Contribution Deficiency (Excess)	\$ (334)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution as a percentage of Covered Payroll	20.73%	14.00%	17.81%	17.41%	16.46%	17.33%	20.46%	17.82%	17.77%	19.63%

Schedule of Employers Contributions (in thousands) for NYCERS										
Fiscal Year Ended June 30	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially Determined Contribution	\$ 1,321	\$ 1,851	\$ 1,675	\$ 1,504	\$ 1,462	\$ 1,448	\$ 1,146	\$ 1,055	\$ 1,032	\$ 900
Contribution in relation to the Actuarially Determined Contribution	\$ 1,321	\$ 1,851	\$ 1,675	\$ 1,504	\$ 1,462	\$ 1,448	\$ 1,146	\$ 1,055	\$ 1,032	\$ 900
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution as a percentage of Covered Payroll	18.60%	26.94%	24.98%	22.46%	21.07%	21.75%	19.99%	19.22%	19.74%	18.25%