

**NORTH TONAWANDA CITY**  
**SCHOOL DISTRICT, NEW YORK**  
*Basic Financial Statements, Required Supplementary  
Information, Supplemental and Federal Financial  
Assistance Schedules for the Year Ended June 30, 2011  
and Independent Auditors' Reports*

**NORTH TONAWANDA CITY SCHOOL DISTRICT**  
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**Year Ended June 30, 2011**

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## FINANCIAL SECTION

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying 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, 2011, which collectively comprise the District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2011, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This required supplementary information is the responsibility of the District's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the District's basic financial statements. The supplemental schedules listed in the foregoing table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as listed in the table of contents is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This additional information is also the responsibility of the District's management. Such additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Drescher & Malecki LLP*

October 14, 2011

**NORTH TONAWANDA CITY SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2011**

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## **INTRODUCTION**

This management discussion and analysis of the North Tonawanda City School District's (the District) financial performance provides an overview of the District's financial activities for the year ended June 30, 2011. The results of the current year are presented in comparison with the prior year with an emphasis on the current year. This discussion should be read in conjunction with the financial statements and notes, which immediately follow this section to enhance the reader's understanding of the District's financial position and results of activities.

Management's Discussion and Analysis (MD&A) is required supplementary information specified in the Governmental Accounting Standard Boards (GASB) Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. For the government-wide financial statements, comparative information for the years ended June 30, 2011 and 2010 has been presented.

## **FINANCIAL HIGHLIGHTS**

- At June 30, 2011, the District's assets exceeded its liabilities by \$41,194,911 (*net assets*). Of this amount, the District had an unrestricted deficit of \$991,243.
- During the year ended June 30, 2011, the District's total net assets increased by \$1,216,403.
- At the close of the current year fiscal year, the District's governmental funds reported a combined ending fund balance deficit of \$19,100,866, a decrease of \$21,245,885 as compared to the prior year.
- The General Fund reported an unassigned fund balance of \$485,863, which represents approximately 0.8% of operating expenditures and transfers out.
- In April 2008, District voters approved a \$48 million Capital Project. The scope of the project is quite substantial and includes the following: HVAC, lighting and electrical, plumbing system, emergency system upgrades, site safety and security improvements, an addition to the Middle School, improved accessibility, interior and exterior upgrades, as well as expanded technology.

Initial construction on Phase 1A (Reszel Middle School and Drake Elementary) began in June of 2009. The District completed the work at Drake Elementary in December of 2009 and work at Reszel Middle School in May 2010. Reszel was occupied as of July 2010. The District received approval from SED for the construction of Phase 1B (High School, Meadow Elementary, Ohio Elementary and Spruce Elementary), the project was put out to bid in January 2010, and work begun in June 2010. Work in Phase 1B was completed in the summer of 2011. Phase 1C consists of replacement of the main roof at Ohio Elementary and upgrades to emergency lighting and parking lot paving at Gilmore Elementary. The work was bid in July of 2011, and should be completed in the fall of 2011.

As of June 30, 2011, the District has expended \$4.8 million from Capital and Technology Reserves to finance construction. Additional financing sources are to be received in the form of State Building Aid called EXCEL Aid (\$1.3 million) as well as NYS Education Department Building Aid (\$41.9 million) upon the completion of the approved projects.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

### **Using This Annual Report**

This annual report consists of a series of financial statements and the notes to those statements. The financial statements are organized so that the reader can understand the District as a financial whole.

Two statements portray information about the District as an entire operating entity with a broad overview of finances similar to a private sector business. The focus of these statements is a long-term view. Fund financial statements provide the next level of detail. These statements provide detailed look at the most significant governmental activities at the fund level. The fund statements show how services were financed in the short term as well as what remains for future spending. The remaining statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the government.

#### Reporting on the School District as a Whole (Government-wide)

There are two statements that present an aggregate view of the District: Statement of Net Assets and Statement of Activities and Changes in Net Assets. Both of the government-wide financial statements distinguish functions of the District, which are defined as governmental activities. These are activities principally supported by property taxes and other intergovernmental revenues such as state and federal grants and other fees.

Statement of Net Assets – presents information on all of the District’s assets and liabilities using the accrual basis of accounting, with the difference reported as net assets. The most important aspect of accrual accounting is that all of the year’s revenues and expenses are reported regardless of when cash is received or paid. Increases or decreases in net assets serve as a useful indicator of whether the financial position is improving or deteriorating.

Statement of Activities and Changes in Net Assets – presents information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, there may be revenues and expenses reported in this statement for items that will result in cash flows in future fiscal periods.

#### Reporting on the School District’s Most Significant Funds (Fund level)

##### Governmental Funds

The governmental funds financial statements provide detail at the fund level, which is in contrast to the previously described government-wide reporting. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. The District uses fund accounting in its financial records to ensure and demonstrate compliance with finance related legal requirements and in accordance with the Uniform System of Accounts for New York State. All of the District’s funds are reported in the governmental funds.

Governmental funds are used to account for most of the same functions reported as governmental activities in the government-wide financial statements. However, the governmental funds financial statements focus on how money flows in and out of the funds and the balances remaining at the end of the fiscal year available for future spending. All financial information within the funds is reported using the modified accrual method of accounting and measures cash and all other financial assets that can be readily converted to cash. Therefore, these statements provide a detailed short-term view of District operations and the services it provides.

There are relationship differences between the governmental funds and governmental activities as reported in the Statement of Net Assets and the Statement of Activities and Changes in Net Assets. These differences are the result of two distinct basis of accounting (accrual versus modified-accrual) and have been reconciled within the financial statements.

The District's financial statements provide detailed information about the funds (significant is defined as major). Under the GASB definition of major versus non-major funds, the District's major funds have been presented separately and include the general (always a major fund by definition). The District has also elected to display the capital projects, special aid, and school lunch funds as major funds.

### Fiduciary Funds

The District is the trustee, or fiduciary, for assets that belong to others, such as student activities funds, payroll, student scholarships and other third party withholdings. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. The activities have been excluded from the District's other financial statements because the assets cannot be used to finance District operations.

### Notes to Financial Statements

The notes to the financial statements follow the government-wide and fund financial statements in the report. They complement the financial statements by describing pertinent details as of year-end and other changes that occurred during the fiscal year. The notes are essential to a full understanding of the financial information provided in the statements.

### Supplementary Information

This information further explains and supports the financial statements. Most of the schedules presented are required as part of reporting to the New York State Education Department.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

As mentioned earlier, net assets may serve as a useful indicator of the District's financial position. At the close of fiscal year June 30, 2011, assets exceeded liabilities by \$41,194,911.

<b>Condensed Statement of Net Assets (Deficit)</b>	<b>2011</b>	<b>2010</b>	<b>Percentage Change</b>
Current and other assets	\$ 30,029,156	\$ 25,630,844	17.2%
Capital assets	74,183,930	54,013,658	37.3%
<b>Total assets</b>	<b>104,213,086</b>	<b>79,644,502</b>	<b>30.8%</b>
Long-term liabilities outstanding	13,953,856	16,733,153	-16.6%
Other liabilities	49,064,319	22,932,841	113.9%
<b>Total liabilities</b>	<b>63,018,175</b>	<b>39,665,994</b>	<b>58.9%</b>
Net assets (deficit):			
Invested in capital assets, net of related debt	29,970,537	30,948,160	-3.2%
Restricted	12,215,617	12,601,665	-3.1%
Unrestricted	(991,243)	(3,571,317)	72.2%
<b>Total net assets</b>	<b>\$ 41,194,911</b>	<b>\$ 39,978,508</b>	<b>3.0%</b>

The most significant part of the District's net assets is represented by its investment in capital assets (e.g. land, buildings and improvements, furniture and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. It should be noted that although the investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets represent unspent amounts set aside for capital projects, buses, future debt, workers' compensation, unemployment insurance, retirement contributions, tax certiorari, insurance and employee benefits. The remaining balance represents an unrestricted deficit of \$991,243.

The key elements of the change in the District's net assets for the years ended June 30, 2011 and 2010 are as follows:

<b>Condensed Statement of Activities</b>	<b>2011</b>	<b>2010</b>	<b>Percentage Change</b>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 730,410	\$ 837,002	-12.7%
Operating grants	6,207,617	6,730,369	-7.8%
Capital grants	1,376,696	-	n/a
General revenues:			
Property taxes and other tax items	25,312,789	25,517,128	-0.8%
Use of money and property	385,604	367,320	5.0%
Sale of property and compensation for loss	8,085	10,808	-25.2%
Miscellaneous	1,016,979	1,743,237	-41.7%
State aid - unrestricted	29,062,182	31,422,885	-7.5%
Federal aid	-	149,760	-100.0%
<b>Total revenues</b>	<b>64,100,362</b>	<b>66,778,509</b>	<b>-4.0%</b>
<b>Expenses:</b>			
General support	8,003,050	7,473,727	7.1%
Instruction	49,432,042	48,427,893	2.1%
Pupil transportation	3,200,944	2,611,976	22.5%
School food service	1,136,547	1,156,217	-1.7%
Interest on long-term debt	1,111,376	521,560	113.1%
<b>Total expenses</b>	<b>62,883,959</b>	<b>60,191,373</b>	<b>4.5%</b>
<b>Increase in net assets</b>	<b>\$ 1,216,403</b>	<b>\$ 6,587,136</b>	

As presented in Figure 1 on the next page, property taxes and other tax items account for 40.6% of the revenues of the District. State Aid also adds significantly to the revenues, providing 45.3% of total revenue for the District.

**Figure 1 – Revenues by Source**

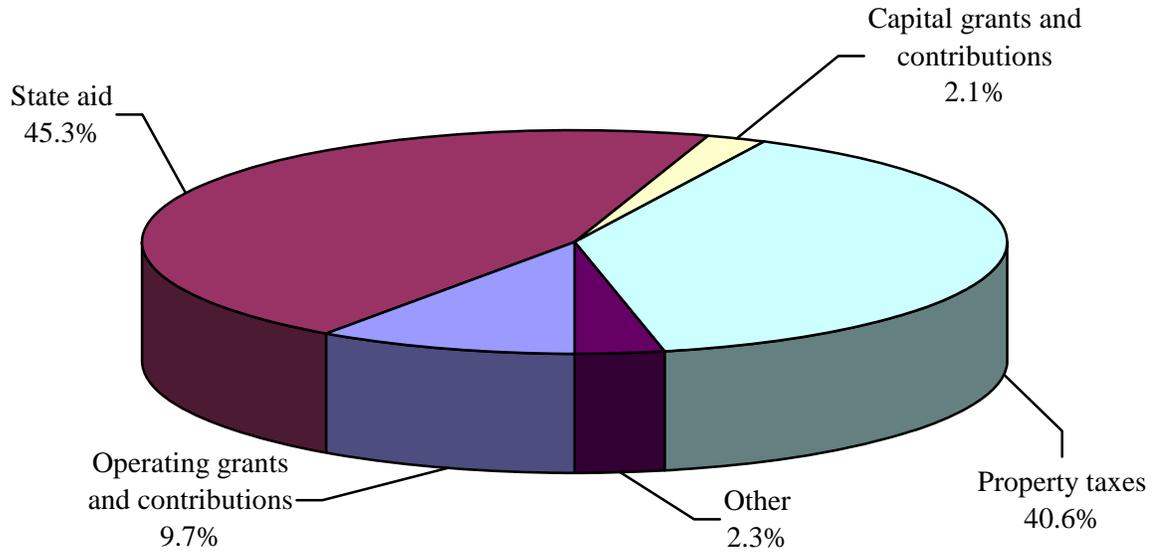
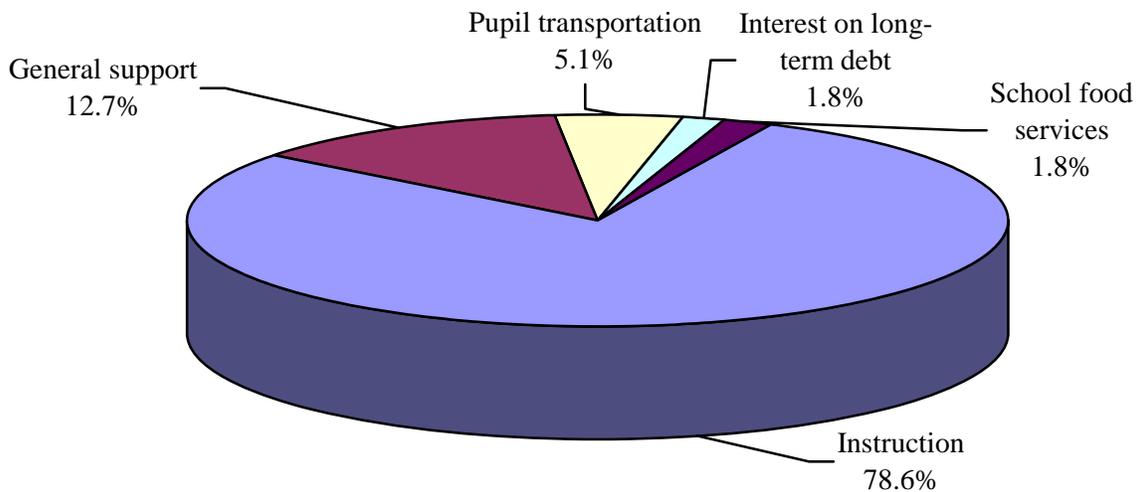


Figure 2 presents District expenditures. The most significant expenditure incurred is for instructional purposes and includes salaries for teachers, and all other instructional costs, such as classroom materials, BOCES instruction, and special education costs. Instructional expenditures account for approximately 78.6% of the total District expenditures.

**Figure 2 – Expenditures by Classification**



## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

Governmental funds provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. As of June 30, 2011, the District's governmental funds reported a combined ending fund balance deficit of \$19,100,866, a decrease of \$21,245,885 from the prior year. The decrease is primarily due to significant capital outlay expenditures incurred as a result of the District's ongoing capital projects.

*General Fund:*

The General Fund is the chief operating fund of the District. It is controlled by a legally adopted budget and is financed primarily by real property tax revenues and State Aid. At the end of the current fiscal year, unassigned fund balance was \$485,863 while the total fund balance was \$16,546,290. Unassigned fund balance decreased by \$1,980,189 while the total fund balance decreased by \$1,089,792. Key factors in these changes are as follows:

- The budgeted use of \$2,481,934 of fund balance.
- Expenditures were \$3,360,242 lower than budgetary appropriations largely due to lower than expected costs in all categories of expenditures.
- Revenues were \$1,536,414 lower than budgetary amounts largely due to decreased State aid.

*Special Aid Fund:*

Special Aid Fund expenditures and transfers out in 2011 amounted to \$3,690,107, an increase of \$45,745 over the prior year mainly due to continued federal funding from the American Recovery and Reinvestment Act.

*Capital Projects Fund:*

The Capital Projects Fund has a total fund deficit of \$36,089,725 as a result of the issuance of bond anticipation notes to finance the acquisition, construction and reconstruction of capital assets and related expenditures. The District plans to remedy this deficit through the future issuance of serial bond. As noted previously, District voters approved a \$48,000,000 capital project in April 2008.

*School Lunch Fund:*

The School Lunch Fund balance is \$442,569 as of June 30, 2011. The District may use a portion of this balance to continue to update the school lunch facilities and equipment, including an upgrade of all cafeteria cash registers to include a point-of-sale system.

**REVENUES CLASSIFIED BY SOURCE**

	<b>Comparative 2011 to 2010</b>				
	<b>2011</b>	<b>Percent of</b>	<b>2010</b>	<b>Increase</b>	<b>Percent of</b>
	<b>Amount</b>	<b>Total</b>	<b>Amount</b>	<b>(Decrease)</b>	<b>(Decrease)</b>
Real property taxes and tax items	\$ 25,410,401	39.58%	\$ 25,517,128	\$ (106,727)	-0.42%
Charges for services	269,682	0.42%	352,206	(82,524)	-23.43%
Use of money and property	385,604	0.60%	367,320	18,284	4.98%
Sale of property & compensation for loss	8,085	0.01%	10,808	(2,723)	-25.19%
Miscellaneous	1,016,979	1.58%	1,743,237	(726,258)	-41.66%
State sources	31,218,028	48.63%	32,326,946	(1,108,918)	-3.43%
Federal sources	5,428,467	8.46%	5,976,068	(547,601)	-9.16%
Sales (food service)	460,728	0.72%	484,796	(24,068)	-4.96%
<b>Total revenues</b>	<b>\$ 64,197,974</b>	<b>100.00%</b>	<b>\$ 66,778,509</b>	<b>\$ (2,580,535)</b>	<b>-3.86%</b>

Current year revenues decreased by \$2,580,535 as compared to the prior year. State Aid remains one of the primary sources of revenues at approximately 48.6% of total revenues. Property taxes and related tax items constitute approximately 39.6% of District revenues.

The decrease in State sources is the result of reduced basic formula aid. Additionally, the decrease in miscellaneous revenues of \$726,258 was largely the result of an adjustment of an accrual related to bargaining unit contract settlement in the prior year.

### *EXPENDITURES BY FUNCTION*

	<u>Comparative 2011 to 2010</u>				
	<b>2011 Amount</b>	<b>Percent of Total</b>	<b>2010 Amount</b>	<b>Increase (Decrease)</b>	<b>Percent of Increase (Decrease)</b>
General support	\$ 6,549,726	7.67%	\$ 6,471,042	\$ 78,684	1.22%
Instruction	40,099,926	46.93%	40,186,333	(86,407)	-0.22%
Pupil transportation	2,589,380	3.03%	2,457,553	131,827	5.36%
Employee benefits	11,307,643	13.23%	10,129,075	1,178,568	11.64%
Cost of sales	1,127,995	1.32%	1,124,221	3,774	0.34%
Debt service	2,410,710	2.82%	2,702,376	(291,666)	-10.79%
Capital outlay	21,358,479	25.00%	18,102,668	3,255,811	17.99%
<b>Total revenues</b>	<b>\$ 85,443,859</b>	<b>100.00%</b>	<b>\$ 81,173,268</b>	<b>\$ 4,270,591</b>	<b>5.26%</b>

Overall expenditures increased by \$4,270,591. Some of the key factors resulting in this increase include:

- The capital outlay category had the largest dollar increase and contributed to a majority of the overall increase over the prior year. Most of this can be attributable to the ongoing capital improvements as approved by voters in April 2008.
- The increase in the employee benefits category is mainly attributable to increases in retirement contribution rates.

### **GENERAL FUND BUDGETARY HIGHLIGHTS**

The difference between the original budget and the final amended budget was an increase of \$1,109,472 which was a result of the amendments listed below:

Adopted budget	\$ 61,693,000
Carryover of prior year encumbrances	67,488
Use of the following reserves:	
Employee Benefit Accrued Liability Reserve	279,739
Retirement Contribution Reserve	582,976
Capital Reserve - Buses	155,610
Donations	23,659
Total Amendments	<u>1,109,472</u>
Final budget	<u>\$ 62,802,472</u>

Actual expenditures were \$59,401,713 for the year ended June 30, 2011. The table below shows budget appropriations versus actual expenditures by function.

<b>Expense Category</b>	<b>Adopted Budget</b>	<b>Final Budget</b>	<b>Actual Expense</b>	<b>\$ Final to Actual</b>	<b>% Inc (Dec) to Actual</b>	<b>% Final to Actual</b>
General support	\$ 8,037,298	\$ 8,014,724	\$ 6,549,726	\$ 1,464,998	18.51%	18.28%
Instruction	36,735,879	37,111,612	36,459,771	651,841	0.75%	1.76%
Pupil transportation	2,722,471	2,791,057	2,589,380	201,677	4.89%	7.23%
Employee benefits	11,587,462	12,344,543	11,307,643	1,036,900	2.41%	8.40%
Debt service	2,484,890	2,415,536	2,410,710	4,826	2.99%	0.20%
Operating transfers	125,000	125,000	84,483	40,517	32.41%	32.41%
<b>Totals</b>	<b>\$ 61,693,000</b>	<b>\$ 62,802,472</b>	<b>\$ 59,401,713</b>	<b>\$ 3,400,759</b>	<b>3.71%</b>	<b>5.42%</b>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### *Capital Assets:*

The North Tonawanda City School District's investment in capital assets amounts to \$74,183,930 (net of accumulated depreciation). Capital assets at June 30, 2011 and 2010 are outlined below:

	<b>2011</b>	<b>2010</b>
Land	\$ 246,107	\$ 246,107
Construction in progress	42,370,328	21,011,849
Buildings and improvements	58,828,992	58,828,992
Furniture, equipment and vehicles	4,540,553	4,439,193
	<u>105,985,980</u>	<u>84,526,141</u>
Accumulated depreciation	(31,802,050)	(30,512,483)
	<u>\$ 74,183,930</u>	<u>\$ 54,013,658</u>

Additional information on the District's capital assets can be found in Note 5 to the basic financial statements.

### *Debt Administration:*

At June 30, 2011, the District had \$8,123,669 in outstanding bonds and capital leases, with \$1,336,874 due within one year. Outstanding compensated absences and the net OPEB obligation amounted to \$5,830,188, with \$602,960 due within one year.

Additional information on the District's debt can be found in Notes 6 and 7 to the financial statements.

## **ECONOMIC FACTORS**

Current economic factors that have an impact on the District's budget include rising retirement system contribution rates and increasing personnel costs as outlined in the District's collective bargaining units and various employment policies.

The unemployment rate, not seasonally adjusted, for the Erie County region at June 30, 2011 was 7.7 percent, which is a decrease from a rate of 8.0 percent a year ago. This compares favorably to New York State's average unemployment rate of 8.0 percent and favorably to the national average rate of 9.2 percent. Additionally over the past two decades, the region has experienced a steady decline in population and business. All of these factors are considered in preparing the District's budget. Despite the economic hardships, considering the stable condition of its major funds, the District's overall financial position is relatively stable.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to Alan Getter, Assistant Superintendent of Administrative Services, North Tonawanda City School District, 175 Humphrey Street, North Tonawanda, NY 14120.

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# BASIC FINANCIAL STATEMENTS

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**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Statement of Net Assets (Deficit)**  
**June 30, 2011**

	<b>Primary Government</b>
	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 22,602,237
Taxes receivable	567,372
Accounts receivable	119,948
Internal balances	1,746
Due from other governments	6,581,685
Prepaid expenses	4,943
Cash value of life insurance	132,483
Inventory	18,742
Noncurrent assets:	
Capital assets not being depreciated	42,616,435
Capital assets net of accumulated depreciation	31,567,495
Total assets	104,213,086
<b>LIABILITIES</b>	
Accounts payable	1,443,583
Accrued liabilities	1,473,794
Bond anticipation notes payable	41,823,304
Due to other governments	4,497
Retainages payable	1,479,310
Due to NYS Teachers' Retirement System	2,497,953
Due to NYS Employees' Retirement System	282,959
Unearned revenue	58,919
Noncurrent liabilities:	
Due within one year	1,939,834
Due within more than one year	12,014,022
Total liabilities	63,018,175
<b>NET ASSETS (DEFICIT)</b>	
Invested in capital assets, net of related debt	29,970,537
Restricted for:	
Capital - buildings	3,354,235
Capital - buses	1,051,189
Capital - technology	2,054,067
Debt service - Lowry	478,544
Debt service	833,198
Workers' compensation	1,079,482
Unemployment insurance	1,002,200
Retirement contribution	418,583
Tax certiorari	683,658
Insurance	1,156,764
Employee benefits	103,697
Unrestricted	(991,243)
Total net assets	\$ 41,194,911

The notes to the financial statements are an integral part of this statement.

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**

**Statement of Activities**

**Year Ended June 30, 2011**

<u>Function/Program</u>	<u>Expense</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary Government:</b>					
Governmental activities:					
General support	\$ 8,003,050	\$ -	\$ -	\$ 1,376,696	\$ (6,626,354)
Instruction	49,432,042	269,682	5,438,261	-	(43,724,099)
Pupil transportation	3,200,944	-	-	-	(3,200,944)
School food service	1,136,547	460,728	769,356	-	93,537
Interest on long-term debt	1,111,376	-	-	-	(1,111,376)
Total primary government	<u>\$ 62,883,959</u>	<u>\$ 730,410</u>	<u>\$ 6,207,617</u>	<u>\$ 1,376,696</u>	<u>(54,569,236)</u>
General revenues:					
					25,312,789
					385,604
					8,085
					1,016,979
					<u>29,062,182</u>
					<u>55,785,639</u>
					1,216,403
					<u>39,978,508</u>
					<u>\$ 41,194,911</u>

The notes to the financial statements are an integral part of this statement.

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Balance Sheet—Governmental Funds**  
**June 30, 2011**

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 13,025,467	\$ 1,213,702	\$ 487,680	\$ 7,875,388	\$ 22,602,237
Taxes receivable	567,372	-	-	-	567,372
Accounts receivable	119,948	-	-	-	119,948
Due from other funds	3,933,177	5,467	-	-	3,938,644
Due from other governments	3,713,329	2,815,999	52,357	-	6,581,685
Prepaid expenditures	4,943	-	-	-	4,943
Cash value of life insurance	132,483	-	-	-	132,483
Inventory	-	-	18,742	-	18,742
Total assets	<u>\$ 21,496,719</u>	<u>\$ 4,035,168</u>	<u>\$ 558,779</u>	<u>\$ 7,875,388</u>	<u>\$ 33,966,054</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 658,268	\$ 140,292	\$ 73,843	\$ 571,180	\$ 1,443,583
Accrued liabilities	953,052	5,207	-	79,866	1,038,125
Bond anticipation notes payable	-	-	-	41,823,304	41,823,304
Due to other funds	948	3,886,627	42,367	6,956	3,936,898
Due to other governments	-	-	-	4,497	4,497
Retainages	-	-	-	1,479,310	1,479,310
Due to NYS Teachers' Retirement System	2,497,953	-	-	-	2,497,953
Due to NYS Employees' Retirement System	282,959	-	-	-	282,959
Deferred revenue	557,249	3,042	-	-	560,291
Total liabilities	<u>4,950,429</u>	<u>4,035,168</u>	<u>116,210</u>	<u>43,965,113</u>	<u>53,066,920</u>
Fund balances (deficit):					
Nonspendable:					
Prepaid expenditures	4,943	-	-	-	4,943
Life insurance	132,483	-	-	-	132,483
Inventory	-	-	18,742	-	18,742
Restricted for:					
Capital - buildings	3,354,235	-	-	-	3,354,235
Capital - buses	1,051,189	-	-	-	1,051,189
Capital - technology	2,054,067	-	-	-	2,054,067
Debt service - Lowry	478,544	-	-	-	478,544
Debt service	833,198	-	-	-	833,198
Workers' compensation	1,079,482	-	-	-	1,079,482
Unemployment insurance	1,002,200	-	-	-	1,002,200
Retirement contribution	418,583	-	-	-	418,583
Tax certiorari	683,658	-	-	-	683,658
Insurance	1,156,764	-	-	-	1,156,764
Employee benefits	103,697	-	-	-	103,697
Assigned to:					
Subsequent year's expenditures	3,467,024	-	-	-	3,467,024
Encumbrances	240,360	-	76,732	6,452,281	6,769,373
School lunch	-	-	347,095	-	347,095
Unassigned	485,863	-	-	(42,542,006)	(42,056,143)
Total fund balances (deficit)	<u>16,546,290</u>	<u>-</u>	<u>442,569</u>	<u>(36,089,725)</u>	<u>(19,100,866)</u>
Total liabilities and fund balances (deficit)	<u>\$ 21,496,719</u>	<u>\$ 4,035,168</u>	<u>\$ 558,779</u>	<u>\$ 7,875,388</u>	<u>\$ 33,966,054</u>

The notes to the financial statements are an integral part of this statement.

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets (Deficit)**  
**June 30, 2011**

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Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances—governmental funds		\$ (19,100,866)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$105,985,980 and the accumulated depreciation is \$31,802,050.		74,183,930
Long-term liabilities, including bonds payable, energy performance contract payable, compensated absences, and retirees' health and dental insurance liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	\$ (6,530,000)	
Capital leases	(1,593,668)	
Net OPEB obligation	(501,503)	
Compensated absences	<u>(5,328,685)</u>	(13,953,856)
Net accrued interest expense for bond anticipation notes, bonds and the energy performance contract is not reported in the funds.		(435,669)
Amounts relating to taxes receivable have not met the revenue recognition criteria for fund financial purposes and, therefore, have been deferred. However, these revenues are recorded in the government-wide financial statements which report on the full accrual basis of accounting. The amount of revenues deferred in the funds, but recognized in the government-wide presentation are:		<u>501,372</u>
Total net assets—governmental activities		<u>\$ 41,194,911</u>

The notes to the financial statements are an integral part of this statement.

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)—Governmental Funds**  
**Year Ended June 30, 2011**

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Real property taxes and other tax items	\$ 25,410,401	\$ -	\$ -	\$ -	\$ 25,410,401
Charges for services	269,682	-	-	-	269,682
Use of money and property	383,921	-	1,683	-	385,604
Sale of property and compensation for loss	8,085	-	-	-	8,085
Miscellaneous	556,952	99,451	12,121	348,455	1,016,979
State sources	29,062,182	742,491	36,659	1,376,696	31,218,028
Federal sources	1,932,088	2,763,682	732,697	-	5,428,467
Sales (food service)	-	-	460,728	-	460,728
Total revenues	<u>57,623,311</u>	<u>3,605,624</u>	<u>1,243,888</u>	<u>1,725,151</u>	<u>64,197,974</u>
<b>EXPENDITURES</b>					
Current:					
General support	6,549,726	-	-	-	6,549,726
Instruction	36,459,771	3,640,155	-	-	40,099,926
Pupil transportation	2,589,380	-	-	-	2,589,380
Employee benefits	11,307,643	-	-	-	11,307,643
Cost of sales (food service)	-	-	1,127,995	-	1,127,995
Debt service:					
Principal	1,689,003	-	-	-	1,689,003
Interest	721,707	-	-	-	721,707
Capital outlay	-	-	-	21,358,479	21,358,479
Total expenditures	<u>59,317,230</u>	<u>3,640,155</u>	<u>1,127,995</u>	<u>21,358,479</u>	<u>85,443,859</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,693,919)</u>	<u>(34,531)</u>	<u>115,893</u>	<u>(19,633,328)</u>	<u>(21,245,885)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	688,610	84,483	-	-	773,093
Transfers out	(84,483)	(49,952)	(40,000)	(598,658)	(773,093)
Total other financing sources (uses)	<u>604,127</u>	<u>34,531</u>	<u>(40,000)</u>	<u>(598,658)</u>	<u>-</u>
Net change in fund balances	(1,089,792)	-	75,893	(20,231,986)	(21,245,885)
Fund balances(deficit)—beginning	17,636,082	-	366,676	(15,857,739)	2,145,019
Fund balances (deficit)—ending	<u>\$ 16,546,290</u>	<u>\$ -</u>	<u>\$ 442,569</u>	<u>\$ (36,089,725)</u>	<u>\$ (19,100,866)</u>

The notes to the financial statements are an integral part of this statement.

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in**  
**Fund Balances (Deficit) of Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2011**

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Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances (deficit)—total governmental funds \$ (21,245,885)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 21,606,360	
Disposals	(52,655)	
Depreciation expense	<u>(1,383,433)</u>	20,170,272

The issuance of long-term debt (e.g. bonds, energy performance contract) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of long-term debt and related items is as follows:

Principal repayment of serial bonds	\$ 1,125,000	
Principal repayment of capital leases	564,003	
Change in interest expense accrued	<u>(389,669)</u>	1,299,334

In the statement of activities, certain operating expenses (e.g. compensated absences) are measured by the amounts earned by employees during the year. However, in the governmental funds expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences is as follows:

1,090,294

Governmental funds recognize revenues only if they are both measurable and available after the end of the fiscal year; however, the entity-wide statements recognize revenue on an accrual basis. The effect of the change in deferred revenue during the current year is:

(97,612)

Change in net assets of governmental activities \$ 1,216,403

The notes to the financial statements are an integral part of this statement.

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**

**Statement of Revenues, Expenditures and Changes in Fund Balances—**

**Budget and Actual—General Fund**

**Year Ended June 30, 2011**

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget</b>
	<b>Adopted</b>	<b>Final</b>		
<b>REVENUES</b>				
Real property taxes and other tax items	\$ 25,701,957	\$ 25,701,957	\$ 25,410,401	\$ (291,556)
Charges for services	354,900	354,900	269,682	(85,218)
Use of money and property	460,000	460,000	383,921	(76,079)
Sale of property and compensation for loss	13,000	13,000	8,085	(4,915)
Miscellaneous	350,000	373,659	556,952	183,293
State sources	31,956,209	30,024,121	29,062,182	(961,939)
Federal sources	300,000	2,232,088	1,932,088	(300,000)
Total revenues	<u>59,136,066</u>	<u>59,159,725</u>	<u>57,623,311</u>	<u>(1,536,414)</u>
<b>EXPENDITURES</b>				
Current:				
General support	8,037,298	8,014,724	6,549,726	1,464,998
Instruction	36,735,879	37,111,612	36,459,771	651,841
Pupil transportation	2,722,471	2,791,057	2,589,380	201,677
Employee benefits	11,587,462	12,344,543	11,307,643	1,036,900
Debt service:				
Principal	1,689,003	1,689,003	1,689,003	-
Interest	795,887	726,533	721,707	4,826
Total expenditures	<u>61,568,000</u>	<u>62,677,472</u>	<u>59,317,230</u>	<u>3,360,242</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,431,934)</u>	<u>(3,517,747)</u>	<u>(1,693,919)</u>	<u>1,823,828</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	75,000	75,000	688,610	613,610
Transfers out	<u>(125,000)</u>	<u>(125,000)</u>	<u>(84,483)</u>	<u>40,517</u>
Total other financing sources (uses)	<u>(50,000)</u>	<u>(50,000)</u>	<u>604,127</u>	<u>654,127</u>
Net change in fund balances	(2,481,934)	(3,567,747)	(1,089,792)	2,477,955
Fund balances—beginning	<u>17,636,082</u>	<u>17,636,082</u>	<u>17,636,082</u>	<u>-</u>
Fund balances—ending	<u>\$ 15,154,148</u>	<u>\$ 14,068,335</u>	<u>\$ 16,546,290</u>	<u>\$ 2,477,955</u>

The notes to the financial statements are an integral part of this statement.

# NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK

## Statement of Fiduciary Net Assets

### Fiduciary Funds

June 30, 2011

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	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 48,367
Restricted cash and investments	<u>146,074</u>	<u>65,067</u>
Total assets	<u>\$ 146,074</u>	<u>\$ 113,434</u>
<b>LIABILITIES</b>		
Agency fund liabilities	\$ -	\$ 46,621
Due to other funds	-	1,746
Extraclassroom activity funds	<u>-</u>	<u>65,067</u>
Total liabilities	<u>-</u>	<u>113,434</u>
<b>NET ASSETS</b>		
Endowment scholarships	<u>146,074</u>	<u>-</u>
Total net assets	<u>146,074</u>	<u>-</u>
Total liabilities and net assets	<u>\$ 146,074</u>	<u>\$ 113,434</u>

The notes to the financial statements are an integral part of this statement.

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**Year Ended June 30, 2011**

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	<b>Private Purpose Trusts</b>
<b>Additions:</b>	
Gifts and contributions	\$ 112,191
Investment earnings	<u>92</u>
Total additions	<u>112,283</u>
 <b>Deductions:</b>	
Scholarships and awards	<u>14,212</u>
Total deductions	<u>14,212</u>
 Change in net assets	 98,071
 Net assets - beginning of year	 <u>48,003</u>
 Net assets - end of year	 <u><u>\$ 146,074</u></u>

The notes to the financial statements are an integral part of this statement.

**NORTH TONAWANDA CITY SCHOOL DISTRICT**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The 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 government entities. Those principles are prescribed by Governmental Accounting Standards Board (GASB), which is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

***Financial 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. Services such as transportation of pupils, administration, finance, and plant maintenance support the primary function.

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. Based on the application of these criteria, the following is a description of certain entities included or excluded from the District's reporting entity:

*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 their financial transactions and 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 the Agency Fund.

*Public Library* - The District collects real property taxes on behalf of the Public Library and remits such taxes to the Library Board of Trustees. The Public Library is not included in the District's financial statements.

*Joint Venture* - The District is one of 12 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.

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. BOCES may also contract with other municipalities on a cooperative basis under State 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, 2011, there was no debt issued by the District.

During the fiscal year ended June 30, 2010, the District was billed \$6,948,119 for BOCES administrative and program costs and recognized \$340,485 in revenue as a refund from prior years' expenditures paid to BOCES. Audited financial statements are available from BOCES' administrative offices.

#### ***Government-Wide and Fund Financial Statements.***

The government-wide financial statements (statement of net assets and the statement of governmental activities) report information on all the nonfiduciary activities of the District. Interfund activity has been removed from these statements.

The statement of governmental activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Indirect expenses have been included as part of the program expenses reported for the various functional activities. *Program revenues* include 1) charges to those who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds even though the fiduciary funds are excluded from the government-wide financial statements. The District considers all governmental funds as major funds, and therefore, these funds are reported as separate columns in the fund financial statements.

#### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation.***

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

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 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 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 are recorded only when payment is due.

Property taxes, charges for services provided, state and federal aid and grants associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues

of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

- The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in other fund.
- The *Special Aid Fund* accounts for special operating projects or programs supported in whole, or in part, with federal funds and state grants.
- The *School Lunch Fund* accounts for transactions of the District's breakfast, lunch and milk programs.
- The *Capital Projects Fund* is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities, or equipment.

Additionally, the District reports the following fiduciary fund types:

- The *Private-Purpose Trust Fund* accounts for assets held by the District for the benefit of third party awards and scholarships.
- The *Agency Fund* accounts for assets held by the District as an agent for individuals, private organizations, various student groups and clubs, and/or other governmental units. Funds include employee payroll withholdings. Also included is the Extraclassroom Activity Fund of the District, which represents funds of the students of the District. The Board of Education exercises general oversight of these funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise general revenues include all taxes.

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

### ***Budgeting Policies—Governmental Fund Types***

*General Fund* – A formal annual budget is maintained for the General Fund. The District's policy relating to budgetary information as shown in the accompanying financial statements is as follows:

- The District administration culminates a proposed budget for approval by the School Board.

- The proposed appropriation budget was approved by the voters within the District.
- Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred.
- The New York State Uniform System of Accounts requires that fixed budgetary control be used.

*School Lunch and Special Aid Funds* – No formal annual budgets are adopted for the School Lunch and Special Aid Funds. School Lunch Fund spending is dependent upon the number of meals served. Special Aid Fund appropriation limits are maintained based on individual grants accepted by the Board of Education. The periods of such grants may vary from the District’s fiscal year.

*Capital Projects Fund* – Appropriations for capital projects are not included in the District’s annual adopted budget. Appropriations are approved through a resolution of the Board of Education and by the voters within the District. Project length budgets do not coincide with the District’s fiscal year and may expand over two or more fiscal years.

***Cash, Cash Equivalents and Investments.*** The District’s cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the District’s investment policies. Resources must be deposited in FDIC-insured obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. The District had no investments at June 30, 2011; however, it is the District’s policy to state investments at fair value when applicable.

***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, 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 revenues offset real property taxes receivable.

***Prepaid Items.*** Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

***Inventory.*** 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 inventorial items in other funds are recorded as expenditures at the time of purchase, and year-end balances are not maintained.

***Due To/From Other Funds.*** Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year-end is provided subsequently in these Notes.

***Capital Assets.*** Capital assets are reported in the government-wide financial statements at actual cost or estimated historical cost based on appraisal. Depreciation is provided in the government-wide statements over estimated useful lives using a straight-line method.

Donated assets are reported at estimated fair market value at the time received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as construction in progress until the projects are completed.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Land	\$ 5,000	n/a
Buildings and construction	5,000	50
Land/site improvements	5,000	20
Furniture, equipment and vehicles	5,000	8-20

**Unearned/Deferred Revenues.** Deferred revenues are reported when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Unearned/deferred revenues also arise when the District receives resources before it has legal claim to them, as when grant monies are received prior to incurring qualifying expenditures.

**Long-Term Debt.** The District's unmatured long-term liabilities are recorded in the government-wide financial statements when the liability is to be financed from a governmental fund. These liabilities include serial bonds, capital leases and compensated absences. The bonded debt of the District is secured by its general credit and revenue raising powers, as per State statute. Further, the unmatured principal of long-term debt does not require current appropriation and expenditure of governmental fund financial resources.

**Compensated Absences.** It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and sick pay are accrued when incurred in the government-wide financial statement.

Payment of compensated absences recorded in the government-wide financial statements is dependent upon many factors; therefore, timing of future payment is not readily determinable. However, management believes that sufficient resources will be made available for the future payment of compensated absences when such payments become due.

**Postemployment Benefits.** The District provides retirement benefits for substantially all of its regular full-time employees through contributions to the New York State Teachers' Retirement System and the New York State Employees' Retirement System. These systems provide various plans and options, some of which require employee contributions.

**Encumbrances.** Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve applicable appropriations, is employed as a control in preventing an over-expenditure of established appropriations. Encumbrances outstanding at year-end are accounted for on the lapsing method, which reappropriate encumbrances in the subsequent years' budget. Encumbrances do not constitute

expenditures or liabilities. The District had outstanding encumbrances of \$6,782,352 at the end of the fiscal period.

**Insurance.** The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District purchases commercial insurance to cover such potential risks.

**Use of Estimates.** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Restrictions, Reserves and Designations.** The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

*Invested in Capital Assets, Net of Related Debt*—This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt (net of amounts reserved to pay debt) that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. At June 30, 2011, this amount is:

Capital assets, net of depreciation		\$ 74,183,930
Less:		
Bonded debt	(6,530,000)	
BANs outstanding	(41,823,304)	
Capital leases	<u>(1,593,668)</u>	(49,946,972)
Add:		
Unspent capital proceeds		<u>5,733,579</u>
Capital assets, net of related debt		<u>\$ 29,970,537</u>

*Restricted Net Assets*—This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Assets*—This category represents net assets 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 District at June 30, 2011 include:

*Prepaid Expenditures*—Represents expenditures for services that will benefit future periods. This balance is nonspendable as prepaids do not represent an available resource.

*Life Insurance*—Represents life insurance premiums paid by the District. This balance is nonspendable as the cash does not represent an available resource.

*Inventory* – Representing the portion of fund balance composed of inventory. This balance is reserved as the inventory does not represent an available resource.

In the fund financial statements, restrictions represent a portion of fund balance that has been legally segregated for a specific use or is not able to be appropriated for expenditure by the District at June 30, 2011, and include:

*Restricted for Capital (Buildings, Buses and Technology)*—Represents resources that have been legally restricted for the use of specific future capital expenditures.

*Restricted for Debt Service (Lowry and General)*—Represents resources that have been legally restricted for principal payments that will be made in future periods.

*Restricted for Workers' Compensation*—Represents resources that have been restricted for the future use in fulfilling District obligations relating to workers compensation.

*Restricted for Unemployment Insurance*—Represents resources that have been restricted for the future use in fulfilling District obligations relating to unemployment insurance.

*Restricted for Retirement Contribution*—Represents resources that have been restricted for the future use in fulfilling District obligations relating to its retirement systems.

*Restricted for Tax Certiorari*—Representing funds that can be used to offset tax amounts to be refunded based on assessment challenges.

*Restricted for Insurance*—Represents resources that have been restricted to pay liability, casualty and other types of losses.

*Restricted for Employee Benefits*—Representing funds that have been reserved for the payment of accrued employee benefits due an employee upon termination of service.

In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the District at June 30, 2011 and include:

*Assigned to Subsequent Year's Expenditures*—Represents available fund balance being appropriated to meet expenditure requirements in the 2011-2012 fiscal year.

*Assigned to Encumbrances*—Represents commitments related to unperformed (executory) contracts for goods and services.

*Assigned to School Lunch*—Representing remaining fund balance of the special revenue fund used to maintain school lunch operations.

***Future Impacts of Accounting Pronouncements*** – During the year ended June 30, 2011, the District implemented GASB Statement GASB Statement No. 59, *Financial Instruments Omnibus*, which did not have a material impact on the District's financial position or results of operation.

Additionally, during the year ended June 30, 2011, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* was implemented. The District has evaluated, classified and reported amounts in the appropriate fund balance classifications by applying accounting policies that determine whether funds are nonspendable, restricted, committed, assigned or unassigned. These policies have been disclosed in the notes to the financial statements.

The District has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*, effective for the year ending June 30, 2012; GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* effective for the year ending June 30, 2013. The District is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 57, 60, 61, 62, 63 and 64 will have on its financial position and results of operations.

## 2. 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 and certificates of deposit in an amount equal to or greater than the amount of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of New York.

Cash and cash equivalents at year-end consisted of:

Governmental Funds	\$ 22,602,237
Private Purpose Trust Funds	146,074
Agency Funds	<u>113,434</u>
Total	<u>\$ 22,861,745</u>

**Deposits** – All deposits are carried at fair value.

Petty cash (uncollateralized)	\$ 100
Bank deposits	<u>22,861,645</u>
Total	<u>\$ 22,861,745</u>

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 1,013,735	\$ 1,013,735
Uninsured:		
Collateral held by bank's agent in the District's name	<u>22,657,289</u>	<u>21,847,910</u>
Total	<u>\$ 23,671,024</u>	<u>\$ 22,861,645</u>

*Investments* – The District had no investments at June 30, 2011.

*Custodial credit risk—deposits*—In the case of deposits, this is the risk that in the event of a bank failure the District’s deposits may not be returned to it. As of June 30, 2011, none of the District’s deposits were exposed to custodial credit risk because all deposits were fully insured or collateralized with securities held by the pledging financial institutions in the District’s name.

### 3. RECEIVABLES

Major revenues accrued by the District at June 30, 2011 consisted of the following:

- A. *Taxes Receivable* – Represents amounts due from District taxpayers that remain unpaid as of June 30, 2011.
- B. *Accounts Receivable* – Represents amounts due from various sources for out of district tuition, commissions, fuel reimbursement, substitute teaching reimbursement and other services provided.
- C. *Due from Other Governments* – Represents amounts due from other units of government, such as Federal, New York State and other local governments. Amounts due to the District at June 30, 2011 are as follows:

**General Fund:**

Federal - ARRA - Education Stabilization Fund	\$ 1,932,088	
State - BOCES Aid	924,171	
State - Excess Cost Aid	<u>857,070</u>	\$ 3,713,329

**Special Aid Fund:**

Federal - Title I	\$ 598,317	
Federal - ARRA- Title I	52,751	
Federal - IDEA Part B, Section 619	58,576	
Federal - ARRA - IDEA Part B, Section 619	15,812	
Federal - IDEA Part B, Section 611	880,331	
Federal - ARRA- IDEA Part B, Section 611	381,159	
Federal - Title IVA	10,550	
Federal - Title II Part D	3,304	
Federal - Title IIA	205,115	
State - OASAS	7,838	
State - Universal Pre-K	143,911	
State - Summer Handicapped 2009-10	120,402	
State - Summer Handicapped 2010-11	<u>337,933</u>	2,815,999

**School Lunch Fund:**

State - Breakfast and Lunch Program		<u>52,357</u>
Total governmental funds		<u>\$ 6,581,685</u>

#### 4. INTERFUND BALANCES AND TRANSACTIONS

Interfund receivables and payables are short term in nature and exist because of temporary advances or payments made on behalf of other funds. All of these balances are expected to be collected/paid within the subsequent year. Interfund balances and activity of the District at June 30, 2011 are presented on the following page.

	Interfund		Transfers	
	Receivables	Payables	In	Out
Governmental Funds:				
General Fund	\$ 3,933,177	\$ 948	\$ 688,610	\$ 84,483
Special Aid Fund	5,467	3,886,627	84,483	49,952
School Lunch Fund	-	42,367	-	40,000
Capital Projects Fund	-	6,956	-	598,658
Total Governmental Funds	3,938,644	3,936,898	773,093	773,093
Fiduciary Funds:				
Agency Fund	-	1,746	-	-
Total	<u>\$ 3,938,644</u>	<u>\$ 3,938,644</u>	<u>\$ 773,093</u>	<u>\$ 773,093</u>

The outstanding balances between funds result from payments made on behalf of other funds or temporary advances. Advances between the General Fund and the Capital Projects fund are made in order to provide short-term financing for various projects. Advances between the General Fund and the Special Aid fund are made in order to provide short-term financing for various grants, in which the General fund is reimbursed as the District receives payments from the State. In addition the General Fund makes transfers to the Special Aid Fund to provide resources for the District's local share of grants; these are considered permanent transfers.

## 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 246,107	\$ -	\$ -	\$ 246,107
Construction in progress	<u>21,011,849</u>	<u>21,358,479</u>	<u>-</u>	<u>42,370,328</u>
Total capital assets, not being depreciated	<u>21,257,956</u>	<u>21,358,479</u>	<u>-</u>	<u>42,616,435</u>
Capital assets, being depreciated:				
Buildings	56,152,367	-	-	56,152,367
Land improvements	2,676,625	-	-	2,676,625
Furniture and equipment	2,723,837	52,271	-	2,776,108
Vehicles	<u>1,715,356</u>	<u>195,610</u>	<u>(146,521)</u>	<u>1,764,445</u>
Total capital assets, being depreciated	<u>63,268,185</u>	<u>247,881</u>	<u>(146,521)</u>	<u>63,369,545</u>
Less accumulated depreciation for:				
Buildings	25,915,089	1,038,925	-	26,954,014
Land improvements	1,669,363	64,909	-	1,734,272
Furniture and equipment	1,958,719	99,227	-	2,057,946
Vehicles	<u>969,312</u>	<u>180,372</u>	<u>(93,866)</u>	<u>1,055,818</u>
Total accumulated depreciation	<u>30,512,483</u>	<u>1,383,433</u>	<u>(93,866)</u>	<u>31,802,050</u>
Total capital assets, being depreciated, net	<u>32,755,702</u>	<u>(1,135,552)</u>	<u>(52,655)</u>	<u>31,567,495</u>
Governmental activities capital assets, net	<u>\$ 54,013,658</u>	<u>\$ 20,222,927</u>	<u>\$ (52,655)</u>	<u>\$ 74,183,930</u>

The current year depreciation expense was allocated in the Statement of Activities to functions and programs of the District as follows:

<b>Governmental activities:</b>	
General government support	\$ 125,038
Instruction	1,011,177
Pupil transportation	217,210
School lunch	<u>30,008</u>
Total depreciation expense	<u>\$ 1,383,433</u>

## 6. SHORT-TERM DEBT

Liabilities for bond anticipation notes (BANs) are generally accounted for in the capital projects funds. Principal payments on BANs must be made annually.

State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for a period equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

Transactions in short-term debt for the year ended June 30, 2011 are summarized below:

Description	Date of Issue	Date of Maturity	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance
Buildings improvements	09/24/09	09/23/10	2.00%	\$ 13,252,827	\$ -	\$ 13,252,827	\$ -
Buildings improvements	09/22/10	09/22/11	1.50%	-	25,511,374	-	25,511,374
Buildings improvements	12/22/10	09/22/11	1.25%	-	16,311,930	-	16,311,930
				<u>\$ 13,252,827</u>	<u>\$ 41,823,304</u>	<u>\$ 13,252,827</u>	<u>\$ 41,823,304</u>

## 7. LONG-TERM DEBT

Transactions in long-term debt for the year are summarized below:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Government activities:					
Bonds payable	\$ 7,655,000	\$ -	\$ 1,125,000	\$ 6,530,000	\$ 1,178,000
Capital leases	2,157,671	-	564,003	1,593,668	158,874
Net OPEB obligation	245,916	861,484	605,897	501,503	-
Compensated absences	<u>6,674,566</u>	<u>396,946</u>	<u>1,742,827</u>	<u>5,328,685</u>	<u>602,960</u>
Total	<u>\$ 16,733,153</u>	<u>\$ 1,258,430</u>	<u>\$ 4,037,727</u>	<u>\$ 13,953,856</u>	<u>\$ 1,939,834</u>

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences.

**General Obligation Bonds** – The District issues general obligation bonds to provide funds for construction renovations and improvements of major capital facilities. The following is a summary of bond transactions for the year ended June 30, 2011:

Description	Date of Issue	Date of Maturity	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance
Series A	8/13/2002	11/15/2014	3.77%	\$ 1,405,000	\$ -	\$ 260,000	\$ 1,145,000
Series B	8/13/2002	4/15/2014	3.81%	470,000	-	110,000	360,000
Series B	8/13/2002	10/15/2015	3.85%	600,000	-	125,000	475,000
DASNY	11/26/2002	6/1/2017	5.50%	5,180,000	-	630,000	4,550,000
Total				<u>\$ 7,655,000</u>	<u>\$ -</u>	<u>\$ 1,125,000</u>	<u>\$ 6,530,000</u>

The annual debt service requirements to maturity for governmental activities general obligation bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2012	\$ 1,178,000	\$ 320,735	\$ 1,498,735
2013	1,231,000	266,785	1,497,785
2014	1,290,000	206,905	1,496,905
2015	1,150,000	143,980	1,293,980
2016	818,000	92,455	910,455
2017	863,000	47,465	910,465
Total	<u>\$ 6,530,000</u>	<u>\$ 1,078,325</u>	<u>\$ 7,608,325</u>

**Capital Leases** – The District has entered into a 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, 2011, are as follows:

Year Ending June 30	Governmental Activities
2012	\$ 224,786
2013	224,786
2014	224,786
2015	224,786
2016	224,786
2017-2020	786,751
Total minimum lease payments	1,910,681
Less: amount representing interest	(317,013)
Present value of minimum lease payments	<u>\$ 1,593,668</u>

## 8. RETIREMENT PLANS

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

### A. *New York State Teachers' Retirement System (NYSTRS)*

**Plan Description**—The District makes contributions to the NYSTRS, a cost sharing, multiple employer defined benefit pension plan administered by the New York State Teachers' Retirement Board. The NYSTRS provides retirement, disability, withdrawal and death 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. The NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the NYSTRS. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, New York 12211-2395.

**Funding Policy**—Plan members who joined the NYSTRS before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 are required to contribute three percent (3.0%) of their annual salary for the first ten years. Those joining after January 1, 2010 (Tier 5) are required to contribute three and one-half percent (3.5%) of their annual salary for all their years of public service. Employers are required to contribute at an actuarially determined rate, currently 8.62% of the annual covered payroll for the fiscal year ended June 30, 2011. Rates applicable to the fiscal years ended June 30, 2010 and 2009 were 6.19% and 7.63%, respectively.

The required contributions for the current year and two preceding years were:

2011	\$ 2,184,056
2010	2,064,543
2009	2,317,843

The District's contributions made to the NYSTRS were equal to 100 percent of the contributions required for the current year.

### B. *New York State Employee's Retirement System (NYSERS)*

**Plan Description**—The District participates in the NYSERS and the Public Employees' Group Life Insurance Plan (Systems). This is a cost-sharing multiple-employer retirement system. The NYSERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the NYSERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the NYSERS and for custody and control of their funds. The NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

**Funding Policy**—The NYSERS is noncontributory except for employees who joined the NYSERS after July 27, 1976 who contribute 3% of their salary. The State Legislature passed legislation in 2000 that suspends the 3% contribution for employees who have ten years of service or more of credited service. Additionally members who meet certain eligibility requirements will receive one month additional service credit for each completed year of service up to a maximum of two additional years of service credit. Employees who joined the System after January 1, 2010 are required to contribute 3% for the duration of membership. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employees to the pension accumulation fund.

The District is required to contribute at an actuarially determined rate. The required contribution for the current year and two preceding years were:

2011	\$ 582,976
2010	456,960
2009	402,551

The District’s contributions made to the NYSTRS were equal to 100 percent of the contributions required for the current year.

## 9. LABOR RELATIONS

District employees are represented primarily by six bargaining units, with the balance of employees governed by Board of Education rules and regulations. Two contracts expired on June 30, 2011, two contracts will expire on June 30, 2012, and two contracts will expire on June 30, 2013.

## 10. POST RETIREMENT HEALTH CARE BENEFITS

**Plan Description**— The District pays for a portion of eligible retirees’ health insurance, depending on the type of health plan provided. Eligibility for postretirement benefits is based on age, years of service, accumulated sick leave and depends upon associated group or union as follows: (1) CSEA – Clerical, Nursing and Teacher Aide Unit, (2) CSEA – Custodial and Maintenance Unit, (3) Administration Association, (4) Managerial/Confidential Employees and (5) those covered various retirement incentives or individual contract..

**Funding Policy**—Authorization for the District to pay a portion of retiree health insurance premiums was enacted through various contracts, which were ratified by the District’s Board of Education. Upon retirement, the District generally pays a portion of the cost of the employee’s current coverage at the time of retirement for a period of time as outlined in the various contracts.

The District recognizes the cost of providing these benefits by expensing the annual insurance premiums when invoiced by the health insurance provider. District governmental activities contributed \$605,897 for the fiscal year ended June 30, 2011.

The District’s annual other postemployment benefit (“OPEB”) cost is calculated based on the annual required contribution (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the District's annual OPEB cost for the past two years, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	<u>Year ended June 30, 2011</u>	<u>Year ended June 30, 2010</u>
Annual required contribution	\$ 863,563	\$ 717,923
Interest on net OPEB obligation	11,066	-
Adjustment to annual required contribution	<u>(13,145)</u>	<u>191,034</u>
Annual OPEB costs (expense)	861,484	908,957
Contributions made	<u>(605,897)</u>	<u>(687,803)</u>
Increase in net OPEB obligation	255,587	221,154
Net OPEB obligation--beginning of year	<u>245,916</u>	<u>24,762</u>
Net OPEB obligation--end of year	<u>\$ 501,503</u>	<u>\$ 245,916</u>

As of September 15, 2011, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial accrued liability for benefits for governmental activities was \$13,343,968.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplemental information. This schedule presents multi-year trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Funding Status and Funding Progress**—As of June 30, 2011, the District has had two actuarial valuations performed. Accordingly, information from the both studies is presented in the District's Schedule of Funding Progress and the Schedule of the District's Contributions.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Accrued Liability ("AAL")</u>	<u>Unfunded AAL ("UAAL")</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL to Budget Covered Payroll</u>
As of September 15, 2011	\$ -	\$ 13,343,968	\$ 13,343,968	-	\$ 4,920,067	271.2%
As of October 1, 2008	-	11,597,079	11,597,079	-	4,548,879	254.9%

The Schedule of the District's contributions is shown below:

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed
2011	\$ 861,484	\$ 605,897	70.3%
2010	908,957	687,803	75.7%
2009	717,923	693,161	96.6%

**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 30, 2011 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a valuation date and measurement date of September 15, 2011. The expected investment rate of return on employer's assets is 4.5%. The 2006 New York State Teachers' Retirement System rates were used for mortality rates and retirement rates. The unfunded actuarial accrued liability is being amortized over 30 years, therefore the remaining amortization period at June 30, 2011 was twenty-seven years.

## 11. AGENCY FUNDS

An 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, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Assets:</b>				
Cash and cash equivalents	\$ 31,275	\$ 36,545,797	\$ 36,528,705	\$ 48,367
Restricted cash and investments	67,090	270,772	272,795	65,067
Due from other funds	2,026	36,493,396	36,495,422	-
	<u>\$ 100,391</u>	<u>\$ 73,309,965</u>	<u>\$ 73,296,922</u>	<u>\$ 113,434</u>
<b>Liabilities:</b>				
Agency fund liabilities	\$ 33,072	\$ 36,530,139	\$ 36,516,590	\$ 46,621
Due to other funds	229	1,746	229	1,746
Extraclassroom activity funds	67,090	270,772	272,795	65,067
	<u>\$ 100,391</u>	<u>\$ 36,802,657</u>	<u>\$ 36,789,614</u>	<u>\$ 113,434</u>

## 12. CONTINGENCIES AND RISK FINANCING

**General Liability** – The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District purchases commercial insurance to cover such potential risks. 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.

**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** – The District receives financial assistance from numerous federal and state agencies. The receipt of such assistance generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed expenditures resulting from such audits could become a liability of the District. Based on prior experience, the District expects any such amounts to be immaterial.

**Medical Self-Insurance**—During the year ended June 30, 2011, 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 a lifetime maximum specific benefit of \$3,000,000. Above this dollar amount the District will 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.

### **13. DEFICIT FUND BALANCE**

The Capital Projects Fund has a deficit fund balance totaling \$36,089,725 at June 30, 2011. The deficit is due to project expenditures exceeding revenues and other sources to date and will be eliminated through the issuance of long-term debt and funding from operating transfers.

### **14. SUBSEQUENT EVENTS**

On September 21, 2011, the District issued \$39,715,477 of bond anticipation notes (“BAN’s”) in connection with the original bond resolution adopted by the Board of Education on February 26, 2008 authorizing the issuance of \$43,200,000 in serial bonds to pay the cost of the construction and improvements and alterations to all District schools buildings and sites. The proceeds of the notes, along with \$2,107,827 in budgetary appropriations were used to redeem \$25,511,374 and \$16,311,930 in BAN’s maturing on September 22, 2011. These BAN’s mature on September 20, 2012 and bear interest at a rate of 1.25 percent.

Management has evaluated subsequent events through October 14, 2011, which is the date the financial statements are available for issuance, and have determined, except as disclosed above, there are no subsequent events that require disclosure under generally accepted accounting principles.

\* \* \* \* \*

## SUPPLEMENTAL SCHEDULES

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Change from Adopted Budget to Revised Budget—General Fund**  
**Year Ended June 30, 2011**

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Adopted budget 2010-2011	\$ 61,693,000
Add: June 30, 2010 encumbrances	<u>67,488</u>
Original budget 2010-2011	61,760,488
Add: Use of reserves - Employee Benefit Accrued Liability Reserve	279,739
Add: Use of reserves - Retirement Contribution Reserve	582,976
Add: Use of reserves - Capital Reserve - Buses	155,610
Add: Budget revisions for donations	<u>23,659</u>
Final budget 2010-2011	<u>\$ 62,802,472</u>
Next year's contingent budget (2011-2012)	<u>\$ 64,476,140</u>

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**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Use of the Beginning Fund Balance—General Fund\***  
**As of Beginning of the Year Ended June 30, 2011**

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Fund balance (unreserved), July 1, 2010	\$ 4,947,986
Less:	
Appropriated fund balance used for levy of taxes	<u>(2,481,934)</u>
Fund balance (undesignated), July 1, 2010	<u>\$ 2,466,052</u>

\*This schedule summarizes information as of the beginning of the year (i.e. July 1, 2010). The purpose is to demonstrate the District's compliance with the level of fund balance restrictions as contained in the State of New York Real Property Tax Law.

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Capital Projects Expenditures, Financing and Fund Balance**  
**Year Ended June 30, 2011**

<b>Project Title</b>	<b>S.E.D. Project No.</b>	<b>Original Appropriation</b>	<b>Revised Appropriation</b>	<b>Expenditures</b>			<b>Methods of Financing</b>				<b>Fund Balance 6/30/2011</b>
				<b>Prior Years</b>	<b>Current Year</b>	<b>Total</b>	<b>Proceeds of Obligations</b>	<b>E-Rate / Rescue Aid</b>	<b>Local Source</b>	<b>Total</b>	
<b>Repair &amp; Renovation:</b>											
Meadow complex	0015-005	\$ 4,817,972	\$ 6,782,028	\$ 6,800,161	\$ -	\$ 6,800,161	\$ 6,530,741	\$ 251,286	\$ -	\$ 6,782,027	\$ (18,134)
Bus garage parking lot	N/A	42,000	-	-	-	-	-	-	42,000	42,000	42,000
<b>Reconstruction &amp; Roofs:</b>											
Building Project	N/A	5,000	1,185,514	2,572,424	388,427	2,960,851	-	-	-	-	(2,960,851)
Grant School	002-008	5,321	6,363	3,793	1,660	5,453	-	-	-	-	(5,453)
Drake School	003-009	3,700,822	3,981,984	3,695,935	129,140	3,825,075	-	-	287,540	287,540	(3,537,535)
Gilmore School	010-010	10,636	12,717	7,586	3,319	10,905	-	-	-	-	(10,905)
Spruce School	011-009	124,907	5,536,365	1,285,300	3,613,965	4,899,265	-	-	-	-	(4,899,265)
Ohio School	014-010	94,790	5,113,479	619,221	3,503,856	4,123,077	-	-	-	-	(4,123,077)
Meadow Complex	015-013	847,611	17,046,708	3,088,967	12,048,292	15,137,259	-	-	1,153,304	1,153,304	(13,983,955)
NT Middle School	016-012	11,203,923	11,545,413	9,750,736	1,669,820	11,420,556	-	1,376,696	3,451,310	4,828,006	(6,592,550)
		<u>\$20,852,982</u>	<u>\$51,210,571</u>	<u>\$27,824,123</u>	<u>\$21,358,479</u>	<u>\$49,182,602</u>	<u>\$ 6,530,741</u>	<u>\$ 1,627,982</u>	<u>\$4,934,154</u>	<u>\$13,092,877</u>	<u>\$(36,089,725)</u>

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Revenues, Expenditures and Encumbrances - Budget and Actual - General Fund**  
**Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>				
Local sources:				
Real property taxes and other tax items	\$ 25,701,957	\$ 25,701,957	\$ 25,410,401	\$ (291,556)
Charges for services	354,900	354,900	269,682	(85,218)
Use of money and property	460,000	460,000	383,921	(76,079)
Sale of property and compensation for loss	13,000	13,000	8,085	(4,915)
Miscellaneous	350,000	373,659	556,952	183,293
State sources:				
Basic formula - general aids	17,265,437	15,333,349	14,473,053	(860,296)
Basic formula - excess cost aids	6,041,905	6,041,905	5,698,705	(343,200)
Lottery aid	5,176,438	5,176,438	5,163,952	(12,486)
VLT Lottery	817,710	817,710	1,254,582	436,872
BOCES aid	1,947,324	1,947,324	1,996,337	49,013
Tuition aid - students with disabilities	277,694	277,694	25,550	(252,144)
Textbook aid	246,948	246,948	259,271	12,323
All other aid:				
Computer software	155,100	155,100	127,583	(27,517)
Library / loan program	27,653	27,653	26,143	(1,510)
State aid - rail infrastructure	-	-	37,006	37,006
Federal aid	<u>300,000</u>	<u>2,232,088</u>	<u>1,932,088</u>	<u>(300,000)</u>
Total revenues	59,136,066	59,159,725	57,623,311	(1,536,414)
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>75,000</u>	<u>75,000</u>	<u>688,610</u>	<u>613,610</u>
Total revenues and other financing sources	59,211,066	59,234,725	<u>58,311,921</u>	<u>(922,804)</u>
Appropriated fund balance	<u>2,549,422</u>	<u>3,567,747</u>		
Total revenues and appropriated fund balance	<u>\$ 61,760,488</u>	<u>\$ 62,802,472</u>		
Grand total revenues			<u>\$ 58,311,921</u>	

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Revenues, Expenditures and Encumbrances - Budget and Actual - General Fund**  
**Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Encum- brances</u>	<u>Unencumbered Balances</u>
<b>EXPENDITURES</b>					
General Support:					
Board of education	\$ 25,003	\$ 30,203	\$ 28,706	\$ -	\$ 1,497
Central administration	238,260	246,922	199,565	-	47,357
Finance	453,100	480,102	419,255	20,458	40,389
Staff	397,800	452,230	419,560	2,250	30,420
Central services	6,135,792	6,133,081	4,858,743	110,264	1,164,074
Special items	794,933	672,186	623,897	-	48,289
Instruction:					
Instruction, administration and improvements	1,731,360	1,814,913	1,769,374	527	45,012
Teaching - regular school	19,743,933	19,838,995	19,690,562	13,347	135,086
Programs for pupils with handicapping conditions	9,683,094	9,677,934	9,496,971	-	180,963
Occupational education	1,283,250	1,283,250	1,265,958	17,292	-
Teaching - special school	348,400	348,400	253,335	39,302	55,763
Instructional media	1,132,113	1,227,928	1,216,488	428	11,012
Pupil services	2,846,462	2,920,192	2,767,083	14,492	138,617
Pupil transportation	2,749,636	2,791,057	2,589,380	6,000	195,677
Employee benefits	11,587,462	12,344,543	11,307,643	16,000	1,020,900
Debt service:					
Debt service - principal	1,689,003	1,689,003	1,689,003	-	-
Debt service - interest	795,887	726,533	721,707	-	4,826
Total expenditures	<u>61,635,488</u>	<u>62,677,472</u>	<u>59,317,230</u>	<u>240,360</u>	<u>3,119,882</u>
<b>OTHER FINANCING USES</b>					
Transfers out	<u>125,000</u>	<u>125,000</u>	<u>84,483</u>	<u>-</u>	<u>40,517</u>
Total expenditures and other financing uses	<u>\$ 61,760,488</u>	<u>\$ 62,802,472</u>	<u>59,401,713</u>	<u>\$ 240,360</u>	<u>\$ 3,160,399</u>
Excess of revenues and other financing sources over expenditures and other financing uses			<u>\$ (1,089,792)</u>		

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Certain Revenues and Expenditures**  
**Compared to ST-3 Data—General Fund**  
**Year Ended June 30, 2011**

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	<u>Account Code</u>	<u>ST-3 Amount</u>	<u>Audited Amount</u>
<b>REVENUES</b>			
Real property taxes and other tax items	AT-1001/AT-1099	\$ 25,410,401	\$ 25,410,401
State sources	AT-3999	29,062,182	29,062,182
Federal sources	AT-4999	1,932,088	1,932,088
Total revenues	AT-5999	\$ 58,126,976	\$ 58,311,921 (1)
<b>EXPENDITURES</b>			
General support	AT-1999	\$ 6,549,726	\$ 6,549,726
Pupil transportation	AT-5599	2,589,381	2,589,380
Debt service—principal	AT-9798.6	1,689,002	1,689,003
Debt service—interest	AT-9798.7	721,708	721,707
Total expenditures	AT-9999	\$ 59,401,713	\$ 59,401,713

(1) Represents a transfer from the capital projects fund recorded on the financial statements.

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# FEDERAL AWARDS

**NORTH TONAWANDA CITY SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

<u>Federal Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Agency Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Passed through New York State Dept. of Agriculture			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	N/A	\$ 110,605
National School Lunch Program	10.555	N/A	<u>538,749</u>
Total Child Nutrition Cluster:			649,354
Commodity Supplemental Food Program	10.565	N/A	<u>83,343</u>
Passed through New York State Dept. of Health			
Child and Adult Care Food Program	10.558	C002726	<u>4,589</u>
<b>Total U.S. Department of Agriculture</b>			<u>737,286</u>
<b>U.S. Department of Education</b>			
Passed through New York State Dept. of Education			
Special Education Cluster:			
Special Education-Grants to States (IDEA, Part B)	84.027	0032-11-0611	1,110,627
Special Education-Preschool Grants (IDEA Preschool)	84.173	0033-11-0611	73,219
ARRA - Special Education-Grants to States (IDEA, Part B)	84.391	5032-11-0611	515,477
ARRA - Special Education-Preschool Grants (IDEA Preschool)	84.392	5033-11-0611	<u>20,809</u>
Total Special Education Cluster			<u>1,720,132</u>
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies (LEAs)	84.010	021-11-1970	723,860
ARRA - Title I Grants to Local Educational Agencies (LEAs)	84.389	5021-11-1970	<u>44,702</u>
Total Title I, Part A Cluster			<u>768,562</u>
Safe and Drug-Free Schools and Communities	84.186	0180-10-1970	7,475
Safe and Drug-Free Schools and Communities	84.186	0180-11-1970	13,593
Education Technology - State Grants	84.318	0291-09-0003	1,233
Education Technology - State Grants	84.318	0292-10-1970	4,296
Education Technology - State Grants	84.318	0292-11-1970	4,161
Improving Teacher Quality - State Grants	84.367	0147-10-1970	4,450
Improving Teacher Quality - State Grants	84.367	0147-11-1970	239,780
ARRA - State Fiscal Stabilization Fund (SFSF)	84.394	5000-11-1970	<u>1,932,088</u>
<b>Total US Department of Education</b>			<u>4,695,770</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 5,433,056</u>

The notes to this schedule of expenditures are an integral part of this statement.

**NORTH TONAWANDA CITY SCHOOL DISTRICT**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2011**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs administered by North Tonawanda City School District (the "District"), an entity as defined in Note 1 to the District's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other government agencies, are included on the Schedule of Expenditures of Federal Awards.

**2. BASIS OF ACCOUNTING**

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable program and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with the District's financial reporting system.

**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, 2011, the District used \$83,343 worth of commodities.

**4. RECONCILIATION OF FEDERAL AID**

Total federal expenditures for the District's 2011-12 fiscal year is reconciled to Federal Sources as reported in the basic financial statements as follows:

Balance per schedule of expenditures of federal awards	\$ 5,433,056
Less: Child and Adult Care Food Program (CFDA 10.558), which is recorded in General Fund Charges for Services revenue	<u>(4,589)</u>
Total Federal Sources per financial statements	<u>\$ 5,428,467</u>

\* \* \* \* \*

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

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

We have audited the basic financial statements of North Tonawanda City School District, New York (the "District"), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a significant deficiency in internal control over financial reporting. 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.

## Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated October 14, 2011.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and accordingly express no opinion on it.

This report is intended solely for the information and use of the District's Audit Committee, Board of Education, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 14, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Education  
North Tonawanda City School District, New York

**Compliance**

We have audited 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) Circular A-133 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, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on North Tonawanda City School District's compliance based on our audit.

We conducted our audit 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs, as item 2011-02.

## Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The District's response to finding 2011-2 identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the District's Audit Committee, Board of Education, management, federal awarding agencies, state funding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Drescher & Malecki LLP*

October 14, 2011

**NORTH TONAWANDA CITY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

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**Part I. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- |  |             |                     |
|--|-------------|---------------------|
| 1. Material weakness(es) identified?                     | _____ Yes   | ✓ _____ No          |
| 2. Significant deficiency(ies) identified?               | ✓ _____ Yes | _____ None reported |
| 3. Noncompliance material to financial statements noted? | _____ Yes   | ✓ _____ No          |

**Federal Awards:**

Internal control over major programs:

- |  |           |                       |
|--|-----------|-----------------------|
| 4. Material weakness(es) identified?       | _____ Yes | ✓ _____ No            |
| 5. Significant deficiency(ies) identified? | _____ Yes | ✓ _____ None reported |

Type of auditors' report issued on compliance for major programs:

Unqualified

- |   |             |          |
|---|-------------|----------|
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | ✓ _____ Yes | _____ No |
| 7. The District's major programs were:  |             |          |

<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
Special Education Cluster	
Special Education-Grants to States	84.027
Special Education-Preschool Grants	84.173
ARRA – Special Education-Grants to States	84.391
ARRA – Special Education-Preschool Grants	84.392
ARRA – State Fiscal Stabilization Fund	84.394

- |   |             |                   |
|---|-------------|-------------------|
| 8. Dollar threshold used to distinguish between Type A and Type B programs? |             | \$ <u>300,000</u> |
| 9. Auditee qualified as low-risk auditee?                                   | ✓ _____ Yes | _____ No          |

## Part II. FINANCIAL STATEMENT FINDINGS SECTION

*We consider the deficiency presented below to be a significant deficiency in internal control.*

### **Finding 2011-1—Accruals**

Criteria—Procedures should be implemented in regards to accounts receivable and accounts payable in order to ensure that assets, liabilities and fund balance are properly stated at year end.

Condition—The District excluded certain revenues and expenditures within accounts receivable and payable, respectively, at June 30, 2011. Additionally, certain expenditures were improperly included in accounts payable which were not incurred until after fiscal year ended June 30, 2011.

Cause—Lack of formal procedures at year end and improper treatment of accruals.

Effect—The District risks misstating revenues, expenditures, assets and liabilities at year end.

Recommendation—We recommend that each material July and August receipt and disbursement be reviewed for proper inclusion or exclusion in the accounts receivable and payable balance. We also recommend that the District consider incorporating a materiality threshold into this cutoff policy so that all material items are included at year end.

Management's Corrective Action Plan—Management has recorded a correcting journal entry for items identified and will review future receipts and disbursements made subsequent to year end for proper inclusion or exclusion in the year end accounts payable balance.

### **Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION**

#### **Finding 2011-2—Special Education-Payroll Certification**

##### **Special Education Cluster - CFDA NO. 84.027, 84.173, 84.391 and 84.392**

Criteria—Per federal guidelines, there are two separate sets of rules for employee certification, depending on whether the employee works solely on a federal award, or on multiple federal awards. When an employee is expected to work solely on a federal award, charges for salaries need to be supported by periodic certifications. This certification needs to be prepared at least semiannually and signed by the employee or supervisory official having firsthand knowledge of work performed by the employee. When an employee works on multiple activities, a distribution of their salaries needs to be supported by an activity report which met additional standards. These additional standards include after-the-fact distribution of actual activity of each employee, accounting for the total activity for which an employee is compensated, monthly preparation which coincides with pay periods, and employee signatures.

Condition—Payroll funded through IDEA awards (84-027, 84-391, 84-173, 84-392) were not certified.

Cause—The District was unaware of requirement.

Effect—Payroll costs may be misclassified for federal award purposes.

Recommendation—We recommend that the District develop a procedure to certify payroll in accordance with federal standards as explained above.

Management's Corrective Action Plan— Management will implement appropriate payroll certification procedures for future years.

**NORTH TONAWANDA CITY SCHOOL DISTRICT**  
**Schedule of Prior Federal Awards Audit Findings**  
**Year Ended June 30, 2011 (Follow up on June 30, 2010 Findings)**

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**Finding 2010-01 – Allocation of Title I Funding**

CFDA#: 84.010 - Title I Grants to Local Educational Agencies (LEAs)  
84.389 - ARRA - Title I Grants to Local Educational Agencies (LEAs)

Criteria – An LEA must allocate Part A funds to each participating school attendance area or school, in rank order, on the basis of the total number of children from low-income families residing in the area or attending the school.

Condition – District expenditures of Title I funding in eligible schools are not based on the total number of children from low-income families residing in the area or attending the school.

Cause – No formal criteria are used when allocating Title I funds to eligible schools.

Effect – Schools that have a higher number of low-income families residing in the area or attending the school may not be receiving the intended funding.

Recommendation – We recommend that the District allocate Title I funding to eligible schools on the basis of the total number of children from low-income families residing in the area or attending the school at the time the District applied for such funding.

Management Corrective Action – The District intends to monitor expenditures of Title I funds within eligible schools so as to comply with the above criteria.

Status – The District has remedied this finding by allocating Title I funds to eligible schools based on the total number of children from low-income families residing in the area or attending the school.