

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities 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, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, where applicable, of only that portion of the governmental activities of the City of New York (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, 2010 and 2009, and the changes in financial position, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2010 and 2009, and the respective changes in financial position, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2010, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the New York City Educational Construction Fund's financial statements taken as a whole. The introductory section is presented for purposes of additional analysis and is not a required part of the financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Israeloff, Trattner & Co. P.C.

Garden City, New York
October 8, 2010

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial performance of the financial activities of the New York City Educational Construction Fund (the "Fund") for the fiscal years ended June 30, 2010 and 2009. 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) fund financial statements; and (3) notes to financial statements.

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

The statement of net assets presents information on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets 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 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 balance. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal year.

In addition to these two types of statements, the financial statements include a reconciliation between the entity-wide and fund statements as well as notes to financial statements which are an integral part of the financial statements.

FINANCIAL HIGHLIGHTS

The fund's net assets increased by \$12.2 million and \$12.4 million in the fiscal years ended June 2010 and 2009, respectively.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

FINANCIAL HIGHLIGHTS

The increase in net assets is again due to rent and tax equivalency payments exceeding expenses of the fund. The increase in net assets in 2010 was attributed to continued high levels of revenues (primarily tax equivalency payments) combined with an increase in the Construction in Progress Account for the Project on 57th Street which encompasses two schools for which new Bonds were issued. In 2009 the increase was the result of the same trend of tax equivalency payments. School property and related costs have increased in 2010 due to the addition of MS 114 construction which has now been finished and is in operation as of June 2010 as well as the addition of the 57th Street project. In 2009 the increase in property and related costs was also attributable to the addition of MS 114. Accruals were almost at the same level in 2010 because there was no significant refunding of soft costs for the 57th street project. The increase in liabilities is due to the addition of 2010A Bonds issued in April 2010 to pay for the first phase of The High School of Art and Design and PS 59. In 2009 the decrease in liabilities was due to the payment of the maximum principal due on the life of the 2005A Bonds and the 2007A Bonds. The negative balance in investment in capital assets net of related debt increased in 2010 due to the funds raised from the issuance of the 2010A Bonds. During 2009 there was a decrease because the debt service reserves decreased as well.

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

Summary of Net Assets (\$ in thousands)

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Total assets	\$ 250,205	\$ 192,249
Total liabilities	<u>172,958</u>	<u>127,246</u>
Net assets	\$ <u><u>77,247</u></u>	\$ <u><u>65,003</u></u>

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

RESULTS OF OPERATIONS

Rental income and tax equivalency payments remained at approximately the same level in 2010 and 2009. Investment income decreased in 2009 and again in 2010 due to the general economic conditions that still prevailed causing a drop of \$2 million in operating revenues. General & administrative expenses for 2010 are \$4,627,024 compared to \$5,635,618 in 2009. The decrease was due primarily to a decrease in arbitrage liability which reversed some arbitrage expense incurred in previous years. Interest expense on bonds, net of amounts capitalized, has decreased in fiscal year 2010 compared to 2009 due to the fact that the payments of large amounts of Debt Service were done in previous years as well as an increase in the amount capitalized during 2010.

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Total operating revenues	\$ 19,513	\$ 21,793
Total operating expenses	<u>7,269</u>	<u>9,408</u>
Change in Net Assets	12,244	12,385
Net assets, beginning of year	<u>65,003</u>	<u>52,618</u>
Net assets, end of year	\$ <u>77,247</u>	\$ <u>65,003</u>

Other Selected Financial Information

Ratio of operating revenues (excluding interest income) to:

	<u>2010</u>	<u>2009</u>
Operating expenses	3.98	3.32
Operating expenses net of depreciation	17.50	8.65
Total assets	0.07	0.09

Debt related ratios:

Debt coverage ratio – operating income before depreciation to current debt service	2.86	2.70
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NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

DEVELOPMENT PROJECTS OF THE FUND

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

Middle School 114: This 79,000 square foot (SF), 540-seat intermediate school facility, which commenced construction in 2007, opened to students on June 1, 2010. The 238,000 SF apartment tower The Azure, which completes the combined occupancy structure located at East 91st Street and First Avenue, was also completed during the summer of 2010.

PS 59 and High School of Art and Design: The Fund designated World Wide Group to be the developer of the air rights above the existing campus containing PS 59 and the High School of Art & Design on East 57th Street at Second Avenue. The project will consist of two new school facilities of approximately 315,000 SF to replace outmoded school buildings and an additional 575,000 SF of retail and residential uses to be built in several phases. An off-site temporary facility for PS 59 has been renovated for use by the school during the period of construction. Retrofits to the existing High School of Art & Design facility were made in 2008 to permit the school to remain in place during the construction of its new facility. In April 2010 the Fund issued \$53.8 million of taxable subsidized Build America Bonds for the first phase of construction on the new school facilities and expects to issue the remainder of the bonds by the end of 2010 (approximately \$120 million) to complete the school construction. Completion and occupancy of the two new school facilities is expected in September 2012.

Contact Information

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

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
Cash and cash equivalents (Notes 2 and 4)	\$ 26,306,998	\$ 25,033,686
Restricted investments (Notes 2 and 4)	69,994,981	55,309,288
Other investments (Note 2)	7,543,811	-
Prepaid expenses	107,905	248,043
Interest receivable on investments	104,047	203,283
Interest subsidy receivable (Note 5)	189,249	-
Bond issuance cost, net of accumulated amortization (Note 2)	3,755,287	3,289,880
Site evaluation and development cost (Note 2)	10,260,488	14,377,885
Capital assets: School buildings, net of accumulated depreciation (Note 3)	131,942,248	93,787,027
Total Assets	\$ 250,205,014	\$ 192,249,092
LIABILITIES		
Deferred rental income (Note 2)	\$ 3,250,440	\$ 4,974,776
Accrued interest on revenue bonds	1,645,851	1,151,789
Accrued expenses and other liabilities		
Due within one year	12,059,857	12,085,623
Due in more than one year	465,286	1,122,313
Accrued post-employment healthcare benefits (Notes 2 and 8)	1,333,593	1,220,855
Revenue Bonds, net of unamortized bond premium (Notes 2 and 5)		
Due within one year	6,075,000	6,135,000
Due in more than one year	148,127,854	100,555,757
Total Liabilities	172,957,881	127,246,113
NET ASSETS (Note 6)		
Investment in capital assets, net of related debt	(24,778,344)	(15,421,468)
Restricted for capital projects	50,748,748	32,947,900
Restricted for debt services	19,246,233	22,361,388
Unrestricted	32,030,496	25,115,159
Total Net Assets	\$ 77,247,133	\$ 65,002,979

See notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
GENERAL REVENUE:		
Rental income and tax equivalency payments (net of refunds) (Note 2)	\$ 18,435,965	\$ 18,711,719
Interest income	<u>1,077,534</u>	<u>3,081,299</u>
 Total General Revenue	 <u>19,513,499</u>	 <u>21,793,018</u>
EXPENSES:		
General and administrative expenses	4,627,024	5,635,618
Interest on bonds, net of amounts capitalized (Note 5)	2,497,564	3,594,935
Amortization of bond issuance cost (Note 2)	<u>144,757</u>	<u>177,214</u>
 Total Expenses	 <u>7,269,345</u>	 <u>9,407,767</u>
 Changes in Net Assets	 12,244,154	 12,385,251
 Net Assets - beginning of year	 <u>65,002,979</u>	 <u>52,617,728</u>
 Net Assets - end of year	 <u>\$ 77,247,133</u>	 <u>\$ 65,002,979</u>

See notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
 GOVERNMENTAL FUNDS - BALANCE SHEET
 JUNE 30, 2010

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 26,306,998	\$ 26,306,998
Restricted investments	50,748,748	19,246,233	69,994,981
Other investments	-	7,543,811	7,543,811
Prepaid expenses	-	107,905	107,905
Interest receivable on investments	-	104,047	104,047
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 50,748,748</u>	<u>\$ 53,308,994</u>	<u>\$ 104,057,742</u>
LIABILITIES AND FUND BALANCE			
Accrued expenses and other liabilities	\$ -	\$ 11,871,950	\$ 11,871,950
Deferred rental income	-	3,250,440	3,250,440
	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>-</u>	<u>15,122,390</u>	<u>15,122,390</u>
FUND BALANCE			
Unreserved	-	18,940,371	18,940,371
Restricted for capital projects	50,748,748	-	50,748,748
Restricted for debt service	-	19,246,233	19,246,233
	<hr/>	<hr/>	<hr/>
Total Fund Balance	<u>50,748,748</u>	<u>38,186,604</u>	<u>88,935,352</u>
Total Liabilities and Fund Balance	<u>\$ 50,748,748</u>	<u>\$ 53,308,994</u>	<u>\$ 104,057,742</u>

See notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
 GOVERNMENTAL FUNDS - BALANCE SHEET
 JUNE 30, 2009

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 25,033,686	\$ 25,033,686
Restricted investments	32,947,900	22,361,388	55,309,288
Prepaid expenses	-	248,043	248,043
Interest receivable on investments	-	203,283	203,283
 Total Assets	 \$ 32,947,900	 \$ 47,846,400	 \$ 80,794,300
LIABILITIES AND FUND BALANCE			
Accrued expenses and other liabilities	\$ -	\$ 11,921,311	\$ 11,921,311
Deferred rental income	-	4,974,776	4,974,776
 Total Liabilities	 -	 16,896,087	 16,896,087
FUND BALANCE			
Unreserved	-	8,588,925	8,588,925
Restricted for capital projects	32,947,900	-	32,947,900
Restricted for debt service	-	22,361,388	22,361,388
 Total Fund Balance	 32,947,900	 30,950,313	 63,898,213
 Total Liabilities and Fund Balance	 \$ 32,947,900	 \$ 47,846,400	 \$ 80,794,300

See notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND
RECONCILIATIONS OF THE BALANCE SHEETS OF GOVERNMENTAL FUNDS
TO THE STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

	2010	2009
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Total Fund Balances - Governmental Funds	\$ 88,935,352	\$ 63,898,213
Cost of debt issuance are expenditures in governmental activities However, in the statement of net assets, the cost of debt issuance is reported as capitalized assets and amortized over the lives of the related debt	3,755,287	3,289,880
School property and related costs used in governmental activities are not financial resources and therefore, are not reported in the governmental fund	142,202,736	108,164,912
Bond premiums/discounts are reported as other financing sources in the governmental funds financial statements. However, in the statement of net assets, bond premiums/discounts are reported as a component of bonds payable and amortized over the lives of the related debt	(4,467,854)	(4,630,757)
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	(149,735,000)	(102,060,000)
Accrued interest on revenue bonds	(1,645,851)	(1,151,789)
Interest subsidy receivable	189,249	-
Accrued vacation and sick pay	(187,907)	(164,312)
Accrued post-employment healthcare benefits	(1,333,593)	(1,220,855)
Accrued long-term liabilities	(465,286)	(1,122,313)
Net Assets of Governmental Activities	\$ 77,247,133	\$ 65,002,979

See 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, 2010

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES			
Rental income and tax equivalency payments	\$ -	\$ 18,435,965	\$ 18,435,965
Interest income	<u>142,390</u>	<u>935,144</u>	<u>1,077,534</u>
 Total Revenues	 <u>142,390</u>	 <u>19,371,109</u>	 <u>19,513,499</u>
OTHER FINANCING SOURCES			
Bond proceeds (net of original issue discount)	<u>53,810,000</u>	<u>-</u>	<u>53,810,000</u>
 Total Revenues and Other Financing Sources	 <u>53,952,390</u>	 <u>19,371,109</u>	 <u>73,323,499</u>
EXPENDITURES			
General and administrative	6,754	3,644,164	3,650,918
Capital project expenses	36,144,788	-	36,144,788
Principal amount of bonds retired	-	6,135,000	6,135,000
Interest expense	<u>-</u>	<u>2,355,654</u>	<u>2,355,654</u>
 Total expenditures	 <u>36,151,542</u>	 <u>12,134,818</u>	 <u>48,286,360</u>
 EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	 <u>17,800,848</u>	 <u>7,236,291</u>	 <u>25,037,139</u>
 Fund balances, beginning of year	 <u>32,947,900</u>	 <u>30,950,313</u>	 <u>63,898,213</u>
 Fund balances, end of year	 <u>\$ 50,748,748</u>	 <u>\$ 38,186,604</u>	 <u>\$ 88,935,352</u>

See 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, 2009

	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES			
Rental income and tax equivalency payments	\$ -	\$ 18,711,719	\$ 18,711,719
Interest income	<u>2,004,673</u>	<u>1,076,626</u>	<u>3,081,299</u>
Total revenues	<u>2,004,673</u>	<u>19,788,345</u>	<u>21,793,018</u>
EXPENDITURES			
General and administrative	-	14,967,089	14,967,089
Capital projects expenses	15,282,947	-	15,282,947
Principal amount of bonds retired	-	7,465,000	7,465,000
Interest expense	<u>-</u>	<u>3,880,346</u>	<u>3,880,346</u>
Total expenditures	<u>15,282,947</u>	<u>26,312,435</u>	<u>41,595,382</u>
EXCESS OF EXPENDITURES OVER REVENUES	(13,278,274)	(6,524,090)	(19,802,364)
Fund balances, beginning of year	<u>46,226,174</u>	<u>37,474,403</u>	<u>83,700,577</u>
Fund balances, end of year	<u>\$ 32,947,900</u>	<u>\$ 30,950,313</u>	<u>\$ 63,898,213</u>

See 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, 2010 AND 2009

	2010	2009
Amounts reported for governmental activities in the Statements of Net Assets are difference because:		
Net Changes in Fund Balance - Governmental Funds	\$ 25,037,139	\$ (19,802,364)
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.		
Capital outlays	41,728,863	18,562,498
Depreciation expense	(3,573,642)	(3,473,642)
The issuance of long-term debt (e.g., bonds) provide 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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Issuance of bonds	(53,810,000)	-
Principal payments of bonds	6,135,000	7,465,000
Bond issuance costs	465,407	(177,214)
Amortization of premiums/discounts on bonds	162,903	207,864
Interest subsidy receivable	189,249	-
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.	(4,090,765)	9,603,109
Change in Net Assets of Governmental Activities	\$ 12,244,154	\$ 12,385,251

See notes to financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

1. ORGANIZATION

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

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

Capital Projects Fund: The Capital Project 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 mainly consists of two accounts for each debt issuance (2005A, 2007A and 2010A). 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, 2010 and 2009, the balances in the debt service reserve accounts totaled \$19,246,233 and \$22,361,388, respectively, held in the account to meet the required minimum.

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

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION

The Fund uses the governmental method of accounting which is a preferred method of accounting as described in GASB authoritative guidance on Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING AND PRESENTATION (CONTINUED)

The entity-wide financial statements of the Fund, which include the Statement of Net Assets and the Statement of Activities, are presented to display information about the reporting entity as a whole, in accordance with GASB authoritative guidance on Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. The Statement of Net Assets and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

Governmental fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance are presented using the current financial resources measurement focus and the modified accrual basis of accounting. They recognize revenue when it becomes susceptible to accrual, which is 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 soon enough thereafter to pay liabilities of the current period. Expenditures are recognized when the related liability is incurred.

Reconciliation of Entity-wide and Fund Financial Statements – A summary reconciliation of the difference between the total fund balances as reflected on the New York City Educational Construction Fund Balance Sheet and total net assets for the New York City Educational Construction Fund activities as shown on the Department-wide Statement of Net Assets is presented in an accompanying statement to the New York City Educational Construction Fund Balance Sheet.

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

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 the accrued expenses and other liabilities, depreciable lives of school buildings, amortization of bond issuance costs, other post-employment benefit (OPEB) obligations and contingencies. Actual results could differ from those estimates.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

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.

FINANCIAL INSTRUMENTS

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

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

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investment	\$ 103,845,790	\$ 104,071,494	\$ 80,342,974	\$ 80,701,076
Revenue bonds payable	\$ 154,202,854	\$ 156,584,094	\$ 106,690,757	\$ 101,756,728

RESTRICTED ASSETS

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

SITE EVALUATION AND DEVELOPMENT COSTS

The Fund capitalizes site evaluation and development costs. If the Fund determines a project is not feasible, such costs are charged to operations. If the Fund commences construction, such costs are added to the cost of construction.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SCHOOL PROPERTY AND RELATED COSTS

Buildings are carried at cost. Depreciation expense is calculated using the straight-line method based upon the estimated useful life of the assets, which is approximately 45 years.

BOND ISSUANCE COSTS

Bond issuance costs include underwriters' discounts, insurance and other miscellaneous issuance costs. These costs are being amortized over the life of the bonds using the straight line method.

UNAMORTIZED BOND PREMIUM/DISCOUNT

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

DEFERRED RENTAL INCOME

Deferred rental income consists of advance rental payments for the non-school portion of the projects.

REVENUES AND EXPENSES

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

When an expense is incurred for which there are both restricted and unrestricted net assets available, the Fund's policy is to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits (Note 7), the Fund provides health insurance coverage for retired employees and their spouses. All of the Fund's employees may become eligible for these benefits if they reach normal retirement age while working for the Fund. Health care benefits are provided through an insurance company.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

POST-EMPLOYMENT BENEFITS (CONTINUED)

The Fund elected early implementation of GASB Authoritative Guidance on Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension (OPEB) during the 2006 fiscal year. This Guidance requires the cost of OPEB to be associated with the period in which the exchange occurs, rather than with the period when benefits are paid or provided. See Note 8 for additional information on OPEB.

NEW ACCOUNTING STANDARDS ADOPTED

In fiscal year 2010, the Fund adopted GASB Authoritative Guidance on the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments and on Codification of Accounting and Financial Reporting Guidance.

The Guidance on the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments provides for the codification of all GAAP for state and local governments so that they derive from a single source and consequently, the current GAAP hierarchy as set forth in the American Institute of Certified Public Accountants' literature will then reside in the accounting literature established by GASB. The objective of this Guidance is to identify the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP.

The codification of certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards into the authoritative literature of GASB. This statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards by addressing three issues that establishes accounting principles-related party transactions, going concern considerations, and subsequent events.

The adoption of the above standards did not have an impact on the financial statements of the Fund.

ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET EFFECTIVE

GASB authoritative guidance on *Fund Balance Reporting and Governmental Fund Type Definitions* enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and clarifying existing fund type definitions. The statement is not yet effective for the Fund's financial statements.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 8, 2010, the date the financial statements were available for issuance.

3. SCHOOL BUILDINGS

The City conveyed land to the Fund at no cost for the development of fourteen schools. The land for eleven schools is being used for combined schools and housing units and the land for two schools is being used for combined schools and commercial buildings. One school is still under construction. All of the other schools are completed, in use, and classified as school buildings. Of the fourteen schools, four were financed by the 1972 Series A Revenue Bonds, which have been defeased, eight were financed by the 1989 Series A Revenue Bonds, which were refunded by the 1994 Series Revenue Bonds (1994 Bonds), one was financed by the 2007A Series Revenue Bonds and one was financed by the 2010A Series Revenue Bonds. The 2005A Series Bonds were used to refinance the 1994 and 1996 Series Revenue Bonds.

The school's portion of these locations have been leased by the Fund to The City for a period of 40 or 75 years. The leases expire on various dates between 2012 and 2080. In the event that the Fund's revenues from the non-school portion of the properties are not sufficient to pay the debt service requirements of the 2005A, 2007A and 2010A Series Bonds, then the school portion leases provide for payments from the tenant (The City) sufficient to support payment of an allocable portion of the debt service requirements of the 2005A, 2007A and 2010A Bonds. The Fund has derived sufficient revenue from the non-school portion, combined with investment income, to meet the debt service requirements of the 2005A and 2007A Series Bonds. Accordingly, The City has not been required to make payments under the school portion of the leases.

On January 18, 2007, the Fund issued the 2007A Bond series in the amount of \$51,340,000, to finance the construction of MS 114, located at 1765 1st Avenue, New York. The 2007A Bonds were issued pursuant to the New York City Educational Construction Fund Act (the "Act") and the Resolution 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. \$1,969,000 of interest incurred on these bonds in 2010 has been capitalized and is included in the cost of the building.

On April 28, 2010, the Fund issued the 2010A Bond series in the amount of \$53,810,000, to finance the construction of PS 59 and the High School of Art & Design, located at 250 East 57th Street, New York. The 2010A Bonds were issued pursuant to the Act and the Resolution

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

3. SCHOOL BUILDINGS (CONTINUED)

for the purposes of (i) financing the costs of constructing the school portion of a combined occupancy structure, (ii) funding the Debt Service Reserve Fund, and (iii) paying the Costs of Issuance of the 2010A Bonds, all as described herein. \$289,000 of interest incurred on these bonds in 2010 has been capitalized and is included in the cost of the building.

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.

In July 2009 the Fund re-conveyed the land and improvements relating to the school property located at 115 East 87th Street to The City. The re-conveyed property had a carrying value of approximately \$1.0 million and \$1.1 million at June 30, 2010 and 2009, respectively.

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, 2009</u>	<u>Additions</u>	<u>Transfers</u>	<u>June 30, 2010</u>
School buildings	\$ 162,535,191	\$ 17,962,185	\$ 34,163,432	\$ 214,660,808
Construction in progress	34,163,432	23,766,678	(34,163,432)	23,766,678
Less: Accumulated depreciation	<u>102,911,596</u>	<u>3,573,642</u>	<u>-</u>	<u>106,485,238</u>
Net capital assets:				
School buildings	\$ <u>93,787,027</u>	\$ <u>38,155,221</u>	\$ <u>-</u>	\$ <u>131,942,248</u>
<u>Description</u>	<u>June 30, 2008</u>	<u>Additions</u>	<u>Transfers</u>	<u>June 30, 2009</u>
School buildings	\$ 162,535,191	\$ -	\$ -	\$ 162,535,191
Construction in progress	15,600,934	18,562,498	-	34,163,432
Less: Accumulated depreciation	<u>99,437,954</u>	<u>3,473,642</u>	<u>-</u>	<u>102,911,596</u>
Net capital assets:				
School buildings	\$ <u>78,698,171</u>	\$ <u>15,088,856</u>	\$ <u>-</u>	\$ <u>93,787,027</u>

Depreciation expense for the years ended June 30, 2010 and 2009 was \$3,573,642 and \$3,473,642, respectively.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

4. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Education Law requires the Fund to invest any moneys held in any Funds or accounts not required for immediate use or disbursement, at the discretion of the Fund, in obligations of the City, 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; and temporarily to deposit or invest moneys not required for immediate use or disbursement in interest bearing time deposits or certificates of deposit issued by a bank or trust company.

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, 2010 and 2009, uninsured bank balances of \$25,670,278 and \$24,715,788 respectively, were collateralized with securities held by the bank in the Fund's name.

The Fund's total cash, cash equivalents and investments were \$103,845,790 (\$33,850,809 unrestricted and \$77,538,792 restricted, of which \$16,462,985 is for the construction of MS 114 and \$34,285,763 is for the construction of PS 59) and \$80,342,974 (\$25,033,686 unrestricted and \$55,309,288 restricted, of which \$32,947,900 is for the construction of MS 114) at June 30, 2010 and 2009, respectively.

Investments consist primarily of U.S. treasury bills and repurchase agreements. Repurchase agreements are collateralized by United States Government securities held by the bank's trust departments in the Fund's name.

Interest rates on investments ranged from 0.05%-6.3% for the years ended June 30, 2010 and June 30, 2009.

<u>Depository Account</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Insured	\$ 15,720	\$ 54,815
Collateralized:		
Bank of NY/Chase Investment Surplus	31,412,654	20,782,038
Bank of NY/Chase Debt Service 2005	1,373,253	7,553,772
Bank of NY/Chase Debt Service Resv. 2005	5,381,730	5,060,355
Bank of NY 2007A Debt Service	3,885,483	3,996,447
Bank of NY/Chase Debt Service Resv. 2010	1,785,465	-
Bank of NY Operating Account	79,162	-
Bank of NY 2007A Debt Service Reserve	6,820,302	5,751,012
Chase Investment Administrative	2,301,403	2,223,941
Bank of NY/Chase Construction Acc. 2005	3,018,626	3,016,350
Cost of Issuance 2007A	-	431

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

4. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

<u>Depository Account</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Bank of NY Construction Acc. 2007	13,444,359	29,931,550
Bank of NY Construction Acc. 2010	34,285,763	-
Bank of NY Cost of Issuance	41,870	-
Bank of NY – Cash Surplus	-	1,972,263
Total Deposits	<u>\$ 103,845,790</u>	<u>\$ 80,342,974</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. As of June 30, 2010, none of the Fund's bank balance of \$103,845,790 was exposed to custodial credit risk.

Interest Rate Risk - In accordance with its investment policy, the Fund manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than seven months.

5. REVENUE BONDS

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

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

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

5. REVENUE BONDS (CONTINUED)

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

On April 28, 2010, the Fund issued the 2010A Bond series in the amount of \$53,810,000, to finance phase 1 of the construction of PS 59 located at 250 East 57th Street, New York. The 2010A Bonds were issued pursuant to the Act and the Resolution, pursuant to the Fund's Revenue Bond resolution adopted by the Fund on February 26, 2010, for the purposes of (i) financing the costs of constructing the school portion of a combined occupancy structure, (ii) funding the Debt Service Reserve Fund, and (iii) paying the Costs of Issuance of the 2010A Bonds, all as described herein. The bonds were issued as "Build America Bonds" and the Fund elected to receive cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the bonds.

An additional offering will be made under the February 26, 2010 resolution to finance phase 2 of the PS 59 construction for an estimated \$120 million by the end of calendar year 2010.

The following is a summary of changes in serial bonds payable and term bonds payable for the years ended June 30, 2009 and 2010:

	<u>Balance June 30, 2009</u>	<u>Bonds Issued</u>	<u>Principal Payments</u>	<u>Balance June 30, 2010</u>
Revenue Bonds 2005A issued January 6, 2005 (2.25% to 4.375%) maturity date 2026. Payments due April and October	\$ 50,965,000	\$ -	\$ 5,880,000	\$ 45,085,000
Revenue Bonds 2007A issued January 18, 2007 (3.75% to 5%) maturity dates 2009 to 2037 Payments due April and October	51,095,000	-	255,000	50,840,000

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

5. REVENUE BONDS (CONTINUED)

	<u>Balance June 30, 2009</u>	<u>Bonds Issued</u>	<u>Principal Payments</u>	<u>Balance June 30, 2010</u>
Revenue Bonds 2010A issued April 28, 2010 (4.50% to 6.20%) maturity dates 2017 to 2040 Payments due April and October	-	53,810,000	-	53,810,000
Total	102,060,000	\$ 53,810,000	\$ 6,135,000	149,735,000
Less/Add: Unamortized bond Discount/premium	4,630,757			4,467,854
Current portion	<u>(6,135,000)</u>			<u>(6,075,000)</u>
Long-term portion	\$ <u>100,555,757</u>			\$ <u>148,127,854</u>
	<u>Balance June 30, 2008</u>	<u>Bonds Issued</u>	<u>Principal Payments</u>	<u>Balance June 30, 2009</u>
Revenue Bonds 2005A issued January 6, 2005 (2.25% to 4.375%) maturity date 2026. Payments due April and October	\$ 58,185,000	\$ -	\$ 7,220,000	\$ 50,965,000
Revenue Bonds 2007A issued January 18, 2007 (3.75% to 5%) maturity dates 2009 to 2037 Payments due April and October	<u>51,340,000</u>	<u>-</u>	<u>245,000</u>	<u>51,095,000</u>
Total	109,525,000	\$ <u>-</u>	\$ <u>7,465,000</u>	<u>102,060,000</u>
Less/Add: Unamortized bond discount/premium	4,838,621			4,630,757
Current portion	<u>(7,465,000)</u>			<u>(6,135,000)</u>
	<u>\$106,898,621</u>			\$ <u>100,555,757</u>

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

5. REVENUE BONDS (CONTINUED)

Debt service requirements on bond indebtedness at June 30, 2010 was as follows:

Fiscal Years	2005A Bonds			2007A Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 5,810,000	\$ 1,886,807	\$ 7,696,807	\$ 265,000	\$ 2,533,750	\$ 2,798,750
2012	6,475,000	1,705,245	8,180,245	275,000	2,523,150	2,798,150
2013	6,105,000	1,381,495	7,486,495	285,000	2,512,150	2,797,150
2014	1,590,000	1,149,085	2,739,085	300,000	2,500,750	2,800,750
2015	1,650,000	1,093,435	2,743,435	315,000	2,485,750	2,800,750
2016-2020	9,380,000	4,311,700	13,691,700	1,820,000	12,176,750	13,996,750
2021-2025	11,585,000	2,135,994	13,720,994	7,685,000	11,414,750	19,099,750
2026-2030	2,490,000	108,938	2,598,938	13,845,000	8,656,750	22,501,750
2031-2035	-	-	-	17,680,000	4,830,750	22,510,750
2036-2037	-	-	-	8,370,000	632,750	9,002,750
Total	\$ <u>45,085,000</u>	\$ <u>13,772,699</u>	\$ <u>58,857,699</u>	\$ <u>50,840,000</u>	\$ <u>50,267,300</u>	\$ <u>101,107,300</u>

	2010A Bonds		
	Principal	Interest	Total
2011	\$ -	\$ 2,858,053	\$ 2,858,053
2012	-	3,089,788	3,089,788
2013	-	3,089,788	3,089,788
2014	-	3,089,788	3,089,788
2015	-	3,089,788	3,089,788
2016-2020	6,015,000	15,041,370	21,056,370
2021-2025	8,740,000	13,150,339	21,890,339
2026-2030	10,540,000	10,596,279	21,136,279
2031-2035	12,845,000	7,230,700	20,075,700
2036-2040	15,670,000	2,992,120	18,662,120
Total	\$ <u>53,810,000</u>	\$ <u>64,228,013</u>	\$ <u>118,038,013</u>

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTE TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

6. NET ASSETS

The Fund's net assets are categorized as follows:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

Invested in capital assets, net of related debt includes capital assets net of accumulated depreciation and liabilities for related revenue bonds.

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

Unrestricted net assets include all net assets not classified as either invested in capital assets, net of related debt or restricted net assets.

Other restricted net asset amounts are calculated as follows:

	<u>2010</u>	<u>2009</u>
Invested in Capital Assets, Net of Related Debt:		
School property, net	\$ 131,942,248	93,787,027
Less: Revenue bonds payable, net	(154,202,854)	(106,690,757)
Accrued expenses for capital items	<u>(2,517,738)</u>	<u>(2,517,738)</u>
Invested in capital assets, net of related debt	\$ <u>(24,778,344)</u>	\$ <u>(15,421,468)</u>
Restricted for Debt Service:		
Restricted assets	\$ 77,538,792	55,309,288
Less: MS 114/PS 59 construction funds	(50,748,748)	(32,947,900)
Debt service reserve requirements	<u>(14,068,183)</u>	<u>(10,978,395)</u>
Available for debt service	\$ <u>12,721,861</u>	\$ <u>11,382,993</u>

7. PENSION PLANS

PLAN DESCRIPTION

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

The obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTE TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

7. RETIREMENT SYSTEM (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

trustee and administrative head of the ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of their funds.

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

FUNDING POLICY

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

The Fund is required to contribute at an actuarially determined rate. The actual contributions were equal to the actuarially required amounts. The required contributions to the ERS for the current year and two preceding years ended 2010, 2009 and 2008 were \$31,829, \$ 40,066 and \$19,630, respectively.

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

PLAN DESCRIPTION

The Fund's defined benefit post-employment healthcare plan (the "Plan") which is provided under the New York State Health Insurance Program (the "NYSHIP"), provides medical and dental insurance benefits to eligible employees, retirees and their dependents. NYSHIP is an agent multiple-employer healthcare plan administered by the Department of Civil Service of the State of New York. The Fund has the authority to establish and amend benefit provisions of the Plan. NYSHIP issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to The Department of Civil Service, The State Campus, Albany, NY 12239.

FUNDING POLICY

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

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTE TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

FUNDING POLICY (CONTINUED)

At this time, there is no New York State statute providing local governments with the requisite authority for establishing another post-employment benefits trust; therefore, the benefits are funded on a pay-as-you-go ("PAYG") basis until a funding mechanism is authorized for government entities by New York State Statute. The Annual Required Contribution ("ARC") represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Annual OPEB Cost: For the year ended June 30, 2010, the Fund's Annual OPEB cost (expense) was \$156,176 and the Fund made \$43,438 in PAYG employer contributions. The Fund's Annual OPEB Cost, the percentage of Annual OPEB Cost contributed to the Plan, and the Net OPEB Obligation for 2010, 2009 and 2008 were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$ 156,176	28%	\$ 1,333,593
6/30/09	\$ 57,166	66%	\$ 1,220,855
6/30/08	\$ 66,593	45%	\$ 1,201,354

Components of Annual OPEB Cost:

Annual Required Contribution	\$ 1,377,031
Interest on Net OPEB Obligation	48,834
ARC Adjustment	<u>(1,269,689)</u>
Annual OPEB Cost	\$ <u>156,176</u>

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

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTE TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

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

FUNDING POLICY (CONTINUED)

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

In the June 30, 2009 actuarial valuation, the Frozen Entry Age Actuarial Cost Method was used. The method was unchanged from prior years. The actuarial assumptions included a 4.0 percent investment rate of return and an annual healthcare cost trend rate of 9.5 percent initially for medical benefits not coordinated with Medicare and for prescription drugs, 8.0 percent for Medicare Part B premiums and 5.0 percent for medical benefits coordinating with Medicare, respectively, reduced by decrements to an ultimate rate of 5 percent after ten years for both medical and prescription drugs. All rates include a 3 percent inflation assumption. The Fund's Unfunded Actuarial Accrued Liability at June 30, 2009 was amortized over an open one year period. The actuarial valuation assumed that no assets will be set aside by the Fund to prefund its retiree medical liabilities.

Required Supplementary Information
Schedule of Funding Progress for the Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL-Frozen Entry Age (b))	Unfunded AAL (UAAL) (b - a)
6/30/09	\$ -	\$ 1,306,382	\$ 1,306,382
6/30/08	\$ -	\$ 1,199,232	\$ 1,199,232
6/30/07	\$ -	\$ 1,174,692	\$ 1,174,692

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) / c
0%	\$ 337,908	386.6%
0%	\$ 332,908	360.2%
0%	\$ 158,408	741.6%

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTE TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

9. COMMITMENTS AND CONTINGENCIES

TAX EQUIVALENCY ADJUSTMENTS

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

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

RENT

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

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 defense counsel retained by the Fund. 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 materially have an adverse affect on the Fund's operations or financial condition.

The Fund has brought an action against a party that purchased property from the Fund. The claim alleges that the purchaser violated agreements it had with the Fund relating to subsequent construction. In response to the action the other party is seeking unspecified damages against the Fund. Management, based on the advice of counsel, believes that it is unlikely that the Fund has potential liability in relation to this matter.

Battery Park City

Certain contractors, who provided construction services for P.S./I.S. 89, have filed claims for amounts in excess of contract amounts. The claims have been filed with Battery Park City Authority, the owner of the site. The Fund has not been invited to participate in defense of the claims. In the opinion of management, based on the advice of counsel, the Fund's liability will not exceed the amount the Fund has accrued and set aside for this claim.

NEW YORK CITY EDUCATIONAL CONSTRUCTION FUND

NOTE TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

LITIGATION (CONTINUED)

Crane Accident

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

The litigation is still in an early stage and it is not feasible, at this time, to predict the magnitude of the Fund's exposure. It is not evident that any claim against the Fund will be viable, except for strict liability claims under the labor law. In addition to tendering claims to its insurer, the Fund has also tendered the claims to the insurance companies whose policies were procured by the Developer and the Construction Manager for the project.

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

10. ARBITRAGE REBATE PROGRAM

In accordance with the Internal Revenue Code of 1986, as amended, the Fund is required to pay the United States Treasury certain amounts related to the Fund's tax-exempt bond issues. The estimated amount of non-purpose arbitrage payable represents the excess of amounts earned on "taxable" investments over the interest cost of the tax-exempt borrowing, plus income attributable to the excess. Rebate payments are due 60 days after January 6, 2015 for the Series 2005A Bonds, 60 days after January 8, 2012 for the Series 2007A Bonds and 60 days after April 28, 2015 for the Series 2010A. At June 30, 2010, the estimated liability for non-purpose interest arbitrage rebate was \$0, \$465,286 and \$0 for the Series 2005A, 2007A and 2010A Bonds, respectively. The liabilities were \$1,101,505 and \$1,122,313 for the Series 2005 and 2007A Bonds, respectively, at June 30, 2009.



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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 the accompanying financial statements of the New York City Educational Construction Fund (the "Fund") as of and for the year ended June 30, 2010, and have issued our report thereon dated October 8, 2010. We conducted our audit in accordance with 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. As described in the notes to the financial statements, the financial statements of the Fund are intended to present the financial position and changes in financial position, where applicable, of only that portion of the governmental activities information of the City of New York (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, 2010, and the changes in its financial position, where applicable, for the year ended in conformity with accounting principles generally accepted in the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Board of Trustees, The City of New York Audit Committee, management of the Fund, and The City of New York and is not intended to be and should not be used by anyone other than these specified parties.

Israeloff, Trattner & Co. P.C.

Garden City, New York
October 8, 2010