

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Notes to the Financial Statements
Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of North Tonawanda City School District, New York (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The District reports no business-type activities or component units.

Reporting Entity

The District is governed by the Education Law and other laws of the State of New York. The governing body is the Board of Education. The scope of activities included within the accompanying financial statements are those transactions which comprise District operations, and are governed by, or significantly influenced by, the Board of Education.

Essentially, the primary function of the District is to provide education for pupils. Support services such as transportation of pupils, food service, administration, finance, and plant maintenance are also included.

The financial reporting entity includes all funds, functions and organizations over which the District officials exercise oversight responsibility. Oversight responsibility is determined on the basis of financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Extraclassroom Activity Funds—The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District’s business office. The District accounts for assets held as an agent for various student organizations in an agency fund.

Joint Venture—The District is one of 13 participating school districts in the Orleans-Niagara Board of Cooperative Education Services (“BOCES”). Formed under Section 1950 of Education Law, a BOCES is a voluntary cooperative association of school districts in a geographic area that shares

planning, services, and programs, and also provides educational and support activities. There is no authority or process by which the District can terminate its status as a component of BOCES. All BOCES property is held by the BOCES Board as a corporation under Section 1950(6) of Education Law.

The component school district boards elect the members of the BOCES governing body. There are no equity interests and no single participant controls the financial or operating policies. In addition, BOCES Boards are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section 119-n(a) of General Municipal Law.

The BOCES budget is comprised of separate spending plans for administrative, program, and capital costs. Each component school district shares in administrative and capital costs determined by its enrollment. Participating districts are charged a service fee for programs in which students participate, and for other shared contracted administrative services. Participating districts may also issue debt on behalf of BOCES. As of June 30, 2017, there was no debt issued by the District on behalf of BOCES.

During the year ended June 30, 2017, the District was billed \$10,657,906 for BOCES administrative and program costs and recognized \$2,108,041 in revenue as a refund from prior years' expenditures paid to BOCES. Audited financial statements are available from the Orleans-Niagara BOCES' administrative offices.

Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments and charges between the District's various functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The District does not report any nonmajor funds.

The District reports the following major governmental funds:

- *General Fund*—The General Fund constitutes the primary operating fund of the District and includes all operations not required to be recorded in other funds. The principal source of revenue for the General Fund is real property taxes and state sources.
- *Special Aid Fund*—The Special Aid Fund is used to account for special operating projects or programs supported in whole, or in part, with federal and state grants.

- *School Lunch Fund*—The School Lunch Fund is used to account for transactions of the District’s food service operations.
- *Capital Projects Fund*—The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.

Additionally, the District reports the following fund type:

Fiduciary Funds—These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations and/or other governmental units. Trust funds account for resources received and disbursements made in accordance with trust agreements or applicable legislative enactments for each particular fund. Fiduciary Funds include a *Private Purpose Trust Fund* and an *Agency Fund*.

- *Private Purpose Trust Fund*—The Private Purpose Trust Fund is used to account for assets held by the District for scholarships.
- *Agency Fund*—The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, various student groups and clubs and/or other governmental units. Included within the Agency Fund are the extraclassroom activity funds of the District, which represents funds of the students of the District. The Board of Education exercises general oversight of these funds.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are generally considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers most revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, non-property taxes, charges for services provided, and state and federal aid associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met and the amount is received during the period or within the period of availability (within 60 days of year-end). Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements are met and amount is received during the period of availability (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the District.

The Private Purpose Trust Fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The Agency Fund has no measurement focus, but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash, Cash Equivalents and Investments—The District’s cash and cash equivalents consist of cash on hand, demand deposits, time deposits and short-term, highly liquid investments with original maturities of three months or less from the date of acquisition. New York State law governs the District’s investment policies. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. The District had no investments at June 30, 2017; however, it is the District’s policy to report investments at fair value when applicable.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represents amounts to support fund balances restrictions, unspent proceeds of debt, unearned revenue and Agency Fund liabilities.

Receivables—Receivables are shown net of an allowance for uncollectible accounts, when applicable. No allowance or uncollectible accounts has been provided since it is believed that such allowance would not be material.

Prepaid Items—Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than purchased.

Cash Value of Life Insurance—An asset representing a life insurance contract is measured at the amount that could be realized under the insurance contract as of the date of the financial statements, which is the amount reported by the insurance entity as the cash surrender value. In the governmental funds, a corresponding amount of fund balance is recorded as nonspendable to indicate the funds are

not available expendable resources. The District reported \$198,672 within cash value of life insurance as of June 30, 2017.

Inventories—Inventories of food and/or supplies in the School Lunch Fund are recorded at cost on a first-in, first-out basis or, in the case of surplus food, at stated value which approximates market. Purchases of inventory items in other funds are recorded as expenditures at the time of purchase, and year-end balances are not maintained.

Capital Assets—Capital assets, which include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than an established threshold (\$5,000) for the type of asset and an estimated useful life in excess of one year.

Such assets are recorded at historical cost or estimated historical cost. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at estimated fair market value of the item at the date of its donation. Major outlays for capital assets and improvements are capitalized as projects are completed.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	Capitalization Threshold	Estimated Useful Life (Years)
Buildings	\$5,000	50
Land improvements	5,000	20
Furniture, equipment and vehicles	5,000	8-20

The *capital outlays* character classification is employed only for expenditures reported in the Capital Projects Fund. Routine capital expenditures in the General Fund and other governmental funds are included in the appropriate functional category (for example, the purchase of a new school bus included as part of *expenditures—pupil transportation*). The amount reported as *capital outlays* in the Capital Projects Fund will also include non-capitalized, project-related costs (for example, furnishings).

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2017, the District has two items that qualify for reporting in this category. The first item is related to pensions reported in the government-wide financial statements. This represents the effect of the net change in the District’s proportion of the collective net pension liability, and the difference during the measurement period between the District’s contributions, its proportionate share of the total contribution to the pension systems not included in the pension expense, and any contributions to the pension systems made subsequent to the measurement date. The second item is related to OPEB reported in the government-wide financial statements and represents the effects of the change in the District’s proportion of the collective net OPEB liability and difference during the measurement period between certain of the employer’s

contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At June 30, 2017, the District reports two deferred inflows of resources on the government-wide financial statements related to pensions and OPEB, respectively. This first item represents the effect of the net change in the District's proportion of the collective net pension liability and the difference during the measurement periods between the District's contributions, and its proportionate share of total contributions to the pension systems not included in pension expense. The second item represents the effects of the change in the District's proportion of the collective net OPEB liability and difference during the measurement period between certain of the employer's contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability. Additionally, the governmental fund financial statements report unavailable revenue for taxes that the District does not expect to receive within 60 days of year-end.

Net Position Flow Assumptions—Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Balance Flow Assumptions—Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies—Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as committed. The Board of Education has by resolution authorized both the business official and the Superintendent to assign fund balance. The Board may also assign fund balance, as it does when appropriating fund balance to cover a gap

between estimated revenues and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenses/Expenditures

Program Revenues—Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes—Real taxes are levied annually by the Board of Education no later than September 1 and become a lien on September 1 each year. Taxes are collected during the period of September 1 to October 31 each year. The City of North Tonawanda, New York (the "City"), in which the District is located, enforces uncollected real property taxes. An amount representing all uncollected real property taxes must be transmitted by the City to the District within two years from the return of unpaid taxes to the City. Real property taxes receivable expected to be collected within 60 days of year-end, less similar amounts collected during this period in the preceding year, are recognized as revenue. Otherwise, deferred inflows of resources offset real property taxes receivable within the fund financial statements.

Unearned Revenue—Certain revenues have not met the revenue recognition criteria for government-wide or fund financial purposes. At June 30, 2017, the District reported \$70,653, \$21,398 and \$8,414 of unearned revenues in the General Fund, Special Aid Fund and School Lunch Fund, respectively. The District received tuition payments and monies for the purchase of school lunches in advance but has not performed the services and therefore recognizes a liability.

Compensated Absences—The District labor agreements and District rules and regulations provide for sick leave, vacations, and other miscellaneous paid absences. Upon retirement, certain eligible employees qualify for paid hospitalization insurance premiums and/or payment for fractional values of unused sick leave. These payments are budgeted annually without accrual.

Pensions—The District is mandated by New York State law to participate in the New York State Teachers' Retirement System ("TRS") and the New York State Local Employees' Retirement System ("ERS"). 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 defined benefit pension plans, and changes thereof, have been determined on the same basis as they are reported by the respective defined benefit pension plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value. More information regarding pensions is included in Note 7.

Other Postemployment Benefits—In addition to providing pension benefits, the District provides health insurance coverage for certain retired employees, as disclosed in Note 8.

Other

Estimates—The preparation of the 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 revenues, expenditures, assets, liabilities, deferred outflows/inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements during the reported period. Actual results could differ from those estimates.

Adoption of New Accounting Pronouncements—During the year ended June 30, 2017, the District implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*; No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; No. 77, *Tax Abatement Disclosures*; No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Plans*; and No. 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*. GASB Statement No. 73 establishes a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. GASB Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) for making decisions and accessing accountability. GASB Statement No. 75 improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). GASB Statement No. 77 requires the disclosure of information about the nature and magnitude of tax abatements and will make these transactions more transparent to financial statement users. GASB Statement No. 78 addresses a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 80 improves financial reporting by clarifying the financial statement presentation requirements for certain component units. Other than the matter discussed in Note 2, GASB Statements No. 73, 74, 75, 77, 78 and 80 did not have a material impact on the District's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The District has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 81, *Irrevocable Split-Interest Agreements*; No. 82, *Pension Issues; an Amendment of GASB Statements No. 67, No. 68, and No. 73*; No. 85, *Omnibus 2017*; and No. 86, *Certain Debt Extinguishment Issues*, effective for the fiscal year ending June 30, 2018; No. 83, *Certain Asset Retirement Obligations*, effective for the fiscal year ending June 30, 2019; No. 84, *Fiduciary Activities*, effective for the fiscal year ending June 30, 2020 and No. 87, *Leases*, effective for the fiscal year ending June 30, 2021. The District is, therefore, unable to disclose the impact that adopting GASB Statements No. 81, 82, 83, 84, 85, 86 and 87 will have on its financial position and results of operations when such statements are adopted.

2. RESTATEMENT OF NET POSITION

The District early implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the fiscal year ended June 30, 2017. The implementation of GASB Statement No. 75 requires the District's net OPEB liability to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. As a result, the OPEB liability was restated from \$1,369,636 to \$14,506,843 at June 30, 2016. Net position of governmental activities at June 30, 2016 has been restated.

The District's net position as of June 30, 2016 has been restated as follows:

Net position—June 30, 2016, as previously stated	\$ 52,952,111
GASB Statement No. 75 implementation:	
OPEB liability	<u>(13,137,207)</u>
Net position—June 30, 2016, as restated	<u>\$ 39,814,904</u>

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The District's investment policies are governed by State statutes. District monies must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The District's Treasurer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposits, time deposits and certificates of deposit at 100 percent of all deposits not covered by Federal deposit insurance. The District has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York. Cash and cash equivalents reported by the District at June 30, 2017 are as follows:

	Governmental Funds	Fiduciary Funds	Total
Petty cash (uncollateralized)	\$ 100	\$ -	\$ 100
Deposits	<u>32,217,050</u>	<u>572,224</u>	<u>32,789,274</u>
Total	<u>\$ 32,217,150</u>	<u>\$ 572,224</u>	<u>\$ 32,789,374</u>

Deposits—All deposits are carried at fair value, and are classified by custodial credit risk at June 30, 2017 as follows:

	Bank Balance	Carrying Amount
FDIC insured	\$ 779,476	\$ 779,476
Uninsured:		
Collateral held by pledging bank's agent in the District's name	<u>32,009,798</u>	<u>33,971,605</u>
Total	<u>\$ 32,789,274</u>	<u>\$ 34,751,081</u>

Custodial Credit Risk—Deposits—Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. At June 30, 2017, the District's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agent in the District's name.

Restricted Cash and Cash Equivalents—The District reports proceeds of debt, amounts to support restricted fund balances and unearned revenues as restricted cash and cash equivalents. At June 30, 2017, the District reported \$22,668,523 of restricted cash within its governmental funds and \$572,224 in its fiduciary funds.

Investments—The District had no investments at June 30, 2017.

Interest Rate Risk—In accordance with its investment policy, the District manages exposures by limiting investments to low risk type investments governed by New York State statutes.

4. RECEIVABLES

Major revenues accrued by the District at June 30, 2017 consisted of the following:

Receivables—Primarily represents out-of-District tuition receivable, commissions, other reimbursements and amounts due from BOCES. The District reported \$338,149 of those receivables in the General Fund at June 30, 2017. In addition to this, the District also recorded amounts for taxes receivable; representing amounts due from District taxpayers that remain unpaid. The District reported \$598,492 of taxes receivable in the General Fund at June 30, 2017.

Intergovernmental Receivables—Represent amounts due from other units of government, such as Federal, New York State and other local governments. Intergovernmental receivables at June 30, 2017 are as follows:

General Fund:			
New York State - Medicaid	\$	35,985	
New York State - BOCES Aid		1,129,022	
New York State - Excess Cost Aid		<u>1,086,735</u>	\$ 2,251,742
Special Aid Fund:			
Federal - Title I	\$	488,733	
Federal - IDEA Part B, Section 619		52,763	
Federal - IDEA Part B, Section 611		780,449	
Federal - Title IIA		114,490	
Federal - Fit for Life		98,060	
New York State		<u>308,153</u>	1,842,648
School Lunch Fund:			
New York State - Breakfast and Lunch Program			<u>51,142</u>
Total governmental funds			<u>\$ 4,145,532</u>

5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2017 was as follows:

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
Capital assets, not being depreciated:				
Land	\$ 246,107	\$ -	\$ -	\$ 246,107
Construction in progress	<u>1,283,164</u>	<u>3,085,137</u>	<u>-</u>	<u>4,368,301</u>
Total capital assets, not being depreciated	<u>1,529,271</u>	<u>3,085,137</u>	<u>-</u>	<u>4,614,408</u>
Capital assets, being depreciated:				
Buildings	103,769,825	-	-	103,769,825
Land improvements	3,862,768	-	-	3,862,768
Furniture and equipment	3,049,753	192,324	-	3,242,077
Vehicles	<u>1,251,283</u>	<u>-</u>	<u>-</u>	<u>1,251,283</u>
Total capital assets, being depreciated	<u>111,933,629</u>	<u>192,324</u>	<u>-</u>	<u>112,125,953</u>
Less accumulated depreciation for:				
Buildings	45,464,772	2,694,815	-	48,159,587
Land improvements	3,449,844	51,105	-	3,500,949
Furniture and equipment	2,254,642	139,151	-	2,393,793
Vehicles	<u>1,058,600</u>	<u>75,096</u>	<u>-</u>	<u>1,133,696</u>
Total accumulated depreciation	<u>52,227,858</u>	<u>2,960,167</u>	<u>-</u>	<u>55,188,025</u>
Total capital assets, being depreciated, net	<u>59,705,771</u>	<u>(2,767,843)</u>	<u>-</u>	<u>56,937,928</u>
Governmental activities capital assets, net	<u>\$ 61,235,042</u>	<u>\$ 317,294</u>	<u>\$ -</u>	<u>\$ 61,552,336</u>

Depreciation expense was charged to the functions and programs of governmental activities as follows:

Governmental activities:	
General support	\$ 288,428
Instruction	2,547,788
Pupil transportation	109,781
School lunch	<u>14,170</u>
Total	<u>\$ 2,960,167</u>

6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at June 30, 2017, were as follows:

	General Fund	Special Aid Fund	Total Governmental Funds
Salary and employee benefits	\$ 306,251	\$ 1,487	\$ 307,738
Workers' compensation	502,000	-	502,000
Out-of-district tuition	21,047	-	21,047
Other	19,710	-	19,710
Total accrued liabilities	<u>\$ 849,008</u>	<u>\$ 1,487</u>	<u>\$ 850,495</u>

7. PENSION OBLIGATIONS

The District participates in the New York State Teachers' Retirement and the New York State and Local Employees' Retirement System (the "Systems"). These cost-sharing multiple-employer public employee retirement systems compute contribution requirements based on the New York State Retirement and Social Security Law ("NYSRSSL").

Plan Descriptions and Benefits Provided

Teachers' Retirement System ("TRS")—TRS provides retirement benefits as well as, death and disability benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. TRS is governed by a 10 member Board of Trustees. TRS benefits are established under New York State Law. Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in TRS. Once a public employer elects to participate in TRS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding TRS, may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395 or by referring to the NYSTRS Comprehensive Annual Financial report which can be found on TRS's website at www.nystrs.org.

Employees' Retirement System ("ERS")—ERS provides retirement benefits as well as death and disability benefits. The net position of ERS is held in the New York State Common Retirement Fund (the "Fund"), which was established to hold all net assets and record changes in plan net position allocated to ERS. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of ERS. ERS benefits are established under the provisions of the New York State Retirement and Social Security Law ("RSSL"). Once a public employer elects to participate in ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan ("GLIP"), which provides death benefits in the form of life insurance. ERS is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute three percent (3%) of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3.0 to 3.5 percent of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education law. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—At June 30, 2017, the District reported the following liability for its proportionate share of the net pension liability for each of the Systems. The net pension liability was measured as of June 30, 2016 for TRS and March 31, 2017 for ERS. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of June 30, 2015 and April 1, 2016, respectively, with update procedures used to roll forward the total pension liability to the measurement dates. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS and ERS Systems in reports provided to the District.

	<u>TRS</u>	<u>ERS</u>
Measurement date	June 30, 2016	March 31, 2017
Net pension liability	\$ 1,838,260	\$ 1,528,439
District's portion of the Plan's total net pension liability	0.171633%	0.0162665%

For the year ended June 30, 2017, the District recognized pension expenses of \$2,999,414 and \$947,550 for TRS and ERS, respectively. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the sources below:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>
Differences between expected and actual experiences	\$ -	\$ 38,301	\$ 597,170	\$ 232,102
Changes in assumptions	10,471,900	522,171	-	-
Net difference between projected and actual earnings on pension plan investments	4,133,375	305,291	261,942	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	12,114	221,803	-	21,509
District contributions subsequent to the measurement date	<u>3,014,165</u>	<u>237,530</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 17,631,554</u>	<u>\$ 1,325,096</u>	<u>\$ 859,112</u>	<u>\$ 253,611</u>

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as seen on the following page.

Year Ending June 30,	TRS	ERS
2018	\$ 1,238,009	\$ 361,328
2019	1,238,009	361,328
2020	4,448,103	301,641
2021	3,449,349	(190,342)
2022	1,560,024	-
Thereafter	1,824,783	-

Actuarial Assumptions—The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

	TRS	ERS
Measurement date	June 30, 2016	March 31, 2017
Actuarial valuation date	June 30, 2015	April 1, 2016
Interest rate	7.50%	7.00%
Salary scale	1.90%-4.72%	3.80%
Decrement tables	July 1, 2009 - June 30, 2014	April 1, 2010 - March 31, 2015
Inflation rates	2.5%	2.5%

For TRS, annuitant mortality rates are based on July 1, 2009 – June 30, 2014 System experience with adjustments for mortality improvements based on Society of Actuaries Scale MP2014, applied on a generational basis. For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on Society of Actuaries’ Scale MP-2014.

For TRS, the actuarial assumptions used in the June 30, 2015 valuation are based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014. For ERS, the actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015.

The long-term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized on the following page.

Measurement date	Target Allocation		Long-Term Expected Real Rate of Return	
	TRS	ERS	TRS	ERS
			June 30, 2016	March 31, 2017
Asset class:				
Domestic equities	37.0 %	36.0 %	6.1 %	4.6 %
International equities	18.0	14.0	7.3	6.3
Private equity	7.0	10.0	9.2	7.8
Real estate	10.0	10.0	5.4	5.8
Absolute return strategies	20.0	2.0	1.9	4.0
Opportunistic portfolio	0.0	3.0	0.0	5.9
Real assets	0.0	3.0	0.0	5.5
Bonds and mortgages	8.0	17.0	3.1	1.3
Cash	0.0	1.0	0.0	(0.3)
Inflation-indexed bonds	0.0	4.0	0.0	1.5
Total	<u>100 %</u>	<u>100 %</u>		

Discount Rate—The discount rate used to calculate the total pension liability was 7.5% for TRS and 7.0% for ERS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart below presents the District's proportionate share of the net pension liability/(asset) calculated using the discount rate of 7.5% for TRS and 7.0% for ERS, as well as what the District's proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage-point lower (6.5% for TRS and 6.0% for ERS) or one percentage-point higher (8.5% for TRS and 8.0% for ERS) than the current assumption.

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
TRS			
Employer's proportionate share of the net pension liability/(asset)	\$ 23,984,281	\$ 1,838,260	\$ (16,736,662)
	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
ERS			
Employer's proportionate share of the net pension liability/(asset)	\$ 4,881,531	\$ 1,528,439	\$ (1,306,594)

Pension Plan Fiduciary Net Position—The components of the current-year net pension liability of the employers as of the respective valuation dates, were as follows:

	(Dollars in Thousands)		
	TRS	ERS	Total
Valuation date	June 30, 2015	April 1, 2016	
Employers' total pension liability	\$ 108,577,184	\$ 177,400,586	\$ 285,977,770
Plan fiduciary net position	<u>107,506,142</u>	<u>168,004,363</u>	<u>275,510,505</u>
Employers' net pension liability	<u>\$ 1,071,042</u>	<u>\$ 9,396,223</u>	<u>\$ 10,467,265</u>
System fiduciary net position as a percentage of total pension liability	99.0%	94.7%	96.3%

Payables to the Pension Plan—For TRS, employer and employee contributions for the fiscal year ended June 30, 2017 are paid to the System in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017 represent employee and employer contributions for the fiscal year ended June 30, 2017 based on paid TRS wages multiplied by the employer’s contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2017 amounted to \$3,123,945.

For ERS, employer contributions are paid annually based on the System’s fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS wages multiplied by the employer’s contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$237,530.

8. OTHER POSTEMPLOYMENT BENEFITS (“OPEB”) OBLIGATION

Plan Description—In addition to pension benefits, the District pays for a portion of eligible retirees’ health insurance, depending on the type of health plan provided in accordance with the provisions of various employment contracts. The benefit level, employee contributions and employer contributions are governed by the District’s contractual agreements.

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

Inactive employees or beneficiaries currently receiving benefit payments	231
Active employees	<u>367</u>
Total	<u><u>598</u></u>

Under GASB Statement No. 75, the total OPEB liability represents the sum of expected future benefit payments which may be attributed to past service (or “earned”), discounted to the end of the fiscal year using the current discount rate. The total OPEB liability is analogous to the Unfunded Actuarial Accrued Liability (“AAL”) under GASB Statement No. 45.

Total OPEB Liability

The District’s total OPEB liability of \$16,119,422 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Methods and Assumptions—Calculations are based on the types of benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) at the time of the valuation and on the pattern of cost sharing between the employee and plan members. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility.

In the June 20, 2017 actuarial valuation, the entry age normal method, over a level percent of pay was used. The single discount rate changed from 4.00% to 3.35% effective July 1, 2016, and 3.80% effective June 30, 2017. The salary scale changed from 3.00% to 3.31%. The 2015 New York State Teachers' Retirement System rates were used for mortality rates and retirement rates. In order to estimate the change in the cost of healthcare, the actuaries initial healthcare cost trend rate used is 5.3%, while the ultimate healthcare cost trend rate is 4.17%. Mortality rates were updated to rates based on the 2015 NYSTRS mortality rates.

The actuarial assumptions used in the June 20, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 thru June 30, 2017.

Changes in the Total OPEB Liability—The following table presents the changes to the total OPEB liability during the fiscal year, by source:

	<u>Total OPEB Liability</u>
Balances at June 30, 2016, as restated:	<u>\$ 14,506,843</u>
Changes for the year:	
Service cost	212,285
Interest	463,814
Changes of assumptions	2,362,942
Differences between expected and actual experience	(552,534)
Benefit payments	<u>(873,928)</u>
Net changes	<u>1,612,579</u>
Balances at June 30, 2017	<u>\$ 16,119,422</u>

Sensitivity of the Total OPEB Liability to the Change in the Discount Rate and Healthcare Cost Trend Rate—The discount rate assumption can have an impact on the net OPEB liability. The following table presents the effect of a 1% change in the discount rate assumption would have on the net OPEB liability:

	1% Decrease (2.80%)	Current Discount Rate (3.80%)	1% Increase (4.80%)
Net OPEB liability	\$ 17,722,675	\$ 16,119,422	\$ 14,745,952

Additionally, healthcare costs can be subject to considerable volatility over time. The following table presents the effect on the net OPEB liability of a 1% change in the initial (5.3%) and ultimate (4.17%) healthcare cost trend rates.

	1% Decrease (4.3% / 3.17%)	Healthcare Cost Trend Rates (5.3% / 4.17%)	1% Increase (6.3% / 5.17%)
Net OPEB liability	\$ 14,440,998	\$ 16,119,422	\$ 18,150,148

Funding Policy—Authorization for the District to pay a portion of retiree health insurance premiums was enacted through various union contracts, which were ratified by the District’s Board of Education. The District recognizes the cost of providing these benefits by expensing the annual insurance premiums when invoiced by the health insurance provider. District governmental funds contributed \$873,928 for the fiscal year ended June 30, 2017. While for the year ended June 30, 2017, the District’s governmental activities recognized OPEB expense of \$877,255.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB—The District reports deferred outflows of resources and deferred inflows of resources due to differences during the measurement period between certain of the employer’s contributions and its proportionate share of the total of certain contributions from employers included in the collective net OPEB liability are required to be determined. The following table presents the District’s deferred outflows and inflows of resources at June 30, 2017.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,100,393	\$ -
Changes of assumptions	-	(491,141)
Total	<u>\$ 2,100,393</u>	<u>\$ (491,141)</u>

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

<u>Year Ending June 30,</u>	
2018	\$ 201,156
2019	201,156
2020	201,156
2021	201,156
2022	201,156
Thereafter	603,472

9. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, vehicle liability, injuries to employees, health insurance, unemployment insurance, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The District purchases insurance for: general liability, property, crime, earthquake and flood. The general liability insurance is limited to \$1 million per occurrence and a \$3 million aggregate. The District also carries an umbrella policy with a \$15,000,000 coverage limit per occurrence. There have not been any significant changes in any type of insurance coverage from the prior year, nor have there been any settlements which have exceeded insurance coverage in the past three fiscal years. At June 30, 2017, \$212,156 of the General Fund's fund balance was restricted for workers' compensation for purposes of funding the District's future claim liabilities. At June 30, 2017, management believes that there are no material outstanding liabilities for workers' compensation.

Medical Self-Insurance—During the year ended June 30, 2017, the District participated in a Administrative Services Agreement with Independent Health. As part of the agreement, Independent Health prepares forms, provides access to Independent Health's Networks Providers and processes claims for a fee per covered person per month. The responsibility of insuring claims however, lies with the District.

In order to insure against larger than expected health care losses associated with the self-insurance plan, the District has entered into a Stop Loss Agreement negotiated through Independent Health. This agreement includes a "specific deductible" for each covered person of \$150,000 per year. This will cover the individual up to an unlimited lifetime maximum specific benefit. Above this dollar amount the District will not be liable for the claim. In return, the District pays premiums to Independent Health for the stop loss insurance. The plans coverage extends to both medical and prescription claims.

10. LONG-TERM LIABILITIES

Long-term debt and other long-term obligations are reported as noncurrent liabilities in the government-wide financial statements.

In the fund financial statements, governmental funds recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Further, the unmatured principal of general long-term debt does not require current appropriation and expenditure of governmental fund financial resources.

The District's outstanding long-term liabilities include serial bonds, capital leases, compensated absences, net pension liability and other postemployment benefits obligation. The serial bonds of the District are secured by its general credit and revenue raising powers, as per State statute.

A summary of changes in the District’s long-term liabilities at June 30, 2017 follows:

	Balance 7/1/2016 (as restated)	Additions	Reductions	Balance 6/30/2017	Due Within One Year
Serial bonds	\$ 28,220,000	\$ 17,688,626	\$ 2,890,000	\$ 43,018,626	\$ 2,585,000
Premiums on serial bonds	3,800,045	-	448,486	3,351,559	419,310
Bonds payable	32,020,045	17,688,626	3,338,486	46,370,185	3,004,310
Capital leases	726,862	-	196,707	530,155	205,293
Compensated absences	3,899,813	79,557	156,958	3,822,412	744,652
Net pension liability*	2,710,543	656,156	-	3,366,699	-
OPEB obligation	14,506,843	3,039,041	1,426,462	16,119,422	-
Total	<u>\$ 53,864,106</u>	<u>\$ 21,463,380</u>	<u>\$ 5,118,613</u>	<u>\$ 70,208,873</u>	<u>\$ 3,954,255</u>

(*additions to the net pension liability are shown net of reductions)

Serial Bonds—The District issues general obligation bonds to provide funds for the acquisition, construction and renovation of major capital facilities. Serial bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 15 years.

On December 13, 2016, the District issued \$17,688,626 of general obligation qualified zone academy bonds (“QZAB” bonds) to permanently finance certain capital projects. Principal payments begin on September 16, 2018 and mature on September 16, 2031. Principal is paid annually, no interest is required; these payments are recorded in the General Fund.

A summary of additions and payments for the year ended June 30, 2017 is presented below:

Description	Original Issue	Interest Rate (%)	Year of Issue/Maturity	Balance 7/1/2016	Additions	Payments	Balance 6/30/2017
DASNY refunding	\$ 3,725,000	2.95%	2012 - 2017	\$ 780,000	\$ -	\$ 780,000	\$ -
2015 serial bonds	9,160,000	4.00%	2015 - 2025	8,375,000	-	875,000	7,500,000
2016 serial bonds	19,065,000	2.00-5.00%	2016 - 2026	19,065,000	-	1,235,000	17,830,000
2017 QZAB bonds	17,688,626	n/a	2017 - 2032	-	17,688,626	-	17,688,626
				<u>\$ 28,220,000</u>	<u>\$ 17,688,626</u>	<u>\$ 2,890,000</u>	<u>\$ 43,018,626</u>

Amortization of Bond Premium—On September 26, 2012, the District issued serial bonds totaling \$3,725,000 and received a bond premium of \$233,405. The premium is being amortized on a straight-line basis over the life of the bonds, which mature on June 1, 2017. On September 17, 2014, the District issued serial bonds totaling \$9,160,000 and received a bond premium of \$1,077,532. The premium is being amortized on a straight-line basis over the life of the bonds, which mature on September 15, 2024. On September 16, 2015, the District issued serial bonds totaling \$19,065,000 and received a bond premium of \$3,115,573. The premiums are being amortized on a straight-line basis over the life of the bonds, which mature on September 1, 2025. The total unamortized premiums as of June 30, 2017 totaled \$3,351,559.

Capital Leases—The District has entered into lease agreements as lessee for the financing of energy performance improvements and co-generation. These lease agreements qualify as capital leases for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017, are as follows:

Year Ending June 30,	Governmental Activities
2018	\$ 224,786
2019	224,786
2020	<u>112,393</u>
Total minimum lease payment	561,965
Less: amounts representing imputed interest costs	<u>(31,810)</u>
Present value of minimum lease payments	<u>\$ 530,155</u>

Compensated Absences—As described in Note 1, the District records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at June 30, 2017, for governmental activities is \$3,822,412. Management estimates that \$744,652 is due within one year.

Net Pension Liability—The District reported a liability, \$3,366,699, for its proportionate share of the net pension liability for the Teachers’ Retirement System and the Employees’ Retirement System. Refer to Note 7 for additional information related to the District’s net pension liability.

OPEB Obligation—As explained in Note 8, the District provides health insurance coverage for certain retirees. The District’s annual postemployment benefit (“OPEB”) cost is measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees’ past periods of service (total OPEB liability), less the amount of the OPEB plan’s fiduciary net position. The estimated long-term OPEB obligation is estimated to be \$16,119,422 at June 30, 2017.

The following is a maturity schedule of the District’s indebtedness:

Year Ending June 30,	Serial Bonds	Premiums on Serial Bonds	Capital Leases	Compensated Absences	Net Pension Liability	OPEB Obligation	Total
2018	\$ 2,585,000	\$ 419,310	\$ 205,293	\$ 744,652	\$ -	\$ -	\$ 3,954,255
2019	3,878,626	419,310	214,254	-	-	-	4,512,190
2020	3,980,000	419,310	110,608	-	-	-	4,509,918
2021	4,135,000	419,310	-	-	-	-	4,554,310
2022	4,275,000	419,310	-	-	-	-	4,694,310
2023-2027	17,560,000	1,255,009	-	-	-	-	18,815,009
2028-thereafter	<u>6,605,000</u>	<u>-</u>	<u>-</u>	<u>3,077,760</u>	<u>3,366,699</u>	<u>16,119,422</u>	<u>29,168,881</u>
Total	<u>\$ 43,018,626</u>	<u>\$ 3,351,559</u>	<u>\$ 530,155</u>	<u>\$ 3,822,412</u>	<u>\$ 3,366,699</u>	<u>\$ 16,119,422</u>	<u>\$ 70,208,873</u>

Interest requirements on serial bonds payable are as follows:

Year Ending	
June 30,	Interest
2018	\$ 1,087,775
2019	990,700
2020	876,225
2021	751,600
2022	615,875
2023-2027	<u>961,800</u>
Total	<u>\$ 5,283,975</u>

11. NET POSITION AND FUND BALANCE

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- ***Net Investment in Capital Assets***—This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- ***Restricted Net Position***—This category represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ***Unrestricted Net Position***—This category represents net position of the District not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the District at June 30, 2017 includes:

- ***Prepaid Items***—Represents expenditures for services that will benefit future periods. This balance is nonspendable as prepaids do not represent an available resource. The balance at June 30, 2017 was \$3,000.
- ***Life Insurance***—Represents cash value of life insurance. This balance is nonspendable as the cash does not represent an available resource. The balance at June 30, 2017 was \$198,672.
- ***Inventories***—Representing the portion of fund balance, \$12,861, composed of inventory. This balance is nonspendable as the inventory does not represent an available resource.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as grants, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation. Restricted fund balance maintained by the District at June 30, 2017 includes:

	General Fund	Capital Projects Fund	Total
Debt Service	\$ 3,111,350	\$ -	\$ 3,111,350
Workers' compensation	212,156	-	212,156
Unemployment insurance	156,386	-	156,386
Retirement contribution	421,160	-	421,160
Liability and casualty	1,163,887	-	1,163,887
Employee benefit accrued liabilities	104,336	-	104,336
Capital projects	-	16,690,916	-
Total	<u><u>\$ 5,169,275</u></u>	<u><u>\$ 16,690,916</u></u>	<u><u>\$ 21,860,191</u></u>

- **Debt Service**—According to General Municipal Law Section 6-l, the mandatory reserve for debt service must be established for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property and unspent debt proceeds and premiums.
- **Workers' Compensation**—According to General Municipal Law Section 6-j, this restriction must be used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of the fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget.
- **Unemployment Insurance**—According to General Municipal Law Section 6-m, this restriction must be used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The restriction may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund.
- **Retirement Contribution**—According to General Municipal Law Section 6-r, this restriction must be used to pay "retirement contributions," which are defined as all or any portion of the amount payable to the ERS, pursuant to Sections 17 or 317 of the NYSSRL. The restriction may be established by Board resolution; there are no referendum requirements to create the funds or expend money from the funds. The Board may authorize the transfer of the moneys to a reserve fund established pursuant to Sections 6c-g of the GML or Section 3651 of Education Law.

- **Liability and Casualty**—According to Education Law Sections 1709[8-c] and 1950[4][cc], this restriction must be used to establish and maintain a program of reserves to cover property loss or liability claims. The creation of a property loss reserve requires resolution of the governing board; there are no referendum requirements to create the funds or expend money from the funds.
- **Employee Benefit Accrued Liabilities**—According to General Municipal Law Section 6-p, this restriction must be used for the payment of accrued employee benefit due an employee upon termination of the employee’s service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated.
- **Capital Projects**—According to Education Law Section 3651, this restriction must be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of the reserve, the ultimate amount, its probable term and the source of the funds. Expenditure may be made from the restriction only for a specific purpose further authorized by the voters. The form for the required legal notice for the vote on establishing and funding the reserve and the form of the proposition to be placed on the ballot are set forth in Section 3651 of the Education Law.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the District’s highest level of decision-making authority. As of June 30, 2017, the District has no committed fund balance.

In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the District at June 30, 2017 and include:

	General Fund	School Lunch Fund	Total
Subsequent year's expenditures	\$ 5,107,385	\$ -	\$ 5,107,385
Encumbrances	240,728	99,330	340,058
Retirement	1,333,200	-	-
Specific use	-	335,361	335,361
Total	<u>\$ 6,681,313</u>	<u>\$ 434,691</u>	<u>\$ 5,782,804</u>

- **Assigned to Subsequent Year’s Expenditures**—Represents available fund balance being appropriated to meet expenditure requirements in the 2017-2018 fiscal year.
- **Assigned to Encumbrances**—Represents amounts related to unperformed (executory) contracts for goods and services.
- **Assigned to Retirement Incentive**—Represents amounts related to Board approved retirement incentive for the 2017-2018 fiscal year.
- **Assigned to Specific Use**—Represents fund balance within the special revenue fund that is assigned for a specific purpose. The assignments’ purpose relates to each fund’s operations and represent remaining amounts within funds that are not committed or restricted.

If the District must use funds for emergency expenditures the Board of Education shall authorize the Assistant Superintendent of Administrative Services to expend funds first from fund classified under GASB as nonspendable (if funds become available) then restricted funds. The use of committed and assigned funds as classified by GASB will occur after the exhaustion of available restricted funds. Finally, if no other fund balances are available, the District will use unassigned fund balance.

12. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short-term in nature and exist because of temporary advances or payments made on behalf of other funds. The composition of interfund balances as of June 30, 2017 is as follows:

	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
Governmental Funds:		
General Fund	\$ 1,708,064	\$ -
Special Aid Fund	-	1,989,800
School Lunch Fund	322,390	64,200
Capital Projects Fund	<u>16,448</u>	<u>-</u>
Total Governmental Funds	2,046,902	2,054,000
Fiduciary Funds:		
Agency Fund	<u>7,098</u>	<u>-</u>
Total	<u>\$ 2,054,000</u>	<u>\$ 2,054,000</u>

The outstanding balances between funds result from payments made on behalf of other funds or temporary advances. All of these balances are expected to be collected/paid within the subsequent year.

The District made the following transfers during the year ended June 30, 2017:

	<u>Transfers In:</u>			
	<u>General Fund</u>	<u>Special Aid Fund</u>	<u>School Lunch Fund</u>	<u>Total</u>
Transfers out:				
General Fund	\$ -	\$ 2,479	\$ 159,857	\$ 162,336
Special Aid Fund	54,200	-	-	54,200
School Lunch Fund	<u>471</u>	<u>-</u>	<u>-</u>	<u>471</u>
Total	<u>\$ 54,671</u>	<u>\$ 2,479</u>	<u>\$ 159,857</u>	<u>\$ 217,007</u>

Transfers are used primarily to finance certain special aid and school lunch programs.

13. AGENCY FUNDS

The Agency Fund exists for temporary deposit funds. The following is a summary of changes in assets and liabilities for the fiscal year ended June 30, 2017:

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017
ASSETS				
Restricted cash and cash equivalents	\$ 418,209	\$ 35,358,713	\$ 35,281,354	\$ 495,568
Due from other funds	-	35,128,231	35,121,133	7,098
Total assets	<u>\$ 418,209</u>	<u>\$ 70,486,944</u>	<u>\$ 70,402,487</u>	<u>\$ 502,666</u>
LIABILITIES				
Other agency liabilities	\$ 359,770	\$ 1,911,867	\$ 1,849,076	\$ 422,561
Due to other funds	142	-	142	-
Extraclassroom activity funds	58,297	226,112	204,304	80,105
Total liabilities	<u>\$ 418,209</u>	<u>\$ 2,137,979</u>	<u>\$ 2,053,522</u>	<u>\$ 502,666</u>

14. LABOR CONTRACTS

District employees are represented by six bargaining units, with the balance of employees governed by Board of Education rules and regulations. The North Tonawanda Substitutes Teachers Association and the CSEA Custodial and Maintenance Unit #7686 – Local 872 are negotiated through June 30, 2018; the CSEA School Bus Drivers, Substitute School Bus Drivers, and School Bus Attendants – Local 872 and the North Tonawanda United Teachers are negotiated through June 30, 2019; and the North Tonawanda School Administrators Association is negotiated through June 30, 2020. The CSEA Clerical, Nursing and Teacher Aide Unit #7686 – Local 872 expired as of June 30, 2016 and is currently in negotiations.

15. COMMITMENTS

Encumbrances—Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expended in the next year) are re-appropriated and become part of the subsequent year’s budget pursuant to state regulations. The District considers encumbrances significant if they are in excess of \$10,000. As of June 30, 2017, the significant encumbrances of the District’s General Fund are shown below:

Purpose	Amount Encumbered
Equipment	\$ 71,015
Professional development	65,091
Building condition survey	39,566
Professional services	16,975

16. TAX ABATEMENTS

The District is subject to tax abatements granted by the City of North Tonawanda (“CNT”) and the Niagara County Industrial Development Agency (“NCIDA”). These programs have the stated purpose of increasing business activity and employment in the region. Economic development agreements are entered into by the CNT and NCIDA and include the abatement of state, county, local and school district taxes, in addition to other assistance. In the case of the District, the abatements have resulted in reductions of property taxes, which the District administers as a temporary reduction in the assessed value of the property involved. The abatement agreements stipulate a percentage reduction of property taxes, which can be as much as 100 percent. Under the agreements entered into by the CNT and the NCIDA, the District collected \$324,341 during the 2016-2017 fiscal year in payments in lieu of taxes (“PILOT”), these collections were made in lieu of \$564,289 in property taxes.

17. CONTINGENCIES

Litigation—Various legal actions are pending against the District. The outcome of these matters is not presently determinable, but in the opinion of management, the ultimate liability will not have a material adverse effect on the financial condition or results of operation of the District.

Grants—In the normal course of operations, the District receives grant funds from various Federal and State agencies. These grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed expenditures resulting from such audits could become a liability of the governmental funds. While the amount of expenditures, if any, which may be disallowed cannot be determined at this time, management expects any amounts to be immaterial.

Other—The District is involved in litigation in the ordinary course of its operations. The District believes that its ultimate liability, if any, in connection with these matters will not have a material effect on the District’s financial condition or results of operations.

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 13, 2017, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

* * * * *

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

REQUIRED SUPPLEMENTARY INFORMATION

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of the District's Proportionate Share of the
Net Pension Liability (Asset)—Teachers' Retirement System
Last Four Fiscal Years*

	Year Ended June 30,			
	2017	2016	2015	2014
Measurement date	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
District's proportion of the net pension liability (asset)	0.171633%	0.167170%	0.167281%	0.169281%
District's proportionate share of the net pension liability (asset)	<u>\$ 1,838,260</u>	<u>\$ (17,363,609)</u>	<u>\$ (18,634,064)</u>	<u>\$ (1,114,299)</u>
District's covered-employee payroll	\$ 26,931,069	\$ 25,477,447	\$ 24,710,014	\$ 24,796,031
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	6.8%	(68.2%)	(75.4%)	(4.5%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	99.0%	110.5%	111.5%	100.7%

*Information prior to the year ended June 30, 2014 is not available.

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of the District's Contributions—
Teachers' Retirement System
Last Four Fiscal Years*

	Year Ended June 30,			
	2017	2016	2015	2014
Contractually required contribution	\$ 3,511,869	\$ 4,401,987	\$ 4,015,377	\$ 3,025,099
Contribution in relation to the contractually required contribution	<u>(3,511,869)</u>	<u>(4,401,987)</u>	<u>(4,015,377)</u>	<u>(3,025,099)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	26,193,144	\$ 26,931,069	\$ 25,477,447	\$ 24,710,014
Contributions as a percentage of covered-employee payroll	13.4%	16.3%	15.8%	12.2%

*Information prior to the year ended June 30, 2014 is not available.

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of the District's Proportionate Share of the
Net Pension Liability—Employees' Retirement System
Last Four Fiscal Years*

	Year Ended June 30,			
	2017	2016	2015	2014
Measurement date	March 31, 2017	March 31, 2016	March 31, 2015	March 31, 2014
District's proportion of the net pension liability	0.0162665%	0.0168878%	0.0169674%	0.0169674%
District's proportionate share of the net pension liability	<u>\$ 1,528,439</u>	<u>\$ 2,710,543</u>	<u>\$ 573,201</u>	<u>\$ 766,734</u>
District's covered-employee payroll	\$ 5,475,661	\$ 4,841,399	\$ 5,065,175	\$ 5,087,885
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	27.91%	55.99%	11.32%	15.07%
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%	97.2%

*Information prior to the year ended June 30, 2014 is not available.

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of the District's Contributions—
Employees' Retirement System
Last Four Fiscal Years*

	Year Ended June 30,			
	2017	2016	2015	2014
Contractually required contribution	\$ 742,180	\$ 866,199	\$ 987,331	\$ 1,165,954
Contribution in relation to the contractually required contribution	<u>(742,180)</u>	<u>(866,199)</u>	<u>(987,331)</u>	<u>(1,165,954)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 5,344,668	\$ 5,040,800	\$ 5,005,282	\$ 5,124,516
Contributions as a percentage of covered-employee payroll	13.9%	17.2%	19.7%	22.8%

*Information prior to the year ended June 30, 2014 is not available.

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Changes in the District's Total OPEB Liability and Related Ratios
Year Ended June 30, 2017*

Total OPEB Liability	
Service cost	\$ 212,285
Interest	463,814
Differences between expected and actual experience	(552,534)
Changes of assumptions	2,362,942
Benefit payments	<u>(873,928)</u>
Net changes in total OPEB liability	<u>1,612,579</u>
Total OPEB liability—beginning, as restated	<u>14,506,843</u>
Total OPEB liability—ending	<u>\$ 16,119,422</u>
Covered-employee payroll	\$ 3,670,000
District's net OPEB liability as a percentage of covered-employee payroll	439.2%

*Information prior to the year ended June 30, 2017 is not available.

The notes to the required supplementary information are an integral part of this schedule.

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balance—
Budget (Non-GAAP Basis) and Actual—General Fund
Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources:				
Real property taxes and other tax items	\$ 27,950,053	\$ 27,950,053	\$ 28,121,872	\$ 171,819
Charges for services	162,420	162,420	177,965	15,545
Use of money and property	510,974	510,974	540,985	30,011
Sale of property and compensation for loss	2,636	2,636	20,113	17,477
Miscellaneous	516,412	516,412	1,083,363	566,951
State sources:				
Basic formula	22,154,516	22,154,516	21,819,852	(334,664)
Excess cost	7,244,898	7,244,898	7,001,929	(242,969)
Lottery	4,783,526	4,783,526	4,787,656	4,130
VLT lottery	1,429,968	1,429,968	1,430,302	334
BOCES	1,780,035	1,780,035	2,108,041	328,006
Tuition for students with disabilities	-	-	201,832	201,832
Textbooks	228,049	228,049	230,787	2,738
Computer software	124,353	124,353	124,751	398
Library loan program	23,425	23,425	22,605	(820)
State aid - rail infrastructure	-	-	9,582	9,582
State medicaid assistance	-	-	268,789	268,789
Federal sources:				
Medicaid assistance	<u>330,000</u>	<u>330,000</u>	<u>302,727</u>	<u>(27,273)</u>
Total revenues	<u>67,241,265</u>	<u>67,241,265</u>	<u>68,253,151</u>	<u>1,011,886</u>
OTHER FINANCING SOURCES				
Transfers in	<u>316,400</u>	<u>316,400</u>	<u>54,671</u>	<u>(261,729)</u>
Total other financing sources	<u>316,400</u>	<u>316,400</u>	<u>54,671</u>	<u>(261,729)</u>
Total revenues and other financing sources	<u>\$ 67,557,665</u>	<u>\$ 67,557,665</u>	<u>\$ 68,307,822</u>	<u>\$ 750,157</u>

(continued)

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balance—
Budget (Non-GAAP Basis) and Actual—General Fund
Year Ended June 30, 2017

(concluded)

	Budgeted Amounts		Actual Amounts	Encumbrances	Variance with Final Budget
	Original	Final			
EXPENDITURES					
General support:					
Board of Education	\$ 72,430	\$ 87,662	\$ 84,428	\$ -	\$ 3,234
Central administration	241,930	247,000	243,705	-	3,295
Finance	400,595	437,619	368,857	18,662	50,100
Staff	477,984	523,914	323,081	-	200,833
Central services	6,425,638	6,347,556	4,605,342	87,265	1,654,949
Special items	831,855	822,120	672,023	-	150,097
Instruction:					
Instruction, administration and improvement	1,797,611	1,774,393	1,677,100	-	97,293
Teaching—regular school Programs for children with handicapping conditions	18,982,648	19,363,194	18,687,256	126,266	549,672
Occupational education	12,152,971	13,218,297	13,152,881	-	65,416
Teaching—special schools	1,559,753	1,613,547	1,613,547	-	-
Instructional media	62,729	17,144	17,093	-	51
Pupil services	1,094,624	1,499,176	1,428,621	473	70,082
Pupil transportation	2,900,382	2,954,011	2,776,765	6,712	170,534
Employee benefits	2,469,719	2,737,097	2,288,715	1,350	447,032
Debt service	18,033,824	15,848,968	13,811,571	-	2,037,397
	<u>4,695,009</u>	<u>4,695,010</u>	<u>4,695,009</u>	<u>-</u>	<u>1</u>
Total expenditures/encumbrances	72,199,702	72,186,708	66,445,994	240,728	5,499,986
OTHER FINANCING USES					
Transfers out	<u>250,000</u>	<u>262,994</u>	<u>162,336</u>	<u>-</u>	<u>100,658</u>
Total expenditures/encumbrances and other financing uses	<u>72,449,702</u>	<u>72,449,702</u>	<u>66,608,330</u>	<u>240,728</u>	<u>5,600,644</u>
Net change in fund balance*	(4,892,037)	(4,892,037)	1,699,492		
Fund balance—beginning	<u>12,782,300</u>	<u>12,782,300</u>	<u>12,782,300</u>		
Fund balance—ending	<u>\$ 7,890,263</u>	<u>\$ 7,890,263</u>	<u>\$ 14,481,792</u>		

*The net change in fund balance was included as an appropriation (i.e., spenddown) of fund balance and re-appropriation or prior year encumbrances.

The notes to the required supplementary information are an integral part of this schedule.

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Notes to the Required Supplementary Information
Year Ended June 30, 2017

1. OPEB LIABILITY

Changes of Assumptions—Changes of assumptions reflect the effects of changes in the long-term bond rate, the mortality rate, and the healthcare cost trend rate. The long-term bond rate is based on the Fidelity Municipal Go AA 20-Year Bond rate as of the measurement date, which increased from 3.35% to 3.80% at June 30, 2017. Mortality rates were updated to rates based on the 2015 NYSTRS mortality rates. Finally, the healthcare cost trend rate increased from 5.2% at June 30, 2016 to 5.3% at June 30, 2017.

2. BUDGETARY INFORMATION

Budgetary Basis of Accounting—An annual budget is adopted on a basis consistent with generally accepted accounting principles in the United States of America for the General Fund. The Capital Projects Fund is appropriated on a project-length basis. No formal annual budget is adopted for the Special Aid Fund or School Lunch Fund. Appropriation limits, where applicable, for the Special Aid Fund are maintained based on individual grants and donations accepted by the Board of Education. The periods of such grants may vary from the District's fiscal year. A budget is maintained for the School Lunch Fund as a management tool for internal control purposes.

The appropriated budget is prepared by fund, function, and department. The District's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the departmental level.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expended in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

SUPPLEMENTARY INFORMATION

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Change from Adopted Budget to Final Budget
And the Real Property Tax Limit—General Fund
Year Ended June 30, 2017

Changes from Adopted Budget to Final Budget

Adopted budget, 2016-2017	\$ 72,315,050
Add: Prior year's encumbrances	<u>134,652</u>
Original budget	72,449,702
Budget revisions	<u>-</u>
Final budget, 2016-2017	<u>\$ 72,449,702</u>

Section 1318 of Real Property Tax Law Limit Calculation

2017-18 voter-approved expenditure budget	\$ <u>73,491,613</u>
Maximum allowed (4% of 2017-2018 budget)	<u>\$ 2,939,665</u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law*:	
Unrestricted fund balance:	
Assigned fund balance	\$ 6,681,313
Unassigned fund balance	<u>2,429,532</u>
Total unrestricted fund balance	9,110,845
Less:	
Appropriated fund balance	\$ 5,107,385
Encumbrances included in assigned fund balance	<u>240,728</u>
Total adjustments	<u>5,348,113</u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law	<u>\$ 3,762,732</u>
Actual percentage	5.12%

* Per Office of the State Comptroller's "Fund Balance Reporting and Governmental Fund Type Definitions", updated April 2011 (originally issued November 2010), the portion of General Fund fund balance subject to Section 1318 of the Real Property Tax Law is: unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Capital Project Expenditures
Year Ended June 30, 2017

Project Title	S.E.D. Project No.	Original Approp- riation	Revised Approp- riation	Expenditures to Date			Unexpended Balance
				Prior Years	Current Year	Total	
Unallocated Series 2016 serial bond	N/A	\$ 3,861,210	\$ 3,861,210	\$ 1,283,164	\$ 1,282,663	\$ 2,565,827	\$ 1,295,383
Spruce School	011-010	459,375	459,375	-	2,589	2,589	456,786
Ohio School	014-012	553,171	553,171	-	-	-	553,171
Meadow Complex	015-016	30,325,493	30,325,493	-	1,280,398	1,280,398	29,045,095
Concession Stand	024-001	4,080,985	4,080,985	-	402,037	402,037	3,678,948
Press Box	025-001	514,458	514,458	-	-	-	514,458
NT Former Middle School (4-6)	016-015	55,308	55,308		117,450	117,450	(62,142)
Totals		<u>\$ 39,850,000</u>	<u>\$ 39,850,000</u>	<u>\$ 1,283,164</u>	<u>\$ 3,085,137</u>	<u>\$ 4,368,301</u>	<u>\$ 35,481,699</u>

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Net Investment in Capital Assets
Year Ended June 30, 2017

Capital assets, net of accumulated depreciation	\$ 61,552,336
Add: Unspent debt proceeds	16,690,916
Deduct:	
Serial bonds	\$ (43,018,626)
Premiums on serial bonds	(3,351,559)
Capital leases	<u>(530,155)</u> <u>(46,900,340)</u>
Net investment in capital assets	<u>\$ 31,342,912</u>

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

FEDERAL AWARDS INFORMATION

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor Program or Cluster Title (1a)	Federal CFDA Number (1b)	Pass-Through Entity's Identifying Number (1c)	Passed- Through to Subrecipients	Federal Expenditures (1d)
U.S. DEPARTMENT OF AGRICULTURE:				
<i>Passed through New York State Department of Agriculture:</i>				
Child Nutrition Cluster:				
National School Breakfast Program	10.553	n/a	\$ -	\$ 179,199
National School Lunch Program	10.555	n/a	-	763,137
Total Child Nutrition Cluster			-	942,336
TOTAL U.S. DEPARTMENT OF AGRICULTURE			-	942,336
U.S. DEPARTMENT OF EDUCATION:				
<i>Passed through New York State Department of Education:</i>				
Special Education Cluster:				
Special Education - Grants to States	84.027	0032-17-0611	-	987,388
Special Education - Preschool Grants	84.173	0033-17-0611	-	64,264
Total Special Education Cluster			-	1,051,652
Title I Grants to Local Educational Agencies Cluster				
Title I Grants to Local Educational Agencies	84.010	0021-16-1970	-	18,548
Title I Grants to Local Educational Agencies	84.010	0021-17-1970	-	620,198
Title I Grants to Local Educational Agencies	84.010	0011-17-2552	-	6,151
Total Title I Grants to Local Educational Agencies			-	644,897
Fund for the Improvement of Education	84.215	S215E150186	-	349,751
Improving Teacher Quality - State Grants	84.367	0147-16-1970	-	3,091
Improving Teacher Quality - State Grants	84.367	0147-17-1970	-	144,126
Total Improving Teacher Quality - State Grants			-	147,217
TOTAL U.S. DEPARTMENT OF EDUCATION			-	2,193,517
TOTAL FEDERAL FINANCIAL ASSISTANCE (1e)			\$ -	\$ 3,135,853

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the North Tonawanda City School District, New York (the "District") under programs of federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District. The following notes were identified on the Schedule:

- (a) Includes all federal award programs of the North Tonawanda City School District, New York.
- (b) Source: Catalog of Federal Domestic Assistance.
- (c) Pass-through entity identifying numbers are presented where available.
- (d) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.
- (e) Total federal expenditures for the District's 2016-2017 fiscal year is reconciled to Federal sources as reported in the basic financial statements as follows:

Balance per schedule of expenditures of federal awards	\$ 3,135,853
Medicaid reimbursement	<u>302,727</u>
Total Federal sources per financial statements	<u>\$ 3,438,580</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. NON-MONETARY FEDERAL PROGRAM

The District is the recipient of a federal award program that does not result in cash receipts or disbursements termed a "non-monetary program." During the year ended June 30, 2017, the District used \$125,180 worth of commodities.

**** THIS PAGE INTENTIONALLY LEFT BLANK ****

Certified Public Accountants

**INDEPENDENT AUDITORS' 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**

The Board of Education
North Tonawanda City School District, 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, each major fund, and the aggregate remaining fund information of the North Tonawanda City School District, New York (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 13, 2017 (which includes an emphasis of matter paragraph regarding the implementation of GASB Statement No. 75).

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 a 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. *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 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 District's financial statements are free from 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 a significant deficiency of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is discussed in the accompanying schedule of findings and questioned costs as item 2017-001.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Drescher & Malecki LLP

October 13, 2017

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

The Board of Education
North Tonawanda City School District, New York:

Report on Compliance for Each Major Federal Program

We have audited the North Tonawanda City School District, New York's (the "District") compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget ("OMB") Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Drescher & Malecki LLP

October 13, 2017

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I. SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of report the auditor issued: Unmodified*
 *(which includes an emphasis of matter paragraph regarding the implementation of GASB Statement No. 75)

Internal control over financial reporting:

Material weakness(es) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> None reported
Noncompliance material to the financial statements noted?	_____ Yes	_____ <input checked="" type="checkbox"/> No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> No
Significant deficiency(ies) identified?	_____ Yes	_____ <input checked="" type="checkbox"/> None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	_____ <input checked="" type="checkbox"/> No
--	-----------	--

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster:	
National School Breakfast Program	10.553
National School Lunch Program	10.555

Dollar threshold used to distinguish between Type A and Type B programs?	\$ 750,000
--	------------

Auditee qualified as low-risk auditee?	_____ <input checked="" type="checkbox"/> Yes	_____ No
--	---	----------

Section II. FINANCIAL STATEMENT FINDINGS

Finding 2017-001—Excess Fund Balance

Criteria: Real Property Tax Law §1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4 percent of the next year's budgetary appropriations. Funds properly retained under other sections of law (i.e., reserve funds established pursuant to Education Law or GML) are excluded from the 4 percent limitation. Under GASB Statement No. 54 fund balance classifications, the 4 percent limitation is interpreted to be applied to unrestricted fund balance (i.e., the total of the committed, assigned, and unassigned classifications), minus appropriated fund balance, amounts reserved for insurance recovery, amounts reserved for tax reduction, and encumbrances included in committed and assigned fund balance.

Condition and Context: Available fund balance in the District's General Fund exceeded 4 percent of the subsequent year's budgeted appropriations.

Cause: The District's unrestricted General Fund fund balance minus appropriated fund balance and amounts assigned for encumbrances is in excess of the 4 percent limitation.

Effect or Potential Effect: The District is not in compliance with New York State Real Property Tax Law §1318, which is subject to criticism from New York State and potential further repercussions.

Recommendation: We suggest that the District consider the establishment of certain restricted fund balance or increasing current restrictions.

Management's Response: The District has developed a plan for the use of excess funds. The Board of Education adopted a teacher retirement incentive which is planned to be funded through the assignment of fund balance.

Section III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings noted.

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Summary Schedule of Prior Audit Findings and Corrective Action Plan
Year Ended June 30, 2017
(Follow-up of June 30, 2016 Findings)

No findings were noted.

**** THIS PAGE INTENTIONALLY LEFT BLANK ****