

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
(A Component Unit of The City of New York)

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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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, 2017 and 2016, 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 misstatements, whether due to fraud or error.

### **Auditor's 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 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, 2017 and 2016, 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, 2017 and 2016, 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 4–8 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2017, on our consideration of the the 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 Fund's internal control over financial reporting and compliance.

*Israeloff, Trattner & Co. P.C.*

Garden City, New York  
September 19, 2017

# NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 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, 2017 and 2016. 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.

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

The Statement of Net Position presents information on all of the Fund's assets, liabilities and deferred outflows and inflows of resources. Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. 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. Revenue is recognized when it becomes both measurable and available to finance expenditures in the current fiscal year.

The governmental fund financial statements also include a reconciliation between the entity-wide and governmental fund statements and 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.

## NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

##### FINANCIAL HIGHLIGHTS

The Fund's net position increased by approximately \$12.9 million during FY 2017 after a \$2.5 million increase in FY 2016 and a \$2.7 million decrease in FY 2015.

In FY 2017, the Fund's rental income and tax equivalency revenues increased by \$2.2 million, including a \$0.7 million tax equivalency increase from the Fund's Keith and Kelly Towers/ PS 205 project in the Bronx. In the prior fiscal year, the Fund had extended the lease with a new Tenant for an additional 38 years and was able to preserve 613 units of affordable housing until the year 2090.

In addition, the developer of the 57<sup>th</sup> Street project initiated sales of the residential tower's condominium units in March 2017. In connection with the sales, ECF received a participation payment of \$10 million from the developer, reported as additional rent.

General and Administrative Expenses increased largely due to a \$1.5 million increase in Other Postemployment Benefits (OPEB) Expense. The Fund implemented GASB 75 this year. GASB 75 requires actuarial present value of projected benefit payments to be calculated using a discount rate based on 20 year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. This lowered the discount rate from 4% to 3.13% and increased the OPEB liability as of June 30, 2016. ECF recognized the entire increase in OPEB liability as an expense in the current fiscal year.

ECF coordinated with its tenant to oversee Roof HVAC work at the former IS 195 Manhattan (Terance Tolbert campus). The Statement of Net Position includes a \$1.3 million payable and receivable for this project. In FY 2018, ECF will pay the invoice and be reimbursed by the SCA – as this a capital project for the school.

In April 2017, the Fund signed a term sheet with the developer Alloy for a new project at the Khalil Gibran school/362 Schermerhorn in Brooklyn and is continuing to work through the approval process. The City Council approved the Fund's project at Coop Tech on 96<sup>th</sup> Street in Manhattan in August 2017. The Fund capitalizes site evaluation and development costs, including approximately \$450,000 for legal expenses for these projects in FY 2017. Site evaluation and development costs in FY2017 also included ECF's payments to SCA for design supervision: \$583,000 for the 96<sup>th</sup> Street project and \$250,000 for the Schermerhorn project.

From FY 2016 to FY 2017, Capital Assets decreased by \$6.3 million primarily due to depreciation expense. Advanced rental receipts decreased by \$597,000 with fewer tenants having pre-paid their rent and tax equivalency as of June 30, 2017, compared to the prior year.

# NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

#### Summary of Net Position (\$ in thousands)

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Capital assets	\$ 259,713	\$ 266,013	\$ 272,165
Other assets	<u>95,912</u>	<u>78,865</u>	<u>93,975</u>
Total assets	<u>355,625</u>	<u>344,878</u>	<u>366,140</u>
Deferred outflows of resources	<u>100</u>	<u>305</u>	<u>14</u>
Current liabilities	13,018	12,143	30,581
Long-term liabilities	<u>236,541</u>	<u>239,798</u>	<u>244,856</u>
Total liabilities	<u>249,559</u>	<u>251,941</u>	<u>275,437</u>
Deferred inflows of resources	<u>43</u>	<u>46</u>	<u>8</u>
	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Invested in capital assets, net of related debt	\$ 22,189	\$ 23,771	\$ 5,332
Restricted for capital projects	7,245	9,658	9,682
Restricted for debt service	32,909	30,677	34,875
Unrestricted	<u>43,780</u>	<u>29,090</u>	<u>40,820</u>
Total net position	\$ <u>106,123</u>	\$ <u>93,196</u>	\$ <u>90,709</u>

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Operating revenues	\$ 24,403	\$ 21,947	\$ 18,187
Other revenues	10,021	-	-
Total expenses	<u>21,497</u>	<u>19,460</u>	<u>20,921</u>
Change in Net Position	12,927	2,487	(2,734)
Net position, beginning of year	<u>93,196</u>	<u>90,709</u>	<u>93,443</u>
Net position, end of year	\$ <u>106,123</u>	\$ <u>93,196</u>	\$ <u>90,709</u>



# NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

#### Other Selected Financial Information

Ratio of operating revenues (excluding other income) to:

	<u>2017</u>	<u>2016</u>
General and administrative expenses	3.66	2.86
General and administrative expenses Net of depreciation	11.23	14.65
Total assets	0.10	0.06
Debt related ratios:		
Debt coverage ratio <sup>1</sup>	1.76	1.28

Ratios relating to operating revenues, as well as debt coverage, increased due to the additional rent and the rise in rent and tax equivalency revenues in FY 2017. However, net of depreciation, the revenue to expense ratio decreased slightly because of the \$1.5 million OPEB expense.

#### CURRENT NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND COMPLETED PROJECTS

PS 126	175 West 166 <sup>th</sup> Street	Bronx
Murry Bergtraum HS <sup>2</sup>	411 Pearl Street	Manhattan
Early Childhood Center	577 East 139 <sup>th</sup> Street	Bronx
PS 169	110 East 88 <sup>th</sup> Street	Manhattan
Early Childhood Center	234 Herkimer Street	Brooklyn
PS 99 Annex	82-37 Kew Gardens Road	Queens
Norman Thomas HS <sup>3</sup>	111 East 33 <sup>rd</sup> Street	Manhattan
PS 205	2475 and 2375 Southern Boulevard	Bronx
American Sign Language and English School (J47) Annex	225 East 23 <sup>rd</sup> Street	Manhattan
Terance D. Tolbert Campus	625 West 133 <sup>rd</sup> Street	Manhattan
PS 124	40 Division Street	Manhattan
Park West Campus HS	525 West 50 <sup>th</sup> Street	Manhattan
PS 89/IS 289	201 Warren Street	Manhattan
PS 267	213 East 63 <sup>rd</sup> Street	Manhattan
MS 114	331 East 91 <sup>st</sup> Street	Manhattan
PS 59/HS of Art and Design	250 East 57 <sup>th</sup> Street	Manhattan

<sup>1</sup> Debt coverage ratio for 2016 was calculated as operating income divided by debt service (not including redemption amount).

<sup>2</sup> Non-school portion is no longer Fund property

<sup>3</sup> Non-school portion is no longer Fund property

## NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### ECONOMIC FACTORS AND FUTURE RESULTS

In April 2017, the Fund signed a term sheet for its 362 Schermerhorn project and is continuing to work through the approval process. The City Council approved the Fund's project at 96th Street in Manhattan in August 2017, and the Fund is working toward the development of this project.

In FY 2018, management expects rental and tax equivalency revenues to continue to grow. However, although ECF may receive smaller condo participation payments in the next few years as 57<sup>th</sup> street sales continue, the additional rent received in FY 2018 will most likely be lower. ECF plans to apply these funds toward the costs of future ECF projects.

Management expects FY 2018 expenses to remain at or near 2017 levels, but not including OPEB expense related to implementing GASB 74/75.

#### 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 Cynthia Wong, Director of Finance, New York City Educational Construction Fund, 30-30 Thomson Avenue, 1st Floor, Long Island City, New York 11101.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
STATEMENTS OF NET POSITION  
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 2 and 3)	\$ 10,443,070	\$ 5,660,998
Investments (Notes 2 and 3)	27,554,664	27,976,228
Restricted investments (Notes 2 and 3)	40,160,433	40,336,145
Additional rent receivable (Note 4)	10,021,002	-
Prepaid expenses	150,912	156,883
Interest receivable on investments	274,968	252,999
Interest subsidy receivable (Note 5)	246,441	251,972
Due from developer (Note 2)	3,894,793	3,778,307
Reimbursement receivable- (Note 5)	1,331,500	-
Site evaluation and development costs (Note 2)	1,834,668	451,506
Capital assets: School buildings, net of accumulated depreciation (Notes 2 and 6)	<u>259,712,605</u>	<u>266,013,049</u>
Total Assets	<u>355,625,056</u>	<u>344,878,087</u>
Deferred Outflows of Resources (Notes 2 and 9)	<u>99,575</u>	<u>305,048</u>
<b>LIABILITIES</b>		
Advance rental and tax equivalency receipts (Note 2)	3,609,516	4,206,356
Accrued interest on revenue bonds (Note 7)	3,290,942	3,333,702
Accrued expenses and other liabilities		
Due within one year	106,221	78,092
Reimbursable expense (Note 5)	1,331,500	-
Accrued post-employment healthcare benefits (Notes 2 and 10)	3,541,815	1,747,963
Net pension liability (Notes 2 and 9)	155,053	332,440
Revenue Bonds, net of unamortized bond premium (Notes 2 and 7)		
Due within one year	4,680,000	4,525,000
Due in more than one year	<u>232,843,611</u>	<u>237,717,269</u>
Total Liabilities	<u>249,558,658</u>	<u>251,940,822</u>
Deferred Inflows of Resources (Notes 2 and 9)	<u>42,713</u>	<u>46,534</u>
<b>NET POSITION (Note 8)</b>		
Net investment in capital assets	22,188,994	23,770,780
Restricted for:		
Capital projects	7,245,605	9,658,503
Debt service	32,908,933	30,676,856
Unrestricted	<u>43,779,728</u>	<u>29,089,640</u>
Total Net Position	<u>\$ 106,123,260</u>	<u>\$ 93,195,779</u>

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
GENERAL REVENUE:		
Rental income and tax equivalency payments (net of refunds) (Note 2)	\$ 23,297,847	\$ 21,107,908
Additional rent (Note 4)	10,021,002	-
Investment and interest income (Note 2)	<u>1,104,806</u>	<u>838,887</u>
Total General Revenue	<u>34,423,655</u>	<u>21,946,795</u>
EXPENSES:		
General and administrative expenses, including depreciation expense of \$6,333,915 and \$6,173,016 for 2017 and 2016, respectively	9,399,601	7,671,371
Interest on bonds (Note 7)	<u>12,096,573</u>	<u>11,789,175</u>
Total Expenses	<u>21,496,174</u>	<u>19,460,546</u>
Change in Net Position	12,927,481	2,486,249
Net Position - beginning of year	<u>93,195,779</u>	<u>90,709,530</u>
Net Position - end of year	<u>\$ 106,123,260</u>	<u>\$ 93,195,779</u>

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
GOVERNMENTAL FUNDS - BALANCE SHEET  
JUNE 30, 2017

	General	Capital Projects	Debt Service	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 10,443,070	\$ -	\$ -	\$ 10,443,070
Investments	27,554,664	-	-	27,554,664
Restricted investments	-	7,251,500	32,908,933	40,160,433
Additional rent receivable	10,021,002	-	-	10,021,002
Reimbursement receivable-IS 195 project	1,331,500	-	-	1,331,500
Prepaid expenses	150,912	-	-	150,912
Interest receivable on investments	3,035	-	-	3,035
<b>Total Assets</b>	<u>\$ 49,504,183</u>	<u>\$ 7,251,500</u>	<u>\$ 32,908,933</u>	<u>\$ 89,664,616</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accrued expenses and other liabilities	\$ 49,078	\$ 5,895	\$ -	\$ 54,973
Accounts payable-IS 195 project	1,331,500	-	-	1,331,500
Advance rental receipts	3,609,516	-	-	3,609,516
<b>Total Liabilities</b>	<u>4,990,094</u>	<u>5,895</u>	<u>-</u>	<u>4,995,989</u>
<b>FUND BALANCE</b>				
Nonspendable	150,912	-	-	150,912
Spendable:				
Restricted	-	7,245,605	32,908,933	40,154,538
Unassigned	44,363,177	-	-	44,363,177
<b>Total Fund Balances</b>	<u>44,514,089</u>	<u>7,245,605</u>	<u>32,908,933</u>	<u>84,668,627</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 49,504,183</u>	<u>\$ 7,251,500</u>	<u>\$ 32,908,933</u>	<u>\$ 89,664,616</u>

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
GOVERNMENTAL FUNDS - BALANCE SHEET  
JUNE 30, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,660,998	\$ -	\$ -	\$ 5,660,998
Investments	27,976,228	-	-	27,976,228
Restricted investments	-	9,659,289	30,676,856	40,336,145
Prepaid expenses	<u>156,883</u>	<u>-</u>	<u>-</u>	<u>156,883</u>
 Total Assets	 <u>\$ 33,794,109</u>	 <u>\$ 9,659,289</u>	 <u>\$ 30,676,856</u>	 <u>\$ 74,130,254</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accrued expenses and other liabilities	\$ 35,200	\$ 786	\$ -	\$ 35,986
Advance rental receipts	<u>4,206,356</u>	<u>-</u>	<u>-</u>	<u>4,206,356</u>
 Total Liabilities	 <u>4,241,556</u>	 <u>786</u>	 <u>-</u>	 <u>4,242,342</u>
 <b>FUND BALANCE</b>				
Nonspendable	156,883	-	-	156,883
Spendable:				
Restricted	-	9,658,503	30,676,856	40,335,359
Unassigned	<u>29,395,670</u>	<u>-</u>	<u>-</u>	<u>29,395,670</u>
 Total Fund Balances	 <u>29,552,553</u>	 <u>9,658,503</u>	 <u>30,676,856</u>	 <u>69,887,912</u>
 Total Liabilities and Fund Balances	 <u>\$ 33,794,109</u>	 <u>\$ 9,659,289</u>	 <u>\$ 30,676,856</u>	 <u>\$ 74,130,254</u>

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Amounts reported for governmental activities in the Statements of Net Position are different because:		
Total Fund Balances - Governmental Funds	\$ 84,668,627	\$ 69,887,912
School property and related costs used in governmental activities are not financial resources and therefore, are not reported in the governmental fund	259,712,605	266,013,049
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	(1,643,616)	(1,837,271)
Assets that are not measurable or will not become available to finance expenditures in the current fiscal period are not reported in the governmental funds financial statements. These assets include:		
Interest receivable on investments	271,933	252,999
Interest subsidy receivable	246,441	251,972
Due from developer	3,894,793	3,778,307
Site evaluation and development costs	1,834,668	451,506
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	(235,880,000)	(240,405,000)
Accrued interest on revenue bonds	(3,290,942)	(3,333,702)
Accrued vacation and sick pay	(51,243)	(42,104)
Net pension liability	(155,053)	(332,440)
Accrued post-employment healthcare benefits	(3,541,815)	(1,747,963)
Deferred outflows of resources	99,575	305,048
Deferred inflows of resources	(42,713)	(46,534)
Net Position of Governmental Activities	<u>\$ 106,123,260</u>	<u>\$ 93,195,779</u>

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, 2017

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES				
Rental income and tax equivalency payments	\$ 23,297,847	\$ -	\$ -	\$ 23,297,847
Additional rent	10,021,002	-	-	10,021,002
Investment and interest income	<u>141,605</u>	<u>5,475</u>	<u>822,310</u>	<u>969,390</u>
Total Revenues	<u>33,460,454</u>	<u>5,475</u>	<u>822,310</u>	<u>34,288,239</u>
EXPENDITURES				
General and administrative	2,621,582	12	-	2,621,594
Capital project expenses	-	33,473	-	33,473
Bond principal amount	-	-	4,525,000	4,525,000
Interest expense	<u>-</u>	<u>-</u>	<u>12,327,457</u>	<u>12,327,457</u>
Total expenditures	<u>2,621,582</u>	<u>33,485</u>	<u>16,852,457</u>	<u>19,507,524</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	30,838,872	(28,010)	(16,030,147)	14,780,715
OTHER FINANCING SOURCES (USES):				
INTER-FUND TRANSFERS	(15,877,336)	(2,384,888)	18,262,224	-
Fund balances, beginning of year	<u>29,552,553</u>	<u>9,658,503</u>	<u>30,676,856</u>	<u>69,887,912</u>
Fund balances, end of year	<u>\$ 44,514,089</u>	<u>\$ 7,245,605</u>	<u>\$ 32,908,933</u>	<u>\$ 84,668,627</u>

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, 2016

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES				
Rental income and tax equivalency payments	\$ 21,107,908	\$ -	\$ -	\$ 21,107,908
Investment and interest income	12,016	7,466	464,858	484,340
Other income	<u>-</u>	<u>352,180</u>	<u>-</u>	<u>352,180</u>
Total revenues	<u>21,119,924</u>	<u>359,646</u>	<u>464,858</u>	<u>21,944,428</u>
EXPENDITURES				
General and administrative	1,900,903	-	-	1,900,903
Capital projects expenses	-	20,672	-	20,672
Bond principal amount	-	-	23,785,000	23,785,000
Interest expense	<u>-</u>	<u>-</u>	<u>12,853,895</u>	<u>12,853,895</u>
Total expenditures	<u>1,900,903</u>	<u>20,672</u>	<u>36,638,895</u>	<u>38,560,470</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	19,219,021	338,974	(36,174,037)	(16,616,042)
OTHER FINANCING SOURCES (USES):				
INTER-FUND TRANSFERS	(31,965,722)	(10,361)	31,976,083	-
Fund balances, beginning of year	<u>42,299,254</u>	<u>9,329,890</u>	<u>34,874,810</u>	<u>86,503,954</u>
Fund balances, end of year	<u>\$ 29,552,553</u>	<u>\$ 9,658,503</u>	<u>\$ 30,676,856</u>	<u>\$ 69,887,912</u>

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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Amounts reported for governmental activities in the Statements of Activities are different because:		
Net Changes in Fund Balance - Governmental Funds	\$ 14,780,715	\$ (16,616,042)
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	33,473	20,672
Construction refund	-	(352,180)
Depreciation expense	(6,333,917)	(6,173,016)
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	4,525,000	23,785,000
Interest subsidy receivable	(5,531)	1,351
Investment and interest income	135,425	354,550
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.	<u>(207,684)</u>	<u>1,465,914</u>
Change in Net Position of Governmental Activities	<u>\$ 12,927,481</u>	<u>\$ 2,486,249</u>

See accompanying notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

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 of New York (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 Statements of Net Position and the Statements of Activities, are presented to display information about the reporting entity as a whole, in accordance with GASB 34. The Statements of Net Position and the Statements of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

Governmental Funds financial statements, the Balance Sheets and the Statements 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 after the end of the current fiscal period. Expenditures are recognized when the related liability is incurred.

Reconciliations of Entity-Wide and Governmental Fund Financial Statements – a summary reconciliation of the difference between the Total Fund Balances as reflected on the Governmental Funds Balance Sheet and Total Net Position for the fund activities as shown on the Entity-Wide Statements of Net Position is presented in an accompanying statement to the Governmental Funds Balance Sheets.

A summary reconciliation of the difference between net change in fund balances as reflected on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and Changes in Net Position for activities as shown on the Entity-Wide Statements of Activities is presented in a statement.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

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 (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, 2017 and 2016, the balances in the debt service reserve accounts totaled \$20,380,091 and \$20,678,665, respectively, held in the account to meet the required minimum. The required minimum was reduced in FY 2016 following the redemption of the 2005A bonds.

The Debt Service Fund is funded by specific proceeds from the Revenue Bonds, Series 2007A, 2010A and 2011A. There is one account for each bond established in the Debt Service Reserve Fund. All revenues are deposited in the operating 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 depreciable lives of school buildings, other post-employment healthcare benefit ("OPEB") obligations and contingencies. Actual results could differ from those estimates.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of 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 (See Note 3 for details).

DUE FROM DEVELOPER

As per the Second Amendment of the Construction Agreement dated December 27, 2013 between the Fund and the developer of 250 East 57<sup>th</sup> Street, the Fund is to be reimbursed for various advanced soft costs incurred (e.g. architectural fees). The agreement sets repayments of principal (\$3,056,744) and interest over a five-year period beginning in FY 2026. Interest accrues at a rate of 3.810721% per annum. Interest accrued as of June 30, 2017 and 2016 was \$837,993 and \$721,563, respectively.

FINANCIAL INSTRUMENTS

Significant financial instruments included in the Fund's assets consist of both short and long-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. Long-term investments are carried at fair value.

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 investments and revenue bonds payable are as follows:

	2017		2016	
	<u>Carrying</u>	<u>Fair Value</u>	<u>Carrying</u>	<u>Fair Value</u>
	<u>Amount</u>		<u>Amount</u>	
Cash and investments	78,158,167	78,245,507	73,973,371	74,483,284
Revenue bonds payable	237,523,611	262,559,330	242,242,269	285,089,291

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.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

SCHOOL PROPERTY AND RELATED COSTS

Buildings are carried at depreciated cost. Depreciation expense is calculated using the straight-line method based upon the estimated useful life of the buildings, which is either 40, 75 or 101 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

Compensated absences for the Fund represents both vacation and sick pay earned by an employee. Compensated absences are based on an employee's length of employment and is earned ratably during the span of employment. Upon termination, employees are paid for up to four years of accrued vacation depending upon their length of service and are paid for half of their accrued sick leave up to a maximum of 200 days. Accordingly, the maximum lump sum sick leave payment at termination is for 100 days.

Amounts of accumulated compensated absences 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 AND TAX EQUIVALENCY RECEIPTS

Advance rental receipts consists of advance rental and tax equivalency 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.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 prepaid expenses.

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 income, tax equivalency payments, additional rent 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.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PENSION

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New York State and Local Retirement System ("NYSLRS") and additions to/deductions from NYSLRS's fiduciary net position have been determined on the same basis as they are reported by NYSLRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

OTHER POST-EMPLOYMENT BENEFITS

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").

RECENT ACCOUNTING PRONOUNCEMENTS

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

*ALREADY ADOPTED*

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was adopted by the Fund and did not have an impact on the current year financial statements.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB 75"), was adopted by the Fund. The Fund recognized a significant increase in OPEB costs due to implementation of GASB 75.

Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*, has been adopted by the Fund and did not have an impact on the current year financial statements.

Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, was adopted by the Fund and did not have an impact on the current year financial statements.

Statement No. 85, *Omnibus 2017*, was adopted by the Fund and did not have an impact on the current year financial statements.



NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

*NOT YET ADOPTED*

Statement No. 83, *Certain Asset Retirement Obligations*, which will be effective for the year ending June 30, 2019.

The Fund is currently studying this statement to determine what, if any, effect it may have on the financial statements upon adoption in fiscal year 2019, as required.

Statement No. 84, *Fiduciary Activities*, which will be effective for the year ending June 30, 2020.

The Fund is currently studying this statement to determine what, if any, effect it may have on the financial statements upon adoption in fiscal year 2020, as required.

Statement No. 86, *Certain Debt Extinguishment Issues*, which will be effective for the year ending June 30, 2018.

The Fund is currently studying this statement to determine what, if any, effect it may have on the financial statements upon adoption in fiscal year 2018, as required.

Statement No. 87, *Leases*, which will be effective for the year ending June 30, 2021.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Fund invests monies held in any funds or accounts not required for immediate use or disbursement. Such funds are invested in obligations of 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, 2017 and 2016, uninsured bank balances of approximately \$9,900,000 and \$4,800,000, respectively, were collateralized with securities held by several banks in the Fund's name.

The Fund's total cash, cash equivalents and investments at June 30, 2017 and 2016 were \$78,158,167 (\$37,997,734 unrestricted and \$40,160,433 restricted, of which \$7,251,500 is remaining in the 250 East 57<sup>th</sup> Street construction account) and \$73,973,371 (\$33,637,226 unrestricted and \$40,336,145 restricted, of which \$2,384,708 was remaining in the MS 114 construction account and \$7,274,581 was remaining in the 250 East 57<sup>th</sup> Street construction account), respectively. Investments consist primarily of U.S. treasury bills and notes and U.S. Government agency securities.

Yields on non-restricted investments ranged from 0% - 2.25% for the years ended June 30, 2017 and 2016.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

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

<u>Depository Account</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Insured	\$ 86,184	\$ 98,331
Collateralized:		
Bank of NY Investment Surplus	31,668,664	27,976,228
Chase Investment Administrative	1,650,260	1,424,284
Bank of NY - Cash Surplus	406	753
Bank of NY - Operating Account	3,047,085	1,301,916
Bank of NY Debt Service 2007A	6,661,679	4,053,593
Bank of NY Debt Service Reserve 2007A	5,615,422	5,608,868
Bank of NY Debt Service 2010A	2,016,010	2,048,838
Bank of NY Debt Service Reserve 2010A	4,334,458	4,524,788
Bank of NY Debt Service 2011A	3,851,153	3,895,760
Bank of NY Debt Service Reserve 2011A	10,430,211	10,545,009
Chase Construction Account 2007	-	2,384,708
Chase Construction Account 2011	7,251,500	7,274,581
Chase Investment 96th St	1,545,135	2,835,714
Total Deposits	<u>\$ 78,158,167</u>	<u>\$ 73,973,371</u>

**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 entity 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 entity will be unable to recover the value of its investments or collateral securities that are in possession of an outside party.

**Credit Risk.** New York State 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, 2017, all investments were in obligations of the U.S. Treasury and federal agencies.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

**Interest Rate Risk.** 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 non-restricted investments to less than one year. As of June 30, 2017 and 2016, all non-restricted investment maturities were less than one year. Information about fair values of restricted investments by type of investment as of June 30, 2017 and 2016 is as follows:

<u>Type of Investment</u>	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
U.S. Government Securities	\$ 23,312,550	\$ 23,184,921	\$ 21,283,789	\$ 21,462,110
U.S. Government Agencies	9,919,399	10,099,012	9,719,155	10,013,622
Cash	6,928,484	6,928,484	9,333,201	9,333,201
Total Restricted Investments	<u>\$ 40,160,433</u>	<u>\$ 40,212,417</u>	<u>\$ 40,336,145</u>	<u>\$ 40,808,933</u>

4. ADDITIONAL RENT RECEIVABLE

Under the terms of the lease for the non-school portion of its 57<sup>th</sup> Street project the Fund is to receive a percentage of the gross sales price, above a threshold price per square foot, for any units sold by the developer, sponsor or tenant to third parties in arm's-length transfers. The Fund's income from those sales was \$10,021,002 for the year ended June 30, 2017 and is reported as additional rent. It was received on July 27, 2017.

5. REIMBURSEMENT RECEIVABLE-IS 195 PROJECT

The Fund entered into an agreement to have roof work done at the former IS 195 Manhattan (Terance Tolbert campus). The location is currently operated by the NYC Department of Education and accordingly the School Construction Authority will reimburse the Fund for its expenditure.

6. 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 building was sold in 2012. All of the schools are completed, in use, and classified as school buildings. Of the seventeen 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 with 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, which have been defeased, 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 30 or 40 years. The leases expire on various dates between 2017 and 2052. In the event that the Fund's revenues from the non-school portion of the properties are not sufficient to pay the debt

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

6. SCHOOL BUILDINGS (CONTINUED)

service requirements of the 2007A, 2010A and 2011A Series Bonds, then the school leases provide for payments from the City sufficient to support payment of an allocable portion of the debt service requirements of the 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 2007A, 2010A and 2011A Series Bonds. Accordingly, the City has not been required to make payments under the school leases.

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

<u>Description</u>	<u>June 30, 2016</u>	<u>Additions</u>	<u>June 30, 2017</u>
School Buildings	\$ 400,675,274	\$ 33,473	\$ 400,708,747
Less: Accumulated depreciation	<u>134,662,225</u>	<u>6,333,917</u>	<u>140,996,142</u>
Net capital assets: School Buildings	<u>\$ 266,013,049</u>	<u>\$ (6,300,444)</u>	<u>\$ 259,712,605</u>

  

<u>Description</u>	<u>June 30, 2015</u>	<u>Additions</u>	<u>June 30, 2016</u>
School Buildings	\$ 400,654,602	\$ 20,672	\$ 400,675,274
Less: Accumulated depreciation	<u>128,489,209</u>	<u>6,173,016</u>	<u>134,662,225</u>
Net capital assets: School Buildings	<u>\$ 272,165,393</u>	<u>\$ (6,152,344)</u>	<u>\$ 266,013,049</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$6,333,917 and \$6,173,016, respectively.

7. 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 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

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

7. REVENUE BONDS (CONTINUED)

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 1<sup>st</sup> Avenue, New York, New York. The 2007A Bonds were issued pursuant to the Act and the Resolution, and 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.

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/HS of Art and Design located at 250 East 57<sup>th</sup> Street, New York, New York. The 2010A Bonds were issued pursuant to the Act and the Resolution, and to the Fund's Revenue Bond resolution adopted by the Fund on February 26, 2010, for the purpose 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 2010A 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. The payments from the United States Treasury were reduced by budget sequestration cuts ranging from 6.8%-8.7% from 2013-2017.

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 250 East 57<sup>th</sup> Street. The 2011A Bonds were used pursuant to the Act and the Resolution, and to the Fund's Revenue Bond resolution adopted by the Fund on December 23, 2010 for the purpose 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.

As of June 30, 2017 and 2016 the Fund recorded accrued interest on revenue bonds of \$3,290,942 and \$3,333,702 representing interest for the period April 1 to June 30, 2017 and 2016 due to be paid in October 2017 and 2016, respectively.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

7. REVENUE BONDS (CONTINUED)

The following is a summary of changes in serial bonds payable for the years ended June 30, 2017 and 2016:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2017</u>
Revenue Bonds 2007A issued January 18, 2007 (3.75% to 5%) maturity dates 2009 to 2037. Payments due April and October.	\$ 49,070,000	\$ 345,000	\$ 48,725,000
Revenue Bonds 2010A issued April 28, 2010 (4.5% to 6.2%) maturity dates 2017 to 2040. Payments due April and October.	53,810,000	1,435,000	52,375,000
Revenue Bonds 2011A issued January 25, 2011 (3.25% to 6.5%) maturity dates 2017 to 2041. Payments due April and October.	<u>137,525,000</u>	<u>2,745,000</u>	<u>134,780,000</u>
Total	240,405,000	<u>\$ 4,525,000</u>	235,880,000
Less/Add: Unamortized bond discount/premium	1,837,269		1,643,611
Current portion	<u>(4,525,000)</u>		<u>(4,680,000)</u>
Long-term portion	<u>\$ 237,717,269</u>		<u>\$ 232,843,611</u>

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

7. REVENUE BONDS (CONTINUED)

	<u>Balance</u> <u>June 30, 2015</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2016</u>
Revenue Bonds 2005A issued January 6, 2005 (2.25% to 4.375%) maturity dates 2005 to 2026. Payments due April and October.	\$ 23,455,000	\$ 23,455,000	\$ -
Revenue Bonds 2007A issued January 18, 2007 (3.75% to 5%) maturity dates 2009 to 2037. Payments due April and October.	49,400,000	330,000	49,070,000
Revenue Bonds 2010A issued April 28, 2010 (4.5% to 6.2%) 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 6.5%) maturity dates 2017 to 2041. Payments due April and October.	<u>137,525,000</u>	<u>-</u>	<u>137,525,000</u>
Total	264,190,000	<u>\$ 23,785,000</u>	240,405,000
Less/Add: Unamortized bond discount/premium	2,642,626		1,837,269
Current portion	<u>(23,785,000)</u>		<u>(4,525,000)</u>
Long-term portion	<u>\$ 243,047,626</u>		<u>\$ 237,717,269</u>

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

7. REVENUE BONDS (CONTINUED)

Debt service requirements on bond indebtedness at June 30, 2016 was as follows:

Fiscal Years	2007A Bonds		
	Principal	Interest	Total
2018	\$ 365,000	\$ 2,436,250	\$ 2,801,250
2019	380,000	2,418,000	2,798,000
2020	400,000	2,399,000	2,799,000
2021	420,000	2,379,000	2,799,000
2022	440,000	2,358,000	2,798,000
2023- 2027	11,960,000	10,542,000	22,502,000
2028- 2032	15,270,000	7,237,500	22,507,500
2033- 2037	<u>19,490,000</u>	<u>3,018,500</u>	<u>22,508,500</u>
	<u>\$ 48,725,000</u>	<u>\$ 32,788,250</u>	<u>\$ 81,513,250</u>

Fiscal Years	2010A Bonds			2011A Bonds		
	Principal	Interest	Total	Principal	Interest	Total
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	1,575,000	2,880,928	4,455,928	3,060,000	7,478,394	10,538,394
2021	1,630,000	2,802,178	4,432,178	3,185,000	7,352,169	10,537,169
2022	1,685,000	2,719,048	4,404,048	3,325,000	7,212,825	10,537,825
2023- 2027	9,390,000	12,214,339	21,604,339	19,980,000	32,708,500	52,688,500
2028- 2032	11,410,000	9,353,333	20,763,333	26,990,000	25,702,451	52,692,451
2033- 2037	13,905,000	5,652,320	19,557,320	35,740,000	16,953,302	52,693,302
2038- 2041	<u>9,775,000</u>	<u>1,228,220</u>	<u>11,003,220</u>	<u>36,725,000</u>	<u>5,426,851</u>	<u>42,151,851</u>
	<u>\$ 52,375,000</u>	<u>\$ 42,831,232</u>	<u>\$ 95,206,232</u>	<u>\$ 134,780,000</u>	<u>\$ 118,132,792</u>	<u>\$ 252,912,792</u>



NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

8. NET POSITON

Restricted net position for capital projects and debt service is normally the balance for those funds from the governmental funds balance sheet. The restricted net position for capital projects also includes the construction refund receivable which is not reflected on the governmental funds balance sheet.

The net investment in capital assets category of net position and the amount available for debt service are calculated as follows:

	<u>2017</u>	<u>2016</u>
Net Investment in Capital Assets:		
School property, net	\$ 259,712,605	\$ 266,013,049
Less: Revenue bonds payable, net	<u>(237,523,611)</u>	<u>(242,242,269)</u>
Net investment in capital assets	<u>\$ 22,188,994</u>	<u>\$ 23,770,780</u>
Restricted for Debt Service		
Restricted assets	\$ 40,160,433	\$ 40,336,145
Less: MS 114/PS 59 construction funds	(7,251,500)	(9,659,289)
Debt service reserve requirements	<u>(19,202,983)</u>	<u>(19,202,983)</u>
Available for debt service	<u>\$ 13,705,950</u>	<u>\$ 11,473,873</u>

9. PENSION PLAN

PLAN DESCRIPTION

The Fund participates in the NYSLRS. This is a cost-sharing multiple-employer defined benefit retirement system. The NYSLRS provides retirement benefits as well as death and disability benefits.

As set forth in the New York State Retirement and Social Security Law ("NYSRSSL"), the Comptroller of the State of New York ("Comptroller") serves as sole trustee and administrative head of the NYSLRS. The Comptroller adopts and may amend rules and regulations for the administration and transaction of the business of the NYSLRS and for the custody and control of their funds.

A publicly available annual report containing financial statements and required supplemental information for the NYSLRS 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.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

9. PENSION PLAN (CONTINUED)

BENEFITS

The benefits employees will receive are governed by the NYSRSSL. Employees are placed in tiers depending on when they last became members. The benefits in all tiers are 1.67% of the final average salary for each year of service if members retire with less than 20 years. If members retire with more than 20 years of service, the percentages vary according to the tier they are in. The minimum service requirements and minimum age requirement varies according to the tier the employee is in.

Annual cost of living adjustments are provided to pensioners after waiting periods defined in the plan. The adjustments are a percentage of the annual retirement benefit as computed on a base benefit amount not to exceed \$18,000 of the annual retirement benefit. The cost of living percentage is 50% of the Consumer Price Index but not less than 1% or more than 3%.

Ordinary disability benefits are usually one third of salary and are provided to eligible members after ten years or, in some cases, five years of service. Accidental disability benefits are either 75% of salary with an offset for any Workers' Compensation benefits received or the ordinary disability benefit with the year of service eligibility requirement dropped, depending on the tier. Death benefits are payable upon the death, before retirement, of a member who meets the eligibility requirements as set forth by law. The benefit is generally three times the member's annual salary.

CONTRIBUTIONS

For employees who joined the NYSLRS after July 27, 1979, the system requires a 3% contribution of their salaries until employees are vested. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as a percentage 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 NYSLRS for the fiscal years ended June 30, 2017 and 2016 were \$64,406 and \$88,712 respectively. The total pension expense for the fiscal years ended June 30, 2017 and 2016 was \$97,566 and \$128,875, respectively.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

9. PENSION PLAN (CONTINUED)

ACTUARIAL ASSUMPTIONS

The total pension liability in the March 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.8 percent
Investment rate of return (discount rate)	7.0 percent

Mortality rates were based on the April 1, 2010 through March 31, 2015 pensioner experience, with mortality improvement using the Society of Actuaries Scale MP-2014.

SENSITIVITY OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY DUE TO CHANGES IN THE DISCOUNT RATE

The following presents the employer's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the employer's proportionate share of net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	<u>1% Decrease</u> <u>(6.0%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.0%)</u>	<u>1% Increase</u> <u>(8.0%)</u>
Employer's proportionate share of net pension liability (asset)	<u>\$ 495,208</u>	<u>\$ 155,053</u>	<u>\$ (132,548)</u>

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
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9. PENSION PLAN (CONTINUED)

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Balances of deferred outflows and inflows of resources at June 30, 2017 and 2016 are categorized as follows:

	<u>2017</u>	<u>2016</u>
Deferred Outflows of Resources		
Differences between expected and actual experience in the measurement of the total pension liability	\$ 3,885	\$ 1,680
Changes of assumptions	52,972	88,652
Net difference between projected and actual earnings on pension plan investments	30,970	197,222
Changes in proportion and differences between employer contributions and proportionate share of contributions	9,288	12,384
Employer's contributions to the pension plan subsequent to the measurement date of the collective net pension liability	<u>2,460</u>	<u>5,110</u>
	<u>\$ 99,575</u>	<u>\$ 305,048</u>

The total deferred outflows will be recognized as pension expense equally from FY2017 through FY2020 at a rate of \$24,894 per year.

Deferred Inflows of Resources

Differences between expected and actual experience in the measurement of the total pension liability	\$ 23,546	\$ 39,405
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	<u>19,167</u>	<u>7,129</u>
	<u>\$ 42,713</u>	<u>\$ 46,534</u>

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
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9. PENSION PLAN (CONTINUED)

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of the Fund's Proportionate Share of the Net Pension Liability  
New York City Educational Construction Fund

	<u>2017</u>	<u>2016</u>
Employer's proportion of the net pension liability (asset)	0.0016502%	0.0020712%
Employer's proportionate share of the net pension liability (asset)	\$ 155,053	\$ 332,440
Employer's covered-employee payroll	\$ 273,033	\$ 261,656
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	56.79%	127.05%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.68%

Schedule of the Fund's Contributions

('000 omitted)	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution (1)	\$ 3,950	\$ 4,348	\$ 4,893	\$ 5,138	\$ 4,524	\$ 3,879	\$ 3,623	\$ 1,879	\$ 1,963	\$ 2,135
Contributions in relation to the actuarially determined contribution (2)	<u>3,950</u>	<u>4,348</u>	<u>4,893</u>	<u>5,138</u>	<u>4,524</u>	<u>3,879</u>	<u>3,623</u>	<u>1,879</u>	<u>1,963</u>	<u>2,135</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll (3)	\$ 26,200	\$ 25,644	\$ 24,480	\$ 24,361	\$ 24,405	\$ 24,291	\$ 24,389	\$ 24,972	\$ 24,099	\$ 22,779
Contributions as a percentage of covered-employee payroll	15.08%	16.96%	19.99%	21.09%	18.54%	15.97%	14.86%	7.52%	8.15%	9.37%

(1) The actuarially determined contribution includes normal costs, adjustments made to record the reconciliation of projected salary to actual salary and miscellaneous accounting adjustments.

(2) The contributions in relation to the actuarially determined contribution reflects the actual payments and installment payment plans.

(3) Covered employee payroll represents pensionable payroll. Covered-employee payroll for 2016 was restated for compliance with GASB 82.

10. 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. As of June 30, 2016 benefits were provided for three active employees, one deferred retiree and six retirees. NYSHIP is administered by the Department of Civil Service of the State of New York. According

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

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

PLAN DESCRIPTION (CONTINUED)

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, New York 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 maximum limits 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. No assets are accumulated for payment of OPEB benefits. The Total OPEB Expense ("Expense") represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess).

ANNUAL OTHER POST-EMPLOYMENT BENEFITS COST AND NET OBLIGATION

For the year ended June 30, 2017, the Fund's Expense was \$1,542,384 and the Fund made \$59,650 in PAYG employer contributions.

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.

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.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
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10. OTHER POST-EMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)  
(CONTINUED)

ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

In the June 30, 2016 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 7.5 percent for Fiscal Year 2018 (for Fiscal Year 2017 the actual rate increase of 7.84% was used) for medical benefits not coordinated with Medicare, for dental benefits and for prescription drugs, 5.0 percent for Medicare Part B premiums and 5.0 percent for medical benefits coordinating with Medicare (for Fiscal Year 2017 the actual rate increase of 2.51% was used for benefits coordinating with Medicare), reduced by decrements to an ultimate rate of 5.0 percent. All rates include a 2.5 percent inflation assumption. Under GASB 74/75, which the City is adopting as of June 30, 2016, changes in the Fund's Net OPEB Liability due to changes in experience and changes in assumptions are amortized over the Future Working Lifetime of all plan participants, which equates to 1 year, and recognized in the annual expense. The actuarial valuation assumed that no assets will be set aside by the Fund to prefund its retiree medical liabilities.

SENSITIVITY OF TOTAL OPEB LIABILITY TO CHANGES IN HEALTHCARE COST TREND RATE AND DISCOUNT RATE

The following shows how total OPEB liability would change based on changes in the healthcare cost trend rate and discount rate:

		<u>Total OPEB</u>
	<u>Rate</u>	<u>Liability</u>
Healthcare Cost Trend Rate	Current rate	3,539,369
	1% decrease	2,496,872
	1% increase	5,129,604
Discount Rate	Current rate	3,539,369
	1% decrease	4,865,812
	1% increase	2,688,327

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
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10. OTHER POST-EMPLOYMENT BENEFITS (OBLIGATIONS FOR HEALTH INSURANCE)  
(CONTINUED)

CHANGES IN TOTAL OPEB LIABILITY AND ADDITIONAL INFORMATION

The following shows the changes in the total OPEB liability in the year ended June 30, 2017:

Total OPEB liability-beginning	\$ 1,747,963
Changes in total OPEB liability	
Service cost	76,223
Interest	108,370
Differences between expected and actual experience	2,178,629
Changes of assumptions	(509,720)
Benefit payments	(59,650)
Total changes	<u>1,793,852</u>
Total OPEB liability-ending	<u>\$ 3,541,815</u>

The measurement date of the total OPEB liability is June 30, 2017. The actuarial valuation date is June 30, 2016. Update procedures were used to roll the total OPEB liability forward to the measurement date.

Changes in assumptions were primarily changes in the discount rate. Under GASB 74/75 the Fund was required to use a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale). Discount rates of 3.13% and 2.71% were applied to 2017 and 2016, respectively.

The Fund has no deferred outflows of resources or deferred inflows of resources related to OPEB.

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of changes in total OPEB liability:

	<u>2017</u>	<u>2016</u>
Total OPEB liability-beginning	\$ 1,747,963	\$ 1,953,942
Changes in total OPEB liability		
Service cost	76,223	92,498
Interest	108,370	54,890
Differences between expected and actual experience	2,178,629	20,054
Changes in assumptions	(509,720)	(311,118)
Benefit payments	(59,650)	(62,303)
Total changes	<u>1,793,852</u>	<u>(205,979)</u>
Total OPEB liability-ending	<u>\$ 3,541,815</u>	<u>\$ 1,747,963</u>



NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 and 2016

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) (CONTINUED)

Schedule of total OPEB liability and covered-employee payroll:

	<u>2017</u>	<u>2016</u>
Total OPEB liability	\$ 3,541,815	\$ 2,059,081
Total covered-employee payroll	\$ 359,856	\$ 483,451
Ratio	984.2%	425.9%

11. COMMITMENTS AND CONTINGENCIES

TAX EQUIVALENCY ADJUSTMENTS

Individual tenants may receive tax equivalency adjustments as a result of filing for assessment reductions with the City. Additionally, residences may receive shelter rent adjustments. The result of these adjustments, if any, cannot be estimated until settlement is made and, accordingly, no provisions can be made.

RENT

The Fund occupies, rent free, office space located in a building owned by the City. The fair market value of the rent is not considered material and therefore rent expense has not been recorded at June 30, 2017 and 2016, 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. As of June 30, 2017 the 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 effect on the Fund's operations or financial condition.

CRANE ACCIDENT

A crane subcontracted by the developer collapsed on May 20, 2008 at the site of the MS 114 project. The accident resulted in two deaths, several injuries and property damage. The Fund is contractually indemnified by the developer and the construction manager and indirectly by the crane owner. Claims asserted against the Fund, to date, have been tendered to the Fund's insurer as well as to the developer. In addition, the Fund also tendered claims to those insurance companies whose policies were procured by the developer and construction manager for the project.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
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11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

CRANE ACCIDENT (CONTINUED)

On January 30, 2015, all claims and cross claims against the Fund in the wrongful death cases were dismissed. The plaintiffs did not file notices of appeal regarding the Fund's dismissal, and the time to take the necessary steps to appeal has since elapsed. On January 5, 2016, judgments exceeding \$40 million dollars were awarded in these cases against the crane owner. That same day, the crane owner filed a notice of appeal, but not against the Fund. As of August 30, 2017, we understand the appeal has been fully briefed and the parties are awaiting a decision. While it is not feasible, at this time, to predict the potential effect of the above events on the Fund's possible exposure, as stated above, no appeal was made in relation to the Fund's dismissal from the wrongful death cases, and the time for such appeal has expired. Therefore, we believe the Fund's possible exposure, if any, is minimal.

At June 30, 2017, the Fund does not anticipate incurring losses in excess of its available insurance coverage.

12. 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 18, 2017 for the Series 2007A Bonds, 60 days after April 28, 2020 for the Series 2010A and 60 days after January 25, 2021 for the Series 2011A. At June 30, 2017 and 2016, the estimated liability for non-purpose interest arbitrage rebate was \$0 for each bond series.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Fund has the following recurring fair value measurement as of June 30, 2017:

- U.S. Treasury Notes of approximately \$10.2 million are valued using quoted market prices (Level 1 inputs)

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND  
NOTES TO FINANCIAL STATEMENTS  
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14. TAX ABATEMENT

By setting aside at least 20% of their units as affordable, the Fund's tenant at 331 East 91<sup>st</sup> Street applied for a 421(a) tax abatement, which was approved by the NYC Department of Finance starting in FY 2012. In FY 2017 and 2016, actual taxes for the property would have been \$1,485,134 and \$1,420,649, respectively with the 421(a) abatement. In accordance with the lease, the tenant pays tax equivalency to the Fund that is the greater of (a) the minimum payment set forth in the lease schedule, or (b) what the actual taxes would have been with the abatement. In FY 2017 and 2016, total tax equivalency paid for 331 East 91<sup>st</sup> Street was \$2,666,959 and \$2,541,842, respectively, which is in excess of the abated amount.

15. SUBSEQUENT EVENTS

The Fund's management has evaluated subsequent events through September 19, 2017, the date the financial statements were available to be issued.



Israeloff, Trattner & Co. P.C.

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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, 2017, 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 19, 2017.

**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 governance.

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.

*Israeff, Trattner & Co. P.C.*

Garden City, New York  
September 19, 2017

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