

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, 2013
and Independent Auditors' Reports*

NORTH TONAWANDA CITY SCHOOL DISTRICT
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FINANCIAL SECTION

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2013, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplemental schedules and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental schedules and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



October 8, 2013

NORTH TONAWANDA CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

As management of the North Tonawanda City School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with additional information contained in the financial statements and notes to the financial statements. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- ◆ At June 30, 2013, the District's assets exceeded its liabilities by \$46,820,989 (*net position*). Of this amount, the District had an unrestricted balance of \$2,222,124.
- ◆ During the year ended June 30, 2013, the District's total net position increased by \$2,950,336.
- ◆ At the close of the current year fiscal year, the District's governmental funds reported a combined ending fund balance deficit of \$19,520,393, a \$2,002,482 improvement from last year's deficit.
- ◆ The General Fund reported an unassigned fund balance of \$1,842,871, which represents approximately 3.1% 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. The major phases of the capital project are completed as of June 30, 2013.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The basic financial statements include two kinds of statements that present different views of the District.

Government-wide financial statements. The *government-wide financial statements* are designed to provide the reader with a broad overview of the District's finances, similar in format to a financial statement of a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation expense on capital assets).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by state and federal sources and intergovernmental revenues (governmental activities) from

other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the District include general support, instruction, pupil transportation, and food service.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has two kinds of funds:

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Special Aid, School Lunch, Capital Projects and Debt Service Funds, all of which are considered to be major.

The District adopts an annual appropriated budget for its General Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 12-16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The District maintains two fiduciary funds, a Private Purpose Trust Fund and an Agency Fund.

The fiduciary fund financial statements can be found on pages 17-18 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-39 of this report.

Other information. As stated earlier, in addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

Additionally, supplemental schedules can be found following the notes to the financial statements on pages 40-43 of this report. The Federal Awards information can be found at pages 44-52 of this report.

Government-wide Financial Analysis

As mentioned earlier, net position may serve as a useful indicator of the District's financial position. At the close of fiscal year June 30, 2013, assets exceeded liabilities by \$46,820,989.

Table 1—Condensed Statement of Net Position

	June 30,	
	2013	2012
Current and other assets	\$ 23,688,236	\$ 25,091,826
Capital assets	<u>76,739,429</u>	<u>78,143,777</u>
Total assets	<u>100,427,665</u>	<u>103,235,603</u>
Current liabilities	43,066,239	46,566,858
Noncurrent liabilities	<u>10,540,437</u>	<u>12,798,092</u>
Total liabilities	<u>53,606,676</u>	<u>59,364,950</u>
Net position:		
Net investment in capital assets	33,955,528	31,978,344
Restricted	10,643,337	11,526,442
Unrestricted	<u>2,222,124</u>	<u>365,867</u>
Total net position	<u>\$ 46,820,989</u>	<u>\$ 43,870,653</u>

The most significant part of the District's net position 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 position represent unspent amounts set aside for capital projects, future debt payments, workers' compensation, unemployment insurance, retirement contributions, insurance and employee benefits. The remaining balance represents an unrestricted balance of \$2,222,124.

Table 2, as presented on the following page, shows the changes in net position for the years ended June 30, 2013 and 2012.

Table 2—Condensed Statement of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 523,987	\$ 537,749
Operating grants and contributions	4,196,376	5,478,024
General revenues	<u>59,719,002</u>	<u>60,277,839</u>
Total revenues	64,439,365	66,293,612
Program expenses	<u>61,489,029</u>	<u>63,617,870</u>
Change in net position	2,950,336	2,675,742
Net position—beginning	<u>43,870,653</u>	<u>41,194,911</u>
Net position—ending	<u>\$ 46,820,989</u>	<u>\$ 43,870,653</u>

A summary of sources of revenues for the years ended June 30, 2013 and June 30, 2012 is presented below in Table 3:

Table 3—Summary of Sources of Revenues

	Year ended June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent
Charges for services	\$ 523,987	\$ 537,749	\$ (13,762)	(2.6)
Operating grants and contributions	4,196,376	5,478,024	(1,281,648)	(23.4)
Real property taxes and other tax items	26,452,999	25,861,779	591,220	2.3
Use of money and property	433,859	432,492	1,367	0.3
Sale of property and compensation for loss	3,083	14,700	(11,617)	(79.0)
Miscellaneous	680,233	1,283,239	(603,006)	(47.0)
State aid - unrestricted	<u>32,148,828</u>	<u>32,685,629</u>	<u>(536,801)</u>	<u>(1.6)</u>
Total revenues	<u>\$64,439,365</u>	<u>\$66,293,612</u>	<u>\$ (1,854,247)</u>	<u>(2.8)</u>

The most significant sources revenue for the year ended June 30, 2013 are unrestricted state aid of \$32,148,828 or 49.9 percent of total revenues, real property taxes and items of \$26,452,999 or 41.0 percent of total revenues and operating grants and contributions of \$4,196,376 or 6.5 percent of total revenues. Similarly, for the year ended June 30, 2012, the largest revenues were unrestricted state aid of \$32,685,629 or 49.3 percent of total revenues, real property taxes and items of \$25,861,779 or 39.0 percent of total revenues and operating grants and contributions of \$5,478,024 or 8.3 percent of total revenues.

A summary of program expenses for the years ended June 30, 2013 and June 30, 2012 is presented below in Table 4:

Table 4—Summary of Program Expenses

	Year ended June 30,		Increase/(decrease)	
	2013	2012	Dollars	Percent
General support	\$ 7,135,575	\$ 8,243,906	\$ (1,108,331)	(13.4)
Instruction	49,506,186	50,152,202	(646,016)	(1.3)
Pupil transportation	3,066,666	3,192,580	(125,914)	(3.9)
School food service	1,125,047	1,142,843	(17,796)	(1.6)
Interest and other fiscal charges	655,555	886,339	(230,784)	(26.0)
Total program expenses	<u>\$ 61,489,029</u>	<u>\$ 63,617,870</u>	<u>\$ (2,128,841)</u>	(3.3)

The District's significant expense items for the year ended June 30, 2013 were instruction of \$49,506,186, or 80.5 percent of total expenses, general support of \$7,135,575, or 11.6 percent of total expenses and pupil transportation of \$3,066,666, or 5.0 percent of total expenses. Similarly, for the year ended June 30, 2012 significant expense items were instruction of \$50,152,202, or 78.8 percent of total expenses, general support \$8,243,906, or 13.0 percent of total expenses and pupil transportation of \$3,192,580, or 5.0 percent of total expenses.

Financial Analysis of the District's Funds

Governmental funds. The focus of the District's governmental funds is to 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, 2013, the District's governmental funds reported a combined ending fund balance (deficit) of \$19,520,393, an improvement of \$2,002,482 from the prior year's deficit. The change is primarily due to the District's ability to control spending during the year ended June 30, 2013.

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 \$1,842,871 while the total fund balance was \$17,448,509. Unassigned fund balance increased by \$683,909 while the total fund balance increased by \$51,298. Key factors in these changes are as follows:

- Expenditures and transfers out were \$4,943,496 lower than budgetary appropriations largely due to lower than expected costs in all categories of expenditures. General support expenditures were \$1,992,244 less than budgetary appropriations primarily due to conservative spending within Central Services. Employee benefit expenditures were \$1,582,125 less than budgetary appropriations primarily due to a decrease in health insurance expenditures.

Special Aid Fund. Special Aid Fund expenditures and transfers out during the year ended June 30, 2013 amounted to \$3,290,386, a decrease of \$1,573,284 over the prior year mainly due to funds received in the prior year for the Education Jobs Fund which were not received in the current year.

School Lunch Fund. The School Lunch Fund balance is \$421,784 as of June 30, 2013. 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.

Capital Projects Fund. The Capital Projects Fund has a total fund deficit of \$37,390,686 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 bonds. As noted previously, District voters approved a \$48,000,000 capital project in April 2008.

General Fund Budgetary Highlights

The difference between the adopted budget and the final amended budget was an increase of \$341,441 which was a result of the amendments listed below:

Adopted budget	\$ 64,752,897
Carryover of prior year encumbrances	16,441
Grant-in-aid	125,000
Capital reserve - buses	<u>200,000</u>
Final budget	<u>\$ 65,094,338</u>

The final budget exceeded total expenditures and transfers out by \$4,943,496. There was a variance with the final budget for operating transfers totaling \$2,046,684 due to presentation differences. For budgetary purposes, the District's BAN principal payment of \$2,150,477 is classified as a debt service expense. However, in conformity with accounting principles generally accepted in the United States, the payment is presented as an operating transfer to the Capital Projects Fund. There was a decrease of general support expenditures due to conservative spending within central services. Additionally, there was a decrease of employee benefit expenditures due to a decrease in health insurance expenditures.

Capital Assets and Debt Administration

Capital Assets. The District's investment in capital assets amounts to \$76,739,429 (net of accumulated depreciation). Capital assets at June 30, 2013 and 2012 are outlined in Table 5 below:

Table 5—Summary of Capital Assets (Net of Depreciation)

	June 30,	
	<u>2013</u>	<u>2012</u>
Land	\$ 246,107	\$ 246,107
Construction in progress	-	47,683,888
Buildings and improvements	107,070,330	58,828,992
Furniture, equipment and vehicles	<u>4,720,577</u>	<u>4,560,320</u>
	<u>112,037,014</u>	<u>111,319,307</u>
Accumulated depreciation	<u>(35,297,585)</u>	<u>(33,175,530)</u>
	<u>\$ 76,739,429</u>	<u>\$ 78,143,777</u>

Additional information on the District's capital assets can be found in Note 4 to the basic financial statements.

Debt Administration. At June 30, 2013, the District had \$5,188,986 in outstanding bonds and capital leases, with \$1,443,045 due within one year. The District also has short-term bond anticipation notes of \$37,565,000 that it intends to obtain long-term financing. Outstanding compensated absences and the net OPEB obligation amounted to \$5,147,222 with \$689,925 due within one year.

Additional information on the District's short-term and long-term debt can be found in Notes 10 and 11 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 City of North Tonawanda at June 30, 2013 was 7.3 percent, which is a decrease from a rate of 8.6 percent a year ago. This compares favorably to New York State's average unemployment rate of 7.6 percent and favorably to the national average rate of 7.6 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 Position

June 30, 2013

	<u>Primary Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 6,990,003
Restricted cash	11,287,684
Taxes receivable	529,390
Accounts receivable	265,476
Internal balances	16,863
Due from other governments	4,402,568
Prepaid items	685
Cash value of life insurance	138,008
Inventory	57,559
Noncurrent assets:	
Capital assets not being depreciated	246,107
Capital assets net of accumulated depreciation	<u>76,493,322</u>
Total assets	<u>100,427,665</u>
LIABILITIES	
Accounts payable	580,504
Accrued liabilities	1,564,729
Bond anticipation notes payable	37,565,000
Retainages payable	6,648
Due to NYS Teachers' Retirement System	3,025,099
Due to NYS Employees' Retirement System	297,281
Unearned revenue	26,978
Noncurrent liabilities:	
Due within one year	2,191,321
Due within more than one year	<u>8,349,116</u>
Total liabilities	<u>53,606,676</u>
NET POSITION	
Net investment in capital assets	33,955,528
Restricted for:	
Capital - buildings	3,364,640
Capital - technology	2,060,440
Debt service - Lowry	40,471
Debt service	1,405,394
Workers' compensation	1,082,831
Unemployment insurance	1,005,309
Retirement contribution	419,881
Insurance	1,160,352
Employee benefits	104,019
Unrestricted	<u>2,222,124</u>
Total net position	<u>\$ 46,820,989</u>

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, 2013

<u>Function/Program</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Governmental Activities</u>
Primary Government:				
Governmental activities:				
General support	\$ 7,135,575	\$ -	\$ -	\$ (7,135,575)
Instruction	49,506,186	154,883	3,389,019	(45,962,284)
Pupil transportation	3,066,666	-	-	(3,066,666)
School food service	1,125,047	369,104	807,357	51,414
Interest and other fiscal charges	<u>655,555</u>	<u>-</u>	<u>-</u>	<u>(655,555)</u>
Total primary government	<u>\$ 61,489,029</u>	<u>\$ 523,987</u>	<u>\$ 4,196,376</u>	<u>(56,768,666)</u>
General revenues:				
				26,452,999
				433,859
				3,083
				680,233
				<u>32,148,828</u>
				<u>59,719,002</u>
				2,950,336
				<u>43,870,653</u>
				<u>\$ 46,820,989</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, 2013

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 2,167,446	\$ 4,100,328	\$ 722,229	\$ -	\$ -	\$ 6,990,003
Restricted cash and cash equivalents	10,643,337	-	-	644,347	-	11,287,684
Taxes receivable	529,390	-	-	-	-	529,390
Accounts receivable	264,567	909	-	-	-	265,476
Due from other funds	7,361,254	115,909	-	-	-	7,477,163
Due from other governments	1,854,376	2,504,022	44,170	-	-	4,402,568
Prepaid items	685	-	-	-	-	685
Cash value of life insurance	138,008	-	-	-	-	138,008
Inventory	-	-	57,559	-	-	57,559
Total assets	<u>\$ 22,959,063</u>	<u>\$ 6,721,168</u>	<u>\$ 823,958</u>	<u>\$ 644,347</u>	<u>\$ -</u>	<u>\$ 31,148,536</u>
LIABILITIES						
Accounts payable	\$ 473,272	\$ 37,094	\$ 45,621	\$ 24,517	-	\$ 580,504
Accrued liabilities	1,228,504	1,225	-	-	-	1,229,729
Bond anticipation notes payable	-	-	-	37,565,000	-	37,565,000
Due to other funds	7,058	6,659,432	354,942	438,868	-	7,460,300
Retainages	-	-	-	6,648	-	6,648
Due to NYS Teachers' Retirement System	3,025,099	-	-	-	-	3,025,099
Due to NYS Employees' Retirement System	297,281	-	-	-	-	297,281
Unearned revenue	1,950	23,417	1,611	-	-	26,978
Total liabilities	<u>5,033,164</u>	<u>6,721,168</u>	<u>402,174</u>	<u>38,035,033</u>	<u>-</u>	<u>50,191,539</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues - taxes	477,390	-	-	-	-	477,390
Total deferred inflows of resources	477,390	-	-	-	-	477,390
FUND BALANCES (DEFICIT)						
Nonspendable:						
Prepaid items	685	-	-	-	-	685
Life insurance	138,008	-	-	-	-	138,008
Inventory	-	-	57,559	-	-	57,559
Restricted for:						
Capital - buildings	3,364,640	-	-	-	-	3,364,640
Capital - technology	2,060,440	-	-	-	-	2,060,440
Debt service - Lowry	40,471	-	-	-	-	40,471
Debt service	1,405,394	-	-	-	-	1,405,394
Workers' compensation	1,082,831	-	-	-	-	1,082,831
Unemployment insurance	1,005,309	-	-	-	-	1,005,309
Retirement contribution	419,881	-	-	-	-	419,881
Insurance	1,160,352	-	-	-	-	1,160,352
Employee benefits	104,019	-	-	-	-	104,019
Assigned to:						
Subsequent year's expenditures	4,757,385	-	-	-	-	4,757,385
Encumbrances	66,223	-	-	-	-	66,223
School lunch	-	-	364,225	-	-	364,225
Unassigned	1,842,871	-	-	(37,390,686)	-	(35,547,815)
Total fund balances (deficit)	<u>17,448,509</u>	<u>-</u>	<u>421,784</u>	<u>(37,390,686)</u>	<u>-</u>	<u>(19,520,393)</u>
Total liabilities, deferred inflows of resources and fund balance (deficit)	<u>\$ 22,959,063</u>	<u>\$ 6,721,168</u>	<u>\$ 823,958</u>	<u>\$ 644,347</u>	<u>\$ -</u>	<u>\$ 31,148,536</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 Position
June 30, 2013

Amounts reported for governmental activities in the statement of net position (page 10) are different because:

Total fund balances (deficit)—governmental funds (page 12)		\$ (19,520,393)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$112,037,014 and the accumulated depreciation is \$35,297,585.		76,739,429
Long-term liabilities, including bonds payable, capital leases, other postemployment benefits ("OPEB"), and compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	\$ (3,920,000)	
Net premium on bonds payable	(204,229)	
Capital leases	(1,268,986)	
Net OPEB obligation	(862,300)	
Compensated absences	<u>(4,284,922)</u>	(10,540,437)
Net accrued interest expense for bond anticipation notes, bonds and capital leases is not reported in the funds.		(335,000)
Amounts relating to taxes receivable have not met the revenue recognition criteria for fund financial purposes and, therefore, have been recorded as deferred inflows of resources. 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>477,390</u>
Total net position—governmental activities		<u>\$ 46,820,989</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, 2013

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
REVENUES						
Real property taxes and other tax items	\$ 26,423,218	\$ -	\$ -	\$ -	\$ -	\$ 26,423,218
Charges for services	154,883	-	-	-	-	154,883
Use of money and property	432,721	-	1,138	-	-	433,859
Sale of property and compensation for loss	3,083	-	-	-	-	3,083
Miscellaneous	412,589	85,940	90	181,614	-	680,233
State sources	32,148,828	971,229	32,022	-	-	33,152,079
Federal sources	305,780	2,112,010	775,335	-	-	3,193,125
Sales (food service)	-	-	369,104	-	-	369,104
Total revenues	<u>59,881,102</u>	<u>3,169,179</u>	<u>1,177,689</u>	<u>181,614</u>	<u>-</u>	<u>64,409,584</u>
EXPENDITURES						
Current:						
General support	5,970,270	-	-	-	-	5,970,270
Instruction	35,474,330	3,269,562	-	-	-	38,743,892
Pupil transportation	2,415,429	-	-	-	-	2,415,429
Employee benefits	11,905,229	-	-	-	-	11,905,229
Cost of sales (food service)	-	-	1,095,858	-	-	1,095,858
Capital outlay	-	-	-	162,524	-	162,524
Debt service:						
Principal	1,435,808	-	-	-	-	1,435,808
Interest and other fiscal charges	678,092	-	-	-	53,240	731,332
Total expenditures	<u>57,879,158</u>	<u>3,269,562</u>	<u>1,095,858</u>	<u>162,524</u>	<u>53,240</u>	<u>62,460,342</u>
Excess (deficiency) of revenues over expenditures	<u>2,001,944</u>	<u>(100,383)</u>	<u>81,831</u>	<u>19,090</u>	<u>(53,240)</u>	<u>1,949,242</u>
OTHER FINANCING SOURCES (USES)						
Refunding bonds	-	-	-	-	3,725,000	3,725,000
Bond premium	-	-	-	-	233,405	233,405
Payment to escrow agent	-	-	-	-	(3,905,165)	(3,905,165)
Transfers in	321,038	121,207	-	2,150,477	-	2,592,722
Transfers out	(2,271,684)	(20,824)	(118,600)	(181,614)	-	(2,592,722)
Total other financing sources (uses)	<u>(1,950,646)</u>	<u>100,383</u>	<u>(118,600)</u>	<u>1,968,863</u>	<u>53,240</u>	<u>53,240</u>
Net change in fund balances	51,298	-	(36,769)	1,987,953	-	2,002,482
Fund balances (deficit)—beginning	17,397,211	-	458,553	(39,378,639)	-	(21,522,875)
Fund balances (deficit)—ending	<u>\$ 17,448,509</u>	<u>\$ -</u>	<u>\$ 421,784</u>	<u>\$ (37,390,686)</u>	<u>\$ -</u>	<u>\$ (19,520,393)</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, 2013

Amounts reported for governmental activities in the statement of activities (page 11) are different because:

Net change in fund balances—total governmental funds (page 14) \$ 2,002,482

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 asset additions	\$ 717,707	
Depreciation expense	<u>(2,122,055)</u>	(1,404,348)

The issuance of long-term debt (e.g. bonds, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. 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	\$ 1,270,000	
Refunding bonds	(3,725,000)	
Premiums on refunding	(233,405)	
Current year amortization of premium	29,176	
Reduction in principal from refunding	3,887,000	
Principal repayment of capital leases	165,808	
Change in interest expense accrued	<u>64,766</u>	1,458,345

In the statement of activities, certain operating expenses and other post employment benefits 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:

Change in net OPEB obligation	(105,210)	
Change in net compensated absences	<u>969,286</u>	864,076

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 inflows of resources during the current year is:

	<u>29,781</u>	
Change in net position of governmental activities		<u><u>\$ 2,950,336</u></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—

Budget and Actual—General Fund

Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Real property taxes and other tax items	\$ 26,465,695	\$ 26,465,695	\$ 26,423,218	\$ (42,477)
Charges for services	276,798	276,798	154,883	(121,915)
Use of money and property	492,000	492,000	432,721	(59,279)
Sale of property and compensation for loss	12,860	12,860	3,083	(9,777)
Miscellaneous	606,428	606,428	412,589	(193,839)
State sources	31,962,629	32,087,629	32,148,828	61,199
Federal sources	300,000	300,000	305,780	5,780
Total revenues	<u>60,116,410</u>	<u>60,241,410</u>	<u>59,881,102</u>	<u>(360,308)</u>
EXPENDITURES				
Current:				
General support	7,956,917	7,962,512	5,970,270	1,992,242
Instruction	35,726,430	36,130,358	35,474,330	656,028
Pupil transportation	2,720,987	2,920,999	2,415,429	505,570
Employee benefits	13,771,889	13,487,354	11,905,229	1,582,125
Debt service:				
Principal	3,547,286	3,586,286	1,435,808	2,150,478
Interest	820,827	781,827	678,092	103,735
Total expenditures	<u>64,544,336</u>	<u>64,869,336</u>	<u>57,879,158</u>	<u>6,990,178</u>
Excess (deficiency) of revenues over expenditures	<u>(4,427,926)</u>	<u>(4,627,926)</u>	<u>2,001,944</u>	<u>6,629,870</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	79,100	79,100	321,038	241,938
Transfers out	<u>(225,000)</u>	<u>(225,000)</u>	<u>(2,271,684)</u>	<u>(2,046,684)</u>
Total other financing sources (uses)	<u>(145,900)</u>	<u>(145,900)</u>	<u>(1,950,646)</u>	<u>(1,804,746)</u>
Net change in fund balances*	(4,573,826)	(4,773,826)	51,298	4,825,124
Fund balances—beginning	<u>13,079,265</u>	<u>12,838,905</u>	<u>17,397,211</u>	<u>4,558,306</u>
Fund balances—ending	<u>\$ 8,505,439</u>	<u>\$ 8,065,079</u>	<u>\$ 17,448,509</u>	<u>\$ 9,383,430</u>

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

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

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK

Statement of Net Position

Fiduciary Funds

June 30, 2013

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and cash equivalents	\$ -	\$ -
Restricted cash and cash equivalents	<u>126,362</u>	<u>285,108</u>
Total assets	<u>126,362</u>	<u>\$ 285,108</u>
LIABILITIES		
Agency fund liabilities	-	\$ 196,743
Due to other funds	-	16,863
Extraclassroom activity funds	<u>-</u>	<u>71,502</u>
Total liabilities	<u>-</u>	<u>\$ 285,108</u>
NET POSITION		
Endowment scholarships	<u>126,362</u>	
Total net position	<u>\$ 126,362</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 Net Position

Fiduciary Fund

Year Ended June 30, 2013

	<u>Private Purpose Trust Fund</u>
Additions:	
Gifts and contributions	\$ 6,915
Investment earnings	<u>63</u>
Total additions	<u>6,978</u>
Deductions:	
Scholarships and awards	<u>15,884</u>
Total deductions	<u>15,884</u>
Change in net position	(8,906)
Net position - beginning of year	<u>135,268</u>
Net position - end of year	<u>\$ 126,362</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, 2013

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. The more significant of the District’s accounting policies are described below:

Description of Government-wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* are supported by taxes and intergovernmental revenues. The District reports no business-type activities or component units.

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, food service, 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.

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, 2013, there was no debt issued by the District.

During the fiscal year ended June 30, 2013, the District was billed \$7,483,265 for BOCES administrative and program costs and recognized \$2,063,254 of BOCES aid from New York State and \$215,189 in revenue as a refund from prior years’ expenditures paid to BOCES. Audited financial statements are available from BOCES’ administrative offices.

Basis of Presentation – Government-wide Financial Statements

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

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

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.

Basis of Presentation – Fund Financial Statements

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.

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.
- The *Debt Service Fund* is used to account for resources accumulated to be used towards future payments of principal and interest on long-term debt obligations.

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.

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

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

Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are 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 government considers property tax collected within 60 days after year end to be

available and other revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Budgetary Information

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.

Special Aid, School Lunch and Debt Service Funds—No formal annual budgets are adopted for the Special Aid, School Lunch and Debt Service 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.

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 \$66,223 at the end of the fiscal period.

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

Cash, Cash Equivalents and Investments—The District’s cash and cash equivalents consist of cash on hand, demand deposits, 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, 2013; however, it is the District’s policy to state investments at fair value when applicable.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represent unspent proceeds from debt and amounts to support restricted fund balances.

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.

Cash value of life insurance—Cash value of life insurance is stated at the lower of accumulated premiums paid or surrender value of the contracts, less outstanding policy loans, if any. In the governmental funds, a corresponding amount of fund balance is recorded as nonspendable to indicate the funds are not available expendable resources.

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.

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 Revenue—Certain revenues have not met the revenue recognition criteria for fund financial purposes.

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category. However, the District recorded \$477,390 as deferred inflows for taxes receivable within its fund statements. As the District is not able to precisely estimate when these funds will be received, they are currently classified as deferred inflows and will subsequently be recognized as revenue once they meet the proper recognition criteria.

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

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as committed. The Board may assign fund balance, as it does when appropriating fund balance to cover a gap between estimated revenue

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

Revenues and Expenditures/Expenses

Program Revenues—Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided and 2) grants and contributions. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as *general revenues* rather than as program revenues.

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

Retirement 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.

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.

Other

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.

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.

Adoption of New Accounting Pronouncements—During the year ended June 30, 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's*

Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District also elected to early implement the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement Nos. 63 and 65 did not have a material impact on the District's financial position or results from operations. However, \$477,390 representing taxes receivable that will not be collected within 60 days of year end have been recorded as a deferred inflow of resources within the fund financial statements. These amounts were previously recorded as a deferred revenue liability.

Additionally, during the year ended June 30, 2013, the District completed the process of evaluating the impact that will result from adopting 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* and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement Nos. 60, 61 and 62 did not have a material impact on the District's financial position or results from operations.

Future Impacts of Accounting Pronouncements—The District has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 66, *Technical Corrections-2013—an amendment of GASB Statements No. 10 and No. 62*, GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for the year ending June 30, 2014; and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the year ending June 30, 2015. The District is, therefore, unable to disclose the impact that adopting GASB Statements Nos. 66, 67, 68, 69 and 70 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, including restricted cash at year-end consisted of:

Governmental Funds	\$ 18,277,687
Private Purpose Trust Fund	126,362
Agency Fund	<u>285,108</u>
Total	<u>\$ 18,689,157</u>

Deposits – All deposits are carried at fair value.

Petty cash (uncollateralized)	\$ 100
Bank deposits	<u>18,689,057</u>
Total	<u>\$ 18,689,157</u>

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 769,809	\$ 769,809
Uninsured:		
Collateral held by bank's agent in the District's name	<u>18,289,267</u>	<u>17,919,248</u>
Total	<u>\$ 19,059,076</u>	<u>\$ 18,689,057</u>

Restricted Cash and Cash Equivalents—The District reports restricted fund balances and unspent debt proceeds for capital projects as restricted cash and cash equivalents.

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, 2013, 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.

Investments—The District had no investments at June 30, 2013.

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

3. RECEIVABLES

Major revenues accrued by the District at June 30, 2013 consisted of the following:

Taxes Receivable—Represents amounts due from District taxpayers that remain unpaid as of June 30, 2013.

Accounts Receivable—Represents amounts due from various sources for out of district tuition, commissions, substitute teaching reimbursement and other services provided.

Due from Other Governments—Represents amounts due from other units of government, such as Federal, New York State and other local governments. Amounts due from other units of government to the District at June 30, 2013 are shown on the following page.

General Fund:

State - BOCES Aid	\$ 962,979	
State - Excess Cost Aid	891,397	<u>\$ 1,854,376</u>

Special Aid Fund:

Federal - Title I	499,228	
Federal - IDEA Part B, Section 619	34,112	
Federal - IDEA Part B, Section 611	829,263	
Federal - Title IIA	140,899	
Federal - ARRA - Race to the Top	39,763	
Federal - Fit for Life	133,439	
State - OASAS	13,934	
State - Universal Pre-K	140,475	
State - Summer Handicapped 2011-12	515,739	
State - Section 4201	150,550	
Health Association of Niagara County	6,620	<u>\$ 2,504,022</u>

School Lunch Fund:

State - Breakfast and Lunch Program		<u>\$ 44,170</u>
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4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

Governmental activities:	<u>Beginning Balance</u>	<u>Additions and Reclassifications</u>	<u>Deletions and Reclassifications</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 246,107	\$ -	\$ -	\$ 246,107
Construction in progress	47,683,888	162,524	47,846,412	-
Total capital assets, not being depreciated	<u>47,929,995</u>	<u>162,524</u>	<u>47,846,412</u>	<u>246,107</u>
Capital assets, being depreciated:				
Buildings	56,152,367	48,216,738	-	104,369,105
Land improvements	2,676,625	24,600	-	2,701,225
Furniture and equipment	2,795,875	24,885	-	2,820,760
Vehicles	1,764,445	135,372	-	1,899,817
Total capital assets, being depreciated	<u>63,389,312</u>	<u>48,401,595</u>	<u>-</u>	<u>111,790,907</u>
Less accumulated depreciation for:				
Buildings	27,986,492	1,798,864	-	29,785,356
Land improvements	1,799,181	66,155	-	1,865,336
Furniture and equipment	2,158,855	100,817	-	2,259,672
Vehicles	1,231,002	156,219	-	1,387,221
Total accumulated depreciation	<u>33,175,530</u>	<u>2,122,055</u>	<u>-</u>	<u>35,297,585</u>
Total capital assets, being depreciated, net	<u>30,213,782</u>	<u>46,279,540</u>	<u>-</u>	<u>76,493,322</u>
Governmental activities capital assets, net	<u>\$ 78,143,777</u>	<u>\$ 46,442,064</u>	<u>\$ 47,846,412</u>	<u>\$ 76,739,429</u>

Construction in progress increased to \$47,846,412 during the current year. All phases relating to the District's major \$48 million project were substantially completed and transferred to buildings as a current addition to be depreciated.

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

Governmental activities:	
General government support	\$ 199,405
Instruction	1,702,837
Pupil transportation	190,624
School lunch	<u>29,189</u>
Total depreciation expense	<u>\$ 2,122,055</u>

5. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at June 30, 2013, were as follows:

	General Fund	Special Aid Fund	Total Governmental Funds
Salary and employee benefits	\$ 794,063	\$ 1,225	\$ 795,288
Workers' Compensation	255,000	-	255,000
Out of District Tuition	<u>179,441</u>	<u>-</u>	<u>179,441</u>
Total accrued liabilities	<u>\$ 1,228,504</u>	<u>\$ 1,225</u>	<u>\$ 1,229,729</u>

6. PENSION 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 System. 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 System before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute three percent of their annual salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute three and one-half percent of their annual salary for their entire working career. Those joining

on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. Employers are required to contribute at an actuarially determined rate, currently 11.84% of the annual covered payroll for the fiscal year ended June 30, 2013. Rates applicable to the fiscal years ended June 30, 2012 and 2011 were 11.11% and 8.62%, respectively.

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

2013	\$ 3,025,099
2012	2,953,518
2011	2,184,056

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 Systems provide 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 Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions 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 System, 110 State Street, Albany, New York 12244.

Funding Policy— The System is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 10, 2010 who generally contribute 3% of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute three and one-half percent (3.5%) of their annual salary until March 31, 2013, after which the contribution percentage will be based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the New York State Local Retirement Systems fiscal year ending March 31.

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

2013	\$ 1,155,461
2012	934,820
2011	582,976

Legislation requires participating employers to make payments on a current basis. The District's contributions made to the NYSERS were equal to 100 percent of the contributions required for the current year.

7. OTHER POSTEMPLOYMENT BENEFIT OBLIGATIONS

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 \$736,368 for the fiscal year ended June 30, 2013.

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:

	Year ended June 30, 2013	Year ended June 30, 2012
Annual required contribution	\$ 853,430	\$ 863,563
Interest on net OPEB obligation	30,284	22,567
Adjustment to annual required contribution	<u>(42,136)</u>	<u>(23,201)</u>
Annual OPEB costs (expense)	841,578	862,929
Contributions made	<u>(736,368)</u>	<u>(607,342)</u>
Increase in net OPEB obligation	105,210	255,587
Net OPEB obligation--beginning of year	<u>757,090</u>	<u>501,503</u>
Net OPEB obligation--end of year	<u>\$ 862,300</u>	<u>\$ 757,090</u>

Funding Status and Funding Progress—As of June 30, 2013, 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 \$12,941,078.

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.

The District's Schedule of Funding Progress is presented below:

Fiscal Year	Actuarial Valuation	Actuarial Value of Assets	Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Ending	Date						
6/30/2013	9/15/2013	\$ -	\$ 12,941,078	\$ 12,941,078	-	\$ 5,116,870	252.9%
6/30/2011	9/15/2011	-	13,343,968	13,343,968	-	4,920,067	271.2%
6/30/2009	10/1/2008	-	11,597,079	11,597,079	-	4,548,879	254.9%

The District's Schedule of Contributions is shown below:

Year Ended June 30,	Annual OPEB Costs	Contributions Made	Percentage Contributed
2013	\$ 841,484	\$ 736,368	87.5%
2012	862,929	607,342	70.4%
2011	861,484	605,897	70.3%

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, 2013 actuarial valuation, the entry age normal method was used. The actuarial assumptions included a valuation date and measurement date of September 15, 2013. The expected investment rate of return on employer's assets is 4.0%. 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, 2013 was twenty-five years.

8. RISK MANAGEMENT

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. This general liability insurance has an aggregate coverage limit of \$3,000,000, \$1,000,000 per occurrence. The District also carries an umbrella policy with a \$15,000,000 coverage limit per occurrence. There have not been any significant changes in any type of insurance coverage from the prior year, nor have there been any settlements which have exceeded insurance coverage in the past three fiscal years.

Medical Self-Insurance—During the year ended June 30, 2013, the District participated in a Administrative Services Agreement with Independent Health. As part of the agreement, Independent Health prepares forms, provides access to Independent Health's Networks Providers and processes claims for a fee per covered person per month. The responsibility of insuring claims however, lies with the District.

In order to insure against larger than expected health care losses associated with the self insurance plan, the District has entered into a Stop Loss Agreement negotiated through Independent Health. This agreement includes a “specific deductible” for each covered person of \$150,000 per year. This will cover the individual up to an unlimited lifetime maximum specific benefit. Above this dollar amount the District will 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.

9. LEASE OBLIGATIONS

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, 2013, are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2014	\$ 224,786
2015	224,786
2016	224,786
2017	224,786
2018	224,786
2019-2020	<u>337,179</u>
Total minimum lease payments	1,461,109
Less: amount representing interest	<u>(192,123)</u>
Present value of minimum lease payments	<u>\$ 1,268,986</u>

10. 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 seven 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, 2013 are summarized on the following page.

Description	Date of Issue	Date of Maturity	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance
Buildings improvements	9/21/2011	9/20/2012	1.25%	\$ 39,715,477	\$ -	\$ 39,715,477	\$ -
Buildings improvements	9/19/2012	9/19/2013	0.59%	-	10,000,000	-	10,000,000
Buildings improvements	9/19/2012	9/19/2013	1.25%	-	27,565,000	-	27,565,000
				<u>\$ 39,715,477</u>	<u>\$ 37,565,000</u>	<u>\$ 39,715,477</u>	<u>\$ 37,565,000</u>

11. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Refunded	Ending Balance	Amounts Due Within One Year
Government activities:						
Bonds payable	\$ 5,352,000	\$ 3,725,000	\$ 1,270,000	\$ 3,887,000	\$ 3,920,000	\$ 1,270,000
Premium	-	233,405	29,176	-	204,229	58,351
Net bonds payable	5,352,000	3,958,405	1,299,176	3,887,000	4,124,229	1,328,351
Capital leases	1,434,794	-	165,808	-	1,268,986	173,045
Net OPEB obligation	757,090	841,578	736,368	-	862,300	-
Compensated absences	5,254,208	626,983	1,596,269	-	4,284,922	689,925
	<u>\$ 12,798,092</u>	<u>\$ 5,426,966</u>	<u>\$ 3,797,621</u>	<u>\$ 3,887,000</u>	<u>\$ 10,540,437</u>	<u>\$ 2,191,321</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, 2013:

Description	Date of Issue	Date of Maturity	Interest Rate	Beginning Balance	Additions	Payments and Refundings	Ending Balance
Series A	8/13/2002	11/15/2014	3.77%	\$ 875,000	\$ -	\$ 280,000	\$ 595,000
Series B	8/13/2002	4/15/2014	3.81%	245,000	-	120,000	125,000
Series B	8/13/2002	10/15/2015	3.85%	345,000	-	135,000	210,000
DASNY	11/26/2002	6/1/2017	5.50%	3,887,000	-	3,887,000	-
DASNY Refunding	9/12/2012	6/1/2017	2.95%	-	3,725,000	735,000	2,990,000
				<u>\$ 5,352,000</u>	<u>\$ 3,725,000</u>	<u>\$ 5,157,000</u>	<u>\$ 3,920,000</u>

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

Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,270,000	\$ 121,100	\$ 1,391,100
2015	1,110,000	77,150	1,187,150
2016	760,000	46,200	806,200
2017	780,000	23,400	803,400
Total	<u>\$ 3,920,000</u>	<u>\$ 267,850</u>	<u>\$ 4,187,850</u>

Current Year Advanced Refunding—During the year ended June 30, 2013, the District issued \$3,725,000 in Refunding Serial Bonds, which collectively refunded the previously issued 2002 bonds, originally issued for various purposes. The total net proceeds were placed in an irrevocable trust fund to pay for all future debt service payments of the original bonds. As a result, the original 2002 bonds were considered defeased, and the June 30, 2013 financial statements do not reflect the obligation, now equal to \$3,191,000 in its financial statements. The refund resulted in a net present value benefit to the District of \$522,963 and a cash flow savings of \$519,661.

Net OPEB Obligation—The District’s net OPEB obligation increased from \$757,090 to \$862,300 at June 30, 2013, and is described in Note 7.

Compensated absences—As explained in Note 1, the District provides for either cash or post-employment health benefits after retirement. The payment in cash or health care benefits depends on individual options selected upon retirement in accordance with the applicable contract or incentive. The liability for compensated absences at June 30, 2013 amounts to \$4,284,922 of which \$689,925 has been included within the current portion of long-term debt.

12. NET POSITION AND FUND BALANCE

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

- ◆ **Net investment in capital assets**—This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt (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.

The following presents a reconciliation of capital assets (net of accumulated depreciation), net of total indebtedness to net investment in capital assets at June 30, 2013:

Capital assets, net of accumulated depreciation		\$ 76,739,429
Less related debt:		
Bonds payable	(3,920,000)	
Bond premium	(204,229)	
Bond anticipation notes	(37,565,000)	
Capital leases	<u>(1,268,986)</u>	(42,958,215)
Add:		
Unspent capital proceeds		<u>174,314</u>
Net investment in capital assets		<u>\$ 33,955,528</u>

- ◆ **Restricted Net Position**—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 Position**—This category represents net position of the District not restricted for any project or other purpose.

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by District at June 30, 2013 includes:

- ◆ ***Prepaid Items***—Represents expenditures for services that will benefit future periods. This balance is nonspendable as prepaids do not represent an available resource. The balance at June 30, 2013 was \$685.
- ◆ ***Life Insurance***—Represents life insurance premiums paid by the District. This balance is nonspendable as the cash does not represent an available resource. The balance at June 30, 2013 was \$138,008.
- ◆ ***Inventory***—Representing the portion of fund balance composed of inventory. This balance is reserved as the inventory does not represent an available resource. The balance as of June 30, 2013 was \$57,559.

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, 2013, and include:

- ◆ ***Restricted for Capital Projects***—Represents resources that have been legally restricted for future spending on various approved capital projects.
- ◆ ***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 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.

Committed amounts represent amounts that are subject to a purpose constraint imposed by a formal action of the District's highest level of decision-making authority, or by its designated body or official. As of June 30, 2013, the District's Board of Education has not committed any fund balance.

In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the District at June 30, 2013 and include:

- ◆ **Assigned to Encumbrances**—Represents amounts related to unperformed contracts or purchase orders for goods or services. The District has \$66,223 of fund balance assigned to encumbrances at June 30, 2013.

Significant encumbrances are amounts encumbered in excess of \$10,000. As of June 30, 2013, the following significant encumbrances were:

Description	Amount
General Fund - Textbooks	\$ 38,908

- ◆ **Assigned to Subsequent Year's Expenditures**—Represents funds to be used to assist in supporting the subsequent year authorized appropriations, \$4,757,385 at June 30, 2013.
- ◆ **Assigned to School Lunch**—Represents funds to be used for activities to support the School Lunch Fund, \$364,225 at June 30, 2013

A summary of assigned fund balance by governmental fund follows:

	General Fund	School Lunch Fund	Total
Assigned for:			
Encumbrances	\$ 66,223	\$ -	\$ 66,223
Subsequent year's expenditures	4,757,385	-	4,757,385
School lunch	-	364,225	364,225
Total	<u>\$ 4,823,608</u>	<u>\$ 364,225</u>	<u>\$ 5,187,833</u>

- ◆ **Unassigned**—Represents a residual classification and could report a surplus or deficit. As of June 30, 2013, the unassigned deficit fund balance was \$(35,547,815), which includes the General Fund unassigned fund balance of \$1,842,871 and the negative unassigned fund balance in the Capital Projects Fund of \$37,390,686.

The Capital Projects Fund deficit fund balance totaling \$(37,390,686) at June 30, 2013 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.

13. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short term in nature and exist because of temporary advances or payments made on behalf of other funds. All of these balances are expected to be collected/paid within the subsequent year. Interfund balances and activity of the District at June 30, 2013 are presented on the following page.

	Interfund		Transfers	
	Receivables	Payables	In	Out
Governmental Funds:				
General Fund	\$ 7,361,254	\$ 7,058	\$ 321,038	\$ 2,271,684
Special Aid Fund	115,909	6,659,432	121,207	20,824
School Lunch Fund	-	354,942	-	118,600
Capital Projects Fund	-	438,868	2,150,477	181,614
Total Governmental Funds	7,477,163	7,460,300	2,592,722	2,592,722
Fiduciary Funds:				
Agency Fund	-	16,863	-	-
Total	\$ 7,477,163	\$ 7,477,163	\$ 2,592,722	\$ 2,592,722

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.

14. 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, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance
Assets:				
Cash and cash equivalents	\$ 99,658	\$ 33,311,989	\$ 33,198,041	\$ 213,606
Restricted cash and cash equivalents	78,455	324,819	331,772	71,502
Due from other funds	5,074	32,920,850	32,925,924	-
	<u>\$ 183,187</u>	<u>\$ 66,557,658</u>	<u>\$ 66,455,737</u>	<u>\$ 285,108</u>
Liabilities:				
Agency fund liabilities	\$ 104,732	\$ 33,185,426	\$ 33,093,415	\$ 196,743
Due to other funds	-	126,039	109,176	16,863
Extraclassroom activity funds	78,455	324,822	331,772	71,505
	<u>\$ 183,187</u>	<u>\$ 33,636,287</u>	<u>\$ 33,534,363</u>	<u>\$ 285,111</u>

15. LABOR CONTRACTS

District employees are represented primarily by six bargaining units, with the balance of employees governed by Board of Education rules and regulations. One non-union contract expired on June 30, 2011 which has not undergone negotiation and five contracts expired on June 30, 2013.

16. CONTINGENCIES

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

Grants—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.

17. SUBSEQUENT EVENTS

On September 18, 2013, the District issued \$35,305,000 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 school buildings and sites. The proceeds of the notes, along with \$2,260,000 in budgetary appropriations were used to redeem \$37,565,000 in BAN’s maturing on September 19, 2013. These BAN’s mature on September 18, 2014 and bear interest at a rate of 1.00 percent.

Management has evaluated subsequent events through October 8, 2013, which is the date the financial statements are available for issuance, and have determined that, except for the items noted above, there are no subsequent events that require disclosure under generally accepted accounting principles.

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SUPPLEMENTAL SCHEDULES

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Changes from Adopted Budget to Final Budget
and the Real Property Tax Limit
Year Ended June 30, 2013

Changes from Adopted Budget to Final Budget

Adopted budget 2012-2013	\$ 64,752,895
Add: June 30, 2012 encumbrances	<u>16,441</u>
Original budget 2012-2013	64,769,336
Additions:	
Voter approved budget revisions	200,000
Use of capital reserve—buses	<u>125,000</u>
Final budget 2012-2013	<u>\$ 65,094,336</u>

Section 1318 of Real Property Tax Law Limit Calculation

2013-14 Voter-approved Budget	<u>\$ 65,800,339</u>
Maximum allowed (4% of 2013-14 budget)	<u>\$ 2,632,014</u>

General Fund Fund Balance subject to Section 1318 of Real Property Tax Law*:

Unrestricted fund balance:	
Assigned fund balance	4,823,608
Unassigned fund balance	<u>1,842,871</u>
Total unrestricted fund balance	<u>\$ 6,666,479</u>
Less:	
Appropriated fund balance	4,757,385
Encumbrances included in assigned fund balance	<u>66,223</u>
Total adjustments	<u>\$ 4,823,608</u>
General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law	<u>\$ 1,842,871</u>
Actual percentage	2.80%

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

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Capital Projects Expenditures, Financing and Fund Balance
Year Ended June 30, 2013

Project Title	S.E.D. Project No.	Original Appropriation	Revised Appropriation	Expenditures			Methods of Financing				Fund Balance (Deficit) 6/30/2013
				Prior Years	Current Year	Total	Proceeds of Obligations	E-Rate / Rescue Aid	Local Source	Total	
Reconstruction & Roofs:											
\$48M Project - Unallocated	N/A	-	-	2,593,721	193	2,593,914	-	-	-	-	(2,593,914)
\$48M Project	N/A	-	119,039	421,300	14,873	436,173	-	-	-	-	(436,173)
Grant School	002-008	219,489	-	6,154	19	6,173	-	-	-	-	(6,173)
Drake School	003-009	3,811,754	4,185,390	3,873,944	32	3,873,976	-	-	287,540	287,540	(3,586,436)
Gilmore School	010-010	622,077	227,467	220,707	-	220,707	-	-	-	-	(220,707)
Spruce School	011-009	5,962,095	5,875,145	5,680,094	2,423	5,682,517	-	-	-	-	(5,682,517)
Ohio School	014-010	5,055,232	5,534,357	5,116,445	3,070	5,119,515	-	-	-	-	(5,119,515)
Ohio School - Roof	014-011	850,000	731,739	523,030	121,281	644,311	-	-	-	-	(644,311)
Meadow Complex - Bleachers	015-012	360,000	350,916	308,750	-	308,750	-	-	-	-	(308,750)
Meadow Complex	015-013	17,688,626	18,536,943	17,198,769	20,140	17,218,909	-	-	1,061,150	1,061,150	(16,157,759)
Roof Repair - Natatorium	015-014	249,654	233,982	210,576	-	210,576	-	-	92,155	92,155	(118,421)
Fume Hoods - HS	015-015	150,000	79,891	72,930	-	72,930	-	-	-	-	(72,930)
NT Middle School	016-012	13,881,073	12,154,737	11,449,223	493	11,449,716	4,258,305	1,376,696	3,451,310	9,086,311	(2,363,405)
Spruce - Maintenance Bldg	023-001	56,404	62,548	79,675	-	79,675	-	-	-	-	(79,675)
		<u>\$48,906,404</u>	<u>\$48,092,154</u>	<u>\$ 47,755,318</u>	<u>\$ 162,524</u>	<u>\$47,917,842</u>	<u>\$ 4,258,305</u>	<u>\$ 1,376,696</u>	<u>\$ 4,892,155</u>	<u>\$ 10,527,156</u>	<u>\$ (37,390,686)</u>

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NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Revenues, Expenditures and Encumbrances - Budget and Actual - General Fund
Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES				
Local sources:				
Real property taxes and other tax items	\$ 26,465,695	\$ 26,465,695	\$ 26,423,218	\$ (42,477)
Charges for services	276,798	276,798	154,883	(121,915)
Use of money and property	492,000	492,000	432,721	(59,279)
Sale of property and compensation for loss	12,860	12,860	3,083	(9,777)
Miscellaneous	606,428	606,428	412,589	(193,839)
State sources:				
Basic formula - general aids	18,466,177	18,466,177	16,846,719	(1,619,458)
Basic formula - excess cost aids	6,438,478	6,438,478	6,073,918	(364,560)
Lottery aid	4,645,982	4,645,982	4,569,657	(76,325)
VLT Lottery	-	-	1,271,708	1,271,708
BOCES aid	2,000,500	2,000,500	2,063,254	62,754
Tuition aid - students with disabilities	-	-	787,283	787,283
Textbook aid	245,157	245,157	248,204	3,047
All other aid:				
Computer software	140,054	140,054	137,717	(2,337)
Library / loan program	26,281	26,281	25,368	(913)
State aid - rail infrastructure	-	125,000	125,000	-
Federal aid	<u>300,000</u>	<u>300,000</u>	<u>305,780</u>	<u>5,780</u>
Total revenues	60,116,410	60,241,410	59,881,102	(360,308)
OTHER FINANCING SOURCES				
Transfers in	<u>79,100</u>	<u>79,100</u>	<u>321,038</u>	<u>241,938</u>
Total revenues and other financing sources	60,195,510	60,320,510	<u>\$ 60,202,140</u>	<u>\$ (118,370)</u>
Appropriated fund balance	<u>4,573,826</u>	<u>4,773,826</u>		
Total revenues, other financing sources and appropriated fund balance	<u>\$ 64,769,336</u>	<u>\$ 65,094,336</u>		

(Continued)

NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK
Schedule of Revenues, Expenditures and Encumbrances - Budget and Actual - General Fund
Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenditures</u>	<u>Encum- brances</u>	<u>Variance with Final Budget</u>
EXPENDITURES					
General Support:					
Board of education	\$ 20,149	\$ 54,936	\$ 48,870	\$ -	\$ 6,066
Central administration	207,731	207,731	197,587	-	10,144
Finance	450,978	475,275	407,876	-	67,399
Staff	406,059	409,384	301,840	-	107,544
Central services	6,084,229	6,052,615	4,423,219	19,860	1,609,536
Special items	787,771	762,571	590,878	-	171,693
Instruction:					
Instruction, administration and improvements	1,651,461	1,632,267	1,595,371	-	36,896
Teaching - regular school	18,075,673	18,891,379	18,752,828	38,908	99,643
Programs for pupils with handicapping conditions	10,637,664	10,310,170	10,097,039	-	213,131
Occupational education	1,357,326	1,348,650	1,348,650	-	-
Teaching - special school	59,623	16,894	16,894	-	-
Instructional media	1,049,247	1,048,576	1,017,744	1,942	28,890
Pupil services	2,895,436	2,882,422	2,645,804	4,558	232,060
Pupil transportation	2,720,987	2,920,999	2,415,429	955	504,615
Employee benefits	13,771,889	13,487,354	11,905,229	-	1,582,125
Debt service:					
Debt service - principal	3,547,286	3,586,286	1,435,808	-	2,150,478
Debt service - interest	820,827	781,827	678,092	-	103,735
Total expenditures	64,544,336	64,869,336	57,879,158	66,223	6,923,955
OTHER FINANCING USES					
Transfers out	225,000	225,000	2,271,684	-	(2,046,684)
Total expenditures, encumbrances and other financing uses	<u>\$ 64,769,336</u>	<u>\$ 65,094,336</u>	<u>60,150,842</u>	<u>\$ 66,223</u>	<u>\$ 4,877,271</u>
Excess of revenues and other financing sources over expenditures and other financing uses			<u>\$ 51,298</u>		

(Concluded)

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FEDERAL AWARDS

NORTH TONAWANDA CITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Federal Grantor / Program Title	Federal CFDA Number	Pass Through Agency Number	Federal Expenditures
U.S. Department of Agriculture:			
Passed through New York State Department of Agriculture			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	N/A	\$ 112,612
National School Lunch Program	10.555	N/A	<u>551,190</u>
Total Child Nutrition Cluster			663,802
Passed through New York State Department of Health			
Child and Adult Care Food Program	10.558	C002726	<u>111,533</u>
Total U.S. Department of Agriculture			<u>775,335</u>
U.S. Department of Education:			
Passed through New York State Department of Education			
Special Education Cluster:			
Special Education-Grants to States (IDEA, Part B)	84.027	0032-13-0611	1,036,578
Special Education-Preschool Grants (IDEA Preschool)	84.173	0033-13-0611	<u>45,702</u>
Total Special Education Cluster			1,082,280
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies (LEAs)	84.010	021-12-1970	3,763
Title I Grants to Local Educational Agencies (LEAs)	84.010	021-13-1970	627,047
Title I School Improvements	84.010	011-12-2372	<u>52,824</u>
Total Title I, Part A Cluster			683,634
Fit for Life	84.215	N/A	133,439
Improving Teacher Quality - State Grants	84.367	0147-13-1970	172,894
Race to the Top (ARRA)	84.395	5500-13-1970	<u>39,763</u>
Total US Department of Education			<u>2,112,010</u>
Total Expenditures of Federal Awards			<u>\$ 2,887,345</u>

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

NORTH TONAWANDA CITY SCHOOL DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

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, New York (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. RECONCILIATION OF FEDERAL AID

Total federal expenditures for the District's 2012-13 fiscal year is reconciled to Federal Sources as reported in the basic financial statements as follows:

Balance per schedule of expenditures of federal awards	\$ 2,887,345
Add: Medicaid reimbursement	<u>305,780</u>
Total Federal Sources per financial statements	<u>\$ 3,193,125</u>

* * * * *

Certified Public Accountants

**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***

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Tonawanda City School District, New York (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated October 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature of Duesch & Malach LLP in black ink.

October 8, 2013

Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the North Tonawanda City School District, New York's (the "District") compliance with the types of compliance requirements described in the *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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



October 8, 2013

NORTH TONAWANDA CITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Part I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- | | | |
|---|-----------|-----------------------|
| 1. Material weakness(es) identified? | _____ Yes | ✓ _____ No |
| 2. Significant deficiency(ies) identified not considered to be material weakness(es)? | _____ 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 not considered to be material weakness(es)? | _____ Yes | ✓ _____ None reported |

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

Unmodified

- | | | |
|---|-----------|------------|
| 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>
Title I, Part A Cluster:	
Title I Grants to Local Educational Agencies (LEAs)	84.010A
Title I School Improvements	84.010A
Race to the Top (ARRA)	84.395A

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

NORTH TONAWANDA CITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Part II. FINANCIAL STATEMENT FINDINGS SECTION

No matters were reported.

Part III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters were reported.

NORTH TONAWANDA CITY SCHOOL DISTRICT
Schedule of Prior Federal Awards Audit Findings
Year Ended June 30, 2013 (Follow up on June 30, 2012 Findings)

No matters were reported in the prior year.

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