

**NORTH TONAWANDA CITY**  
**SCHOOL DISTRICT, NEW YORK**  
*Basic Financial Statements, Required Supplementary  
Information, Supplementary Information and  
Federal Awards Information for the Year Ended  
June 30, 2014 and Independent Auditors' Reports*



**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Table of Contents**  
**Year Ended June 30, 2014**

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	<u>Page</u>
Independent Auditors' Report.....	1
Management's Discussion and Analysis .....	4
 <b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Position .....	12
Statement of Activities.....	13
Fund Financial Statements:	
Balance Sheet—Governmental Funds .....	14
Reconciliation of the Balance Sheet—Governmental Funds to the Government-wide Statement of Net Position.....	15
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)—Governmental Funds .....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit)—Governmental Funds to the Government-wide Statement of Activities .....	17
Statement of Net Position—Fiduciary Funds .....	18
Statement of Changes in Net Position—Fiduciary Funds.....	19
Notes to the Financial Statements.....	20
 <b>Required Supplementary Information:</b>	
Schedule of Funding Progress—Other Post-Employment Benefits Plan .....	41
Schedule of Revenues, Expenditures, and Changes in Fund Balance— Budget (Non-GAAP Basis) and Actual—General Fund.....	42
 <b>Supplementary Information:</b>	
Schedule of Changes from Adopted Budget to Final Budget and the Real Property Tax Limit .....	44
Schedule of Capital Projects Fund—Project Expenditures and Financing Resources .....	45
Net Investment in Capital Assets.....	46
 <b>Federal Awards Information:</b>	
Schedule of Expenditures of Federal Awards.....	47
Notes to the Schedule of Expenditures of Federal Awards .....	48
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 <i>Government Auditing Standards</i> .....	49
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	51
Schedule of Findings and Questioned Costs.....	53
Summary Schedule of Prior Audit Findings.....	55



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Certified Public Accountants

## **INDEPENDENT AUDITORS' REPORT**

The 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, 2014, 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***

The District's 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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, the District has restated its net position as of June 30, 2013. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other Required Supplementary Information, as listed in the table of contents, 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 Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by the U.S. 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 Supplementary Information, as listed in the table of contents, and the 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 Supplementary Information and the 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 15, 2014 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Drescher & Malecki LLP

October 15, 2014



**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2014**

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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 fiscal year ended June 30, 2014. This document should be read in conjunction with the additional information that we have furnished in the District's financial statements, which follow this narrative.

**Financial Highlights**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$38,315,060 (*net position*). This consists of \$26,754,669 net investment in capital assets, \$9,098,714 restricted for specific purposes, and an unrestricted portion of \$2,461,677 for amounts available to meet the District's ongoing obligations to citizens and creditors.
- The District's net position decreased by \$230,653 during the year ended June 30, 2014.
- At the close of the current fiscal year, the District's governmental funds reported a combined ending fund balance deficit of \$18,680,303, an improvement of \$840,090 in comparison with the prior year's fund balance deficit of \$19,520,393. Excluding the Capital Projects Fund, the District's governmental funds reported a combined ending fund balance of \$16,507,172.
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$2,077,229, or approximately 3.3 percent of total General Fund expenditures and transfers out. This total amount is *available for spending* at the District's discretion and constitutes approximately 12.9 percent of the General Fund's total fund balance of \$16,067,142 at June 30, 2014 which decreased \$1,381,367 from June 30, 2013.
- The District's total bonded indebtedness decreased \$1,270,000 as a result of scheduled principal payments.

**Overview of the Financial Statements**

The discussion and analysis provided here are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise of 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.

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

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, and liabilities, with the difference 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 this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes 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 (*business-type activities*). The governmental activities of the District include general support, instruction, pupil transportation, school food service operations, and interest on long-term debt. The District does not engage in any business-type activities.

The government-wide financial statements can be found on pages 12-13 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. All of the funds of the District can be divided into two categories: governmental funds and fiduciary 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 financial 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 four 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 balance for the General Fund, Special Aid Fund, School Lunch Fund and Capital Projects Fund, which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 14-17 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 statements because the resources of those funds are *not* available to support the District's own programs. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The District maintains two fiduciary funds, the Private Purpose Trust Fund and the Agency Fund.

The fiduciary fund statements can be found on pages 18 and 19 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 20-40 of this report.

**Other information**—In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the District’s budgetary comparison for the General Fund and the District’s progress in funding its obligation to provide post-employment benefits to its employees. Required supplementary information can be found on pages 41-43 of this report.

Other supplementary information is presented immediately following the required supplementary information in the Supplementary Information section of this report on pages 44-46.

The Federal Awards section presents the District’s Schedule of Expenditures of Federal Awards. This section can be found on pages 47-55 of this report.

**Government-wide Financial Analysis**

As noted earlier, net position over time may serve as a useful indicator of the District’s financial position. In the case of the District, assets exceeded liabilities by \$38,315,060 at June 30, 2014, as compared to \$38,545,713 at the close of the year ended June 30, 2013, as restated.

Table 1, shown below, presents a condensed statement of net position compared to the prior year.

**Table 1—Condensed Statement of Net Position**

	June 30,	
	2014	2013 (as restated)
Current assets	\$ 23,537,115	\$ 23,688,236
Capital assets	65,833,963	68,464,153
Total assets	<u>89,371,078</u>	<u>92,152,389</u>
Current liabilities	42,022,865	43,066,239
Noncurrent liabilities	9,033,153	10,540,437
Total liabilities	<u>51,056,018</u>	<u>53,606,676</u>
Net position:		
Net investment		
in capital assets	26,754,669	25,680,252
Restricted	9,098,714	10,643,337
Unrestricted	<u>2,461,677</u>	<u>2,222,124</u>
Total net position	<u>\$ 38,315,060</u>	<u>\$ 38,545,713</u>

The largest portion of the Districts’ net position reflects its investment in capital assets (e.g. land, buildings, improvements and equipment), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide a variety of services to students. Accordingly, these assets are not available for future spending. Although the District’s investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District’s net position, \$9,098,714, represents resources that are subject to external restrictions on how they may be used. Any remaining portion of the District’s net position would represent resources that are unrestricted and may be used to meet the District’s ongoing obligations to citizens and creditors. Unrestricted net position of \$2,461,677, represents resources that may be used to meet the District’s ongoing operations.

Table 2, as presented below, shows the changes in net position for the years ended June 30, 2014 and June 30, 2013.

**Table 2—Condensed Statement of Changes in Net Position**

	Year Ended June 30,	
	2014	2013
Program revenues:		
Charges for services	\$ 464,813	\$ 523,987
Operating grants and contributions	4,982,201	4,196,376
General revenues	<u>60,761,073</u>	<u>59,719,002</u>
Total revenues	<u>66,208,087</u>	<u>64,439,365</u>
Program expenses:	<u>66,438,740</u>	<u>61,489,029</u>
Change in net position	(230,653)	2,950,336
Net position—beginning, as restated	<u>38,545,713</u>	<u>35,595,377</u>
Net position—ending	<u>\$ 38,315,060</u>	<u>\$ 38,545,713</u>

Overall revenues increased by 2.7 percent from the prior year, due primarily to taxes and operating grants and contributions. Total expenses increased 8.0 percent from the prior year which can largely be attributed to an increase in instruction and general support costs.

A summary of sources of revenues for the years ended June 30, 2014 and June 30, 2013 is presented below in Table 3:

**Table 3—Summary of Sources of Revenues**

	Year ended June 30,		Increase/(decrease)	
	2014	2013	Dollars	Percent (%)
Charges for services	\$ 464,813	\$ 523,987	\$ (59,174)	(11.3)
Operating grants and contributions	4,982,201	4,196,376	785,825	18.7
Real property taxes and other tax items	27,130,799	26,452,999	677,800	2.6
Use of money and property	493,016	433,859	59,157	13.6
Sale of property and compensation for loss	34,709	3,083	31,626	1,025.8
Miscellaneous	775,788	680,233	95,555	14.0
State aid—unrestricted	<u>32,326,761</u>	<u>32,148,828</u>	<u>177,933</u>	0.6
Total revenues	<u>\$66,208,087</u>	<u>\$64,439,365</u>	<u>\$ 1,768,722</u>	2.7

The most significant sources of revenue for the year ended June 30, 2014 are unrestricted state sources of \$32,326,761 or 48.8 percent of total revenues, real property taxes and items of \$27,130,799 or 41.0 percent of total revenues and operating grants and contributions of \$4,982,201 or 7.5 percent of total revenues. Similarly, for the year ended June 30, 2013, the largest revenues were unrestricted state aid of \$32,148,828 or 49.9 percent of total revenues, real property taxes and items of \$26,452,999 or 41.1 percent of total revenues and operating grants and contributions of \$4,196,376 or 6.5 percent of total revenues.

A summary of program expenses for the years ended June 30, 2014 and June 30, 2013 is presented below in Table 4:

**Table 4—Summary of Program Expenses**

	Year ended June 30,		Increase/(decrease)	
	2014	2013	Dollars	Percent (%)
General support	\$ 8,336,399	\$ 7,135,575	\$ 1,200,824	16.8
Instruction	53,341,745	49,506,186	3,835,559	7.7
Pupil transportation	3,171,913	3,066,666	105,247	3.4
School food service	1,116,630	1,125,047	(8,417)	(0.7)
Interest and other fiscal charges	472,053	655,555	(183,502)	(28.0)
Total program expenses	<u>\$ 66,438,740</u>	<u>\$ 61,489,029</u>	<u>\$ 4,949,711</u>	8.0

The District’s significant expense items for the year ended June 30, 2014 were instruction of \$53,341,745, or 80.3 percent of total expenses, general support of \$8,336,399, or 12.5 percent of total expenses and pupil transportation of \$3,171,913, or 4.8 percent of total expenses. Similarly, for the year ended June 30, 2013 significant expense items were instruction of \$49,506,186, or 80.5 percent of total expenses, general support \$7,135,575, or 11.6 percent of total expenses and pupil transportation of \$3,066,666, or 5.0 percent of total expenses.

### Financial Analysis of Governmental 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. In particular, unassigned may serve as a useful measure of a government’s net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by an external party, the District itself, or a group or individual that has been delegated authority to assign resources for particular purposes by the Board of Education.

At June 30, 2014, the District’s governmental funds reported a combined ending fund balance deficit of \$18,680,303, an improvement of \$840,090 from the prior year fund deficit of \$19,520,393. Excluding the Capital Projects Fund, the District’s governmental funds combined ending fund balances totaled \$16,507,172. Approximately 12.6 percent (\$2,077,229) constitutes unassigned fund balance which is available for spending at the District’s discretion. The remainder of fund balance is *nonspendable, restricted, or assigned*, to indicate that it is 1) not in spendable form (\$135,928), 2) restricted for particular purposes (\$9,098,714) or 3) assigned for particular purposes (\$5,195,301).

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,077,229, while total fund balance decreased to \$16,067,142. As a measure of the General Fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures and transfers out. Unassigned fund balance represents 3.3 percent of total General Fund expenditures and transfers out, while total fund balance represents 25.7 percent of that same amount.

The total fund balance of the District’s General Fund decreased by \$1,381,367 during the current fiscal year. During the annual budget process, the District anticipated utilizing \$4,823,608 of fund balance (this included funds appropriate from fund balance and the re-appropriation of prior year’s encumbrances). Thus, as a result of spending less than anticipated, the District’s General Fund fund balance ended \$3,442,241 higher than expected.

The Special Aid Fund maintains funds that are received by the State and Federal governments. Total revenues totaled \$3,991,146 and were comprised of state and federal sources. Expenditures and transfers out totaled \$4,127,301 and were used toward the instruction and transportation of students. The difference between revenues and expenditures is subsidized by a transfer from the General Fund.

The School Lunch Fund balance is \$440,030 as of June 30, 2014. The District may use a portion of this balance to continue to update the school lunch facilities and equipment.

The Capital Projects Fund has a total fund deficit of \$35,187,475 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.

**General Fund Budgetary Highlights**

The District’s General Fund budget contains a minimal amount of budget amendments every year. The District generally only amends the annual operating budget for the inclusion of purchase orders, which have been carried over from the previous year. The budget is allowed to be amended upward (increased) for this purpose, since the funds were allocated under the previous year’s budget, and the District has appropriately assigned an equal amount of fund balance at year-end for this purpose.

**Table 5—General Fund Budget**

Adopted budget, 2013-2014	\$ 65,740,756
Add: Prior year's encumbrances—June 30, 2013	<u>66,223</u>
Final budget, 2013-2014	<u>\$ 65,806,979</u>

More detailed information about the District’s General Fund budget is presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual—General Fund on pages 42 and 43.

**Capital Assets and Debt Administration**

**Capital Assets**—The District’s investment in capital assets for its governmental activities as of June 30, 2014, amounted to \$65,833,963 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and building improvements, and equipment.

All depreciable capital assets were depreciated from acquisition date to the end of the current year as outlined in the District’s capital asset policy.

Capital assets, net of depreciation for the governmental activities at the years ended June 30, 2014 and June 30, 2013 are presented in table 6 on the following page.

**Table 6—Summary of Capital Assets (Net of Depreciation)**

	June 30,	
	2014	2013 (as restated)
Land	\$ 246,107	\$ 246,107
Buildings and improvements	108,189,712	108,189,712
Furniture, equipment and vehicles	4,086,181	3,636,223
	<u>112,522,000</u>	<u>112,072,042</u>
Accumulated depreciation	<u>(46,688,037)</u>	<u>(43,607,889)</u>
Total	<u>\$ 65,833,963</u>	<u>\$ 68,464,153</u>

Significant capital asset activity during the year ended June 30, 2014 includes the following:

- The District had an asset revaluation performed by a third party inventory specialist. As a result, capital assets being depreciated and accumulated depreciation differed from balances reported at June 30, 2013, by 35,028 and 8,310,304, respectively. Consequently, the District has restated the beginning balance of net position as of June 30, 2013.

Additional information on the District’s capital assets is presented in Note 5 to the financial statements.

**Long-term debt**—At June 30, 2014, the District had total long-term debt outstanding of \$9,033,153 as compared to \$10,540,437 in the prior year. Of the total long-term debt outstanding at June 30, 2014, \$2,650,000 represents serial bonds issued by the District.

A summary of the District’s long-term liabilities at June 30, 2014 and June 30, 2013 is presented in Table 7 below.

**Table 7—Summary of Long-Term Liabilities**

	June 30,	
	2014	2013
Serial bonds	\$ 2,650,000	\$ 3,920,000
Unamortized bond premium	145,878	204,229
Capital leases	1,095,941	1,268,986
Compensated absences	3,621,251	4,284,922
OPEB obligation	996,231	862,300
Retirement system payable	<u>523,852</u>	<u>-</u>
Total	<u>\$ 9,033,153</u>	<u>\$ 10,540,437</u>

### **Economic Factors and Next Year’s Budget and Rates**

The unemployment rate, not seasonally adjusted, for the region at June 30, 2014 was 7.0 percent. This is comparable to New York State’s average unemployment rate of 6.6 percent. These factors are considered in preparing the District’s budget. Despite the economic hardships, the District’s overall financial position maintained stability during the year ended June 30, 2014.

During the current fiscal year, the District appropriated \$4,757,385 of the General Fund’s fund balance for spending in the District’s 2014-2015 fiscal year budget. The 2014-2015 adopted budget appropriations total of \$68,423,968 is an approximate increase of 4.1 percent as compared to \$65,740,756 in 2013-2014.

The District's total tax levy in 2014-2015 is \$27,338,052, which is an approximate increase of 1.9 percent as compared to \$26,835,215 levied during the 2013-2014 year.

**Request for Information**

This financial report is designed to provide our taxpayers, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed Alan Getter, Assistant Superintendent of Administrative Services, North Tonawanda City School District, 176 Walck Road, North Tonawanda, New York 14120.

# BASIC FINANCIAL STATEMENTS



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**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Statement of Net Position**  
**June 30, 2014**

	<b>Primary Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 8,241,483
Restricted cash and cash equivalents	9,661,998
Receivables	1,003,474
Intergovernmental receivables	4,494,232
Prepaid items	260
Cash value of life insurance	104,132
Inventories	31,536
Noncurrent assets:	
Capital assets not being depreciated	246,107
Capital assets, net of accumulated depreciation	65,587,856
Total assets	89,371,078
<b>LIABILITIES</b>	
Accounts payable	755,850
Accrued liabilities	1,813,018
Due to Agency Fund	164,653
Due to retirement systems	3,871,942
Bond anticipation notes payable	35,305,000
Unearned revenue	112,402
Noncurrent liabilities:	
Due within one year	1,948,050
Due within more than one year	7,085,103
Total liabilities	51,056,018
<b>NET POSITION</b>	
Net investment in capital assets	26,754,669
Restricted for:	
Capital - buildings	3,368,570
Capital - technology	2,062,846
Debt service - Lowry	4,834
Debt service	1,608,394
Workers' compensation	211,758
Unemployment insurance	156,093
Retirement contribution	420,372
Insurance	1,161,707
Employee benefits	104,140
Unrestricted	2,461,677
Total net position	\$ 38,315,060

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, 2014**

<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>
Governmental activities:				
General support	\$ 8,336,399	\$ -	\$ -	\$ (8,336,399)
Instruction	53,341,745	89,675	4,118,703	(49,133,367)
Pupil transportation	3,171,913	-	-	(3,171,913)
School food service	1,116,630	375,138	863,498	122,006
Interest and other fiscal charges	472,053	-	-	(472,053)
Total primary government	<u>\$ 66,438,740</u>	<u>\$ 464,813</u>	<u>\$ 4,982,201</u>	(60,991,726)
		General revenues:		
				27,130,799
				493,016
				34,709
				32,326,761
				775,788
				<u>60,761,073</u>
				(230,653)
				<u>38,545,713</u>
				<u>\$ 38,315,060</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, 2014**

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,607,937	\$ 4,711,995	\$ 921,551	\$ -	\$ 8,241,483
Restricted cash and cash equivalents	9,098,714	-	-	563,284	9,661,998
Receivables	998,414	5,060	-	-	1,003,474
Due from other funds	7,677,021	186,137	-	-	7,863,158
Intergovernmental receivables	2,159,041	2,269,335	65,856	-	4,494,232
Prepaid items	260	-	-	-	260
Cash value of life insurance	104,132	-	-	-	104,132
Inventories	-	-	31,536	-	31,536
Total assets	<u>\$ 22,645,519</u>	<u>\$ 7,172,527</u>	<u>\$ 1,018,943</u>	<u>\$ 563,284</u>	<u>\$ 31,400,273</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 624,083	\$ 53,768	\$ 71,351	\$ 6,648	\$ 755,850
Accrued liabilities	1,498,502	25,516	-	-	1,524,018
Due to other funds	5,505	7,078,360	504,835	439,111	8,027,811
Due to retirement systems	3,871,942	-	-	-	3,871,942
Bond anticipation notes payable	-	-	-	35,305,000	35,305,000
Unearned revenue	94,792	14,883	2,727	-	112,402
Total liabilities	<u>6,094,824</u>	<u>7,172,527</u>	<u>578,913</u>	<u>35,750,759</u>	<u>49,597,023</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Taxes receivable	483,553	-	-	-	483,553
Total deferred inflows of resources	<u>483,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>483,553</u>
<b>FUND BALANCES (DEFICIT)</b>					
Nonspendable	104,392	-	31,536	-	135,928
Restricted	9,098,714	-	-	-	9,098,714
Assigned	4,786,807	-	408,494	-	5,195,301
Unassigned	2,077,229	-	-	(35,187,475)	(33,110,246)
Total fund balances (deficit)	<u>16,067,142</u>	<u>-</u>	<u>440,030</u>	<u>(35,187,475)</u>	<u>(18,680,303)</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 22,645,519</u>	<u>\$ 7,172,527</u>	<u>\$ 1,018,943</u>	<u>\$ 563,284</u>	<u>\$ 31,400,273</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—Governmental Funds**  
**to the Government-wide Statement of Position**  
**June 30, 2014**

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Amounts reported for governmental activities in the statement of net position (page 12) are different because:

Total fund balances (deficit)—governmental funds (page 14)		\$ (18,680,303)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$112,522,000 and the accumulated depreciation is \$46,688,037.		65,833,963
Real property taxes not collected within 60 days of year end are deferred inflows of resources for the fund statements, but are recognized on the accrual basis for the entity-wide statements. The amount of property taxes classified as a deferred inflow of resources is:		483,553
Net accrued interest expense for bond anticipation notes, serial bonds and capital leases is not reported in the funds.		(289,000)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. The effects of these items are:		
Serial bonds	\$ (2,650,000)	
Unamortized bond premiums	(145,878)	
Capital leases	(1,095,941)	
Compensated absences	(3,621,251)	
Other post-employment benefits obligation	(996,231)	
Retirement system payable	<u>(523,852)</u>	<u>(9,033,153)</u>
Net position of governmental activities		<u>\$ 38,315,060</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, 2014**

	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Real property taxes and other tax items	\$ 27,124,636	\$ -	\$ -	\$ -	\$ 27,124,636
Charges for services	89,675	-	-	-	89,675
School lunch, breakfast and other food sales	-	-	375,138	-	375,138
Use of money and property	492,136	-	880	-	493,016
Sale of property and compensation for loss	34,709	-	-	-	34,709
State sources	32,326,761	1,031,680	33,257	-	33,391,698
Federal sources	205,381	2,881,642	830,241	-	3,917,264
Miscellaneous	496,935	77,824	30	200,999	775,788
Total revenues	<u>60,770,233</u>	<u>3,991,146</u>	<u>1,239,546</u>	<u>200,999</u>	<u>66,201,924</u>
<b>EXPENDITURES</b>					
Current:					
General support	6,254,894	-	-	-	6,254,894
Instruction	36,096,344	4,098,889	-	-	40,195,233
Pupil transportation	2,366,731	-	-	-	2,366,731
Employee benefits	13,374,383	-	-	-	13,374,383
Food service cost of sales	-	-	1,094,355	-	1,094,355
Debt service:					
Principal	1,443,045	-	-	-	1,443,045
Interest	576,404	-	-	-	576,404
Capital outlay	-	-	-	56,789	56,789
Total expenditures	<u>60,111,801</u>	<u>4,098,889</u>	<u>1,094,355</u>	<u>56,789</u>	<u>65,361,834</u>
Excess (deficiency) of revenues over expenditures	<u>658,432</u>	<u>(107,743)</u>	<u>145,191</u>	<u>144,210</u>	<u>840,090</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	356,356	136,155	-	2,260,000	2,752,511
Transfers out	<u>(2,396,155)</u>	<u>(28,412)</u>	<u>(126,945)</u>	<u>(200,999)</u>	<u>(2,752,511)</u>
Total other financing sources (uses)	<u>(2,039,799)</u>	<u>107,743</u>	<u>(126,945)</u>	<u>2,059,001</u>	<u>-</u>
Net change in fund balances	(1,381,367)	-	18,246	2,203,211	840,090
Fund balances (deficit)—beginning	<u>17,448,509</u>	<u>-</u>	<u>421,784</u>	<u>(37,390,686)</u>	<u>(19,520,393)</u>
Fund balances (deficit)—ending	<u>\$ 16,067,142</u>	<u>\$ -</u>	<u>\$ 440,030</u>	<u>\$ (35,187,475)</u>	<u>\$ (18,680,303)</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)—Governmental Funds to the Government-wide Statement of Activities**  
**Year Ended June 30, 2014**

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Amounts reported for governmental activities in the statement of activities (page 13) are different because:

Net change in fund balances (deficit)—total governmental funds (page 16) \$ 840,090

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.

Capital asset additions	\$ 449,958	
Depreciation expense	<u>(3,080,148)</u>	(2,630,190)

Governmental funds recognize real property taxes only if collected within 60 days after the end of the fiscal year; however, the entity-wide statements recognize revenue on an accrual basis.

6,163

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid.

46,000

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Additionally, in the statement of activities, certain operating expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). The net effect of these differences in the treatment of long-term debt and the related items is as follows:

Repayment of serial bonds	\$ 1,270,000	
Amortization of bond premiums	58,351	
Repayment of capital leases	173,045	
Change in compensated absences	663,671	
Change in other-post employment benefits obligation	(133,931)	
Change in retirement system payable	<u>(523,852)</u>	<u>1,507,284</u>

Change in net position of governmental activities \$ (230,653)

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, 2014**

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	<b>Private Purpose Trust Fund</b>	<b>Agency Fund</b>
<b>ASSETS</b>		
Restricted cash and cash equivalents	\$ 112,579	\$ 135,517
Due from other funds	-	164,653
Total assets	<u>112,579</u>	<u>\$ 300,170</u>
<b>LIABILITIES</b>		
Agency fund liabilities	-	\$ 234,065
Extraclassroom activity balances	-	66,105
Total liabilities	<u>-</u>	<u>\$ 300,170</u>
<b>NET POSITION</b>		
Restricted for scholarships	<u>\$ 112,579</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 Funds**  
**Year Ended June 30, 2014**

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	<b><u>Private Purpose Trust Fund</u></b>
<b>ADDITIONS</b>	
Gifts and contributions	\$ 5,700
Investment earnings	<u>47</u>
Total additions	<u>5,747</u>
 <b>DEDUCTIONS</b>	
Scholarships and awards	<u>19,530</u>
Change in net position	(13,783)
Net position—beginning	<u>126,362</u>
Net position—ending	<u><u>\$ 112,579</u></u>

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

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**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Notes to the Financial Statements**  
**Year Ended June 30, 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Description of Government-wide Financial Statements***

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

***Reporting Entity***

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

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

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

***Joint Venture***—The District is a participating school district in the Orleans-Niagara Board of Cooperative Education Services (“BOCES”). Formed under Section 1950 of Education Law, a BOCES is a voluntary cooperative association of school districts in a geographic area that shares planning, services, and programs, and also provides educational and support activities. There is no authority or process by which the District can terminate its status as a component of BOCES. All BOCES property is held by the BOCES Board as a corporation under Section 1950(6) of Education Law.

The component school district boards elect the members of the BOCES governing body. There are no equity interests and no single participant controls the financial or operating policies. In addition,

BOCES Boards are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under Section 119-n(a) of General Municipal Law.

The BOCES budget is comprised of separate spending plans for administrative, program, and capital costs. Each component school district shares in administrative and capital costs determined by its enrollment. Participating districts are charged a service fee for programs in which students participate, and for other shared contracted administrative services. Participating districts may also issue debt on behalf of BOCES. As of June 30, 2014, there was no debt issued by the District on behalf of BOCES.

During the fiscal year ended June 30, 2014, the District was billed \$8,031,099 for BOCES administrative and program costs and recognized \$1,999,103 of BOCES aid from New York State and \$181,233 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.

### ***Basis of Presentation – Fund Financial Statements***

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

The District reports the following major governmental funds:

- *General Fund*—This is the principal operating fund of the District and accounts for all financial resources of the general government, except those accounted for in another fund.
- *Special Aid Fund*—This fund is used to account for special operating projects or programs supported in whole, or in part, with federal and state grants.
- *School Lunch Fund*—This fund is used to account for transactions of the District's food service operations.
- *Capital Projects Fund*—This fund is used to account for financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.

Additionally, the District reports the following fund type:

*Fiduciary Funds*—are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations and/or other governmental units. The Fiduciary Funds of the District include a *Private Purpose Trust Fund* and an *Agency Fund*.

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

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

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

### ***Measurement Focus and Basis of Accounting***

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

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

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

Property taxes, non-property taxes, charges for services provided, and state and federal aid associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met and the amount is received during the period or within the period of availability.

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 measurable and available only when cash is received by the District.

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

### ***Budgetary Information***

***Budgetary Basis of Accounting***—An annual budget is adopted on a basis consistent with generally accepted accounting principles for the General Fund. The Capital Projects Fund is appropriated on a project-length basis. No formal annual budget is adopted for the Special Aid and School Lunch Funds. Appropriation limits, where applicable, for the Special Aid Fund 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. A budget is maintained for the School Lunch Fund as a management tool for internal control purposes.

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

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

The General Fund original budget includes encumbrances from the prior year of \$66,223. The District considers encumbrances to be significant for amounts that are encumbered in excess of \$10,000. The District had a total of \$29,422 encumbrances outstanding at June 30, 2014, further information regarding encumbrances can be found in Note 12.

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

***Cash, Cash Equivalents and Investments***—The District's cash, cash equivalents, and investments consist of cash on hand, demand deposits, time deposits and short-term highly liquid investments with original maturities of three months or less from date of acquisition. New York State law governs the District's investment policies. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. The District had no investments at June 30, 2014; however, when the District does have investments they are recorded at fair value based on quoted market value.

***Restricted Cash and Cash Equivalents***—Restricted cash represents unspent proceeds of 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 the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than purchased.

**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 these funds are not available expendable resources.

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

**Capital Assets**—Capital assets, which include land, construction in progress, buildings, land improvements, furniture and equipment, and vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than an established threshold for the type of asset and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at estimated fair market value of the item at the date of its donation. Major outlays for capital assets and improvements are capitalized as projects are completed.

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

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

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

**Deferred Outflows/Inflows of Resources**—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2014, 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. At June 30, 2014, the District reported a deferred inflow of resources on the governmental fund financial statements in the amount of \$483,553, which represents taxes receivable that the District does not expect to receive within 60 days of year end, in accordance with the modified accrual basis of accounting.

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

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes, but do not meet the criteria to be classified as committed. The Board of Education has by resolution authorized both the business official and the Superintendent to assign fund balance. The Board may also assign fund balance, as it does when appropriating fund balance to cover a gap between estimated revenues and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

### ***Revenues and 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**Property Taxes**—Real taxes are levied annually by the Board of Education no later than September 1 and become a lien on September 1 each year. Taxes are collected during the period of September 1 to October 31 each year. The City of North Tonawanda, New York, 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.

**Unearned Revenue**—Certain revenues have not met the revenue recognition criteria for government-wide or fund financial purposes. At June 30, 2014, the District reported \$94,792, \$14,883 and \$2,727 of unearned revenues in the General Fund, Special Aid Fund and School Lunch Fund, respectively. The District received tuition money in advance but has not performed the services and therefore recognizes a liability.

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

#### **Other**

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

**Adoption of New Accounting Pronouncements**—During the year ended June 30, 2014, the District implemented Governmental Accounting Standards Board (“GASB”) Statements No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*; No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*; and No.70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB Statement No. 66 is to improve accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of GASB Statement No. 67 is to improve financial reporting by state and local governmental pension plans. This Statement replaces GASB Statement No. 25 and builds upon the existing framework for financial reporting of defined benefit pension plans. The objective of GASB Statement 70 is to improve financial reporting by state and local governments that extend and receive nonexchange financial guarantees. GASB Statements No. 66, 67 and 70 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. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, effective for the year ending June 30, 2015. The District is, therefore,

unable to disclose the impact that adopting GASB Statements No. 68, 69, and 71 will have on its financial position and results of operations when such statements are adopted.

## 2. RESTATEMENT

During the year ended June 30, 2014, the District had an asset revaluation performed by a third party. The revaluation involved a complete survey of buildings, building improvements and machinery and equipment. The results of this inventory valuation determined that net capital assets were overstated by \$8,275,276 at June 30, 2013. Consequently, the District has restated the beginning balance of net position from \$46,820,989 to \$38,545,713. There is no impact on the District's fund balances. A summary of the changes is presented in Note 5.

## 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

Total cash and cash equivalents reported by the District at June 30, 2014, are as follows:

Governmental Funds	\$ 17,903,481
Private Purpose Trust Fund	112,579
Agency Fund	<u>135,517</u>
Total	<u>\$ 18,151,577</u>

**Deposits**—All deposits are carried at fair value, and are classified by custodial credit risk at June 30, 2014 as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Insured (FDIC)	\$ 765,259	\$ 765,259
Uninsured:		
Collateral held by bank's agent in the District's name	<u>17,791,480</u>	<u>17,386,218</u>
Total	<u>\$ 18,556,739</u>	<u>\$ 18,151,477</u>

**Custodial Credit Risk—Deposits**—Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As noted above, by State statute all deposits in excess of FDIC insurance coverage must be collateralized. At June 30, 2014, the District's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agent in the District's name.

**Restricted Cash and Cash Equivalents**—The District reports proceeds of debt and amounts to support restricted fund balances as restricted cash and cash equivalents. At June 30, 2014, the District reported \$9,661,998 of restricted cash within its governmental funds.

**Investments**—The District had no investments at June 30, 2014.

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

#### 4. RECEIVABLES

Major revenues accrued by the District at June 30, 2014 consisted of the following:

**Taxes Receivable**—Represents amounts due from District taxpayers that remain unpaid. At June 30, 2014 that amount is \$545,147.

**Other Receivables**—Represents amounts due from various sources for out-of-District tuition, commissions, reimbursements and other services provided. The District report amounts of \$453,267, and \$5,060 in the General Fund and the Special Aid Fund, respectively.

**Intergovernmental Receivables**—Represent amounts due from other units of government, such as Federal, New York State and other local governments. Intergovernmental receivables at June 30, 2014 are:

General Fund:			
State - General Aid	\$	21,861	
State - BOCES Aid		1,232,742	
State - Excess Cost Aid		<u>904,438</u>	\$ 2,159,041
Special Aid Fund:			
Federal - Title I		490,644	
Federal - IDEA Part B, Section 619		58,393	
Federal - IDEA Part B, Section 611		792,430	
Federal - Title IIA		125,390	
Federal - Imm. Education		23,297	
Federal - Education Jobs Funds		32,656	
Federal - Race to the Top - ARRA		33,622	
Federal - Fit for Life		34,622	
State - OASAS		13,211	
State - Universal Pre-K		132,737	
State - Summer Handicapped 2011-12		74,788	
State - Summer Handicapped 2012-13		89,772	
State - Summer Handicapped 2013-14		217,223	
State - Section 4201		<u>150,550</u>	2,269,335
School Lunch Fund:			
State - Breakfast and Lunch Program			<u>65,856</u>
Total governmental funds			<u>\$ 4,494,232</u>

## 5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2014 was as follows:

	Balance, as restated 7/1/2013	Increases	Decreases	Balance 6/30/2014
Capital assets, not being depreciated:				
Land	\$ 246,107	\$ -	\$ -	\$ 246,107
Total capital assets, not being depreciated	<u>246,107</u>	<u>-</u>	<u>-</u>	<u>246,107</u>
Capital assets, being depreciated:				
Buildings	104,326,944	-	-	104,326,944
Land improvements	3,862,768	-	-	3,862,768
Furniture and equipment	2,444,006	449,958	-	2,893,964
Vehicles	1,192,217	-	-	1,192,217
Total capital assets, being depreciated	<u>111,825,935</u>	<u>449,958</u>	<u>-</u>	<u>112,275,893</u>
Less accumulated depreciation for:				
Buildings	37,803,282	2,716,272	-	40,519,554
Land improvements	3,264,258	72,740	-	3,336,998
Furniture and equipment	1,809,315	167,930	-	1,977,245
Vehicles	731,034	123,206	-	854,240
Total accumulated depreciation	<u>43,607,889</u>	<u>3,080,148</u>	<u>-</u>	<u>46,688,037</u>
Total capital assets, being depreciated, net	<u>68,218,046</u>	<u>(2,630,190)</u>	<u>-</u>	<u>65,587,856</u>
Governmental activities capital assets, net	<u>\$ 68,464,153</u>	<u>\$ (2,630,190)</u>	<u>\$ -</u>	<u>\$ 65,833,963</u>

The current year depreciation expense was allocated to functions and programs of the District's governmental activities as follows:

Governmental activities:	
General support	\$ 311,813
Instruction	2,589,007
Pupil transportation	157,053
School lunch	<u>22,275</u>
Total depreciation expense	<u>\$ 3,080,148</u>

During the year ended June 30, 2014, it was determined that the cost and accumulated depreciation amount of certain capital items were misstated in prior years.

The net effect to the beginning balance of the District's capital assets is summarized on the following page.

	Balance 7/1/2013 (as previously reported)	Restatement	Balance 7/1/2013 (as restated)
Capital assets, not being depreciated:			
Land	\$ 246,107	\$ -	\$ 246,107
Total capital assets, not being depreciated	<u>246,107</u>	<u>-</u>	<u>246,107</u>
Capital assets, being depreciated:			
Buildings	104,369,105	(42,161)	104,326,944
Land improvements	2,701,225	1,161,543	3,862,768
Furniture and equipment	2,820,760	(376,754)	2,444,006
Vehicles	<u>1,899,817</u>	<u>(707,600)</u>	<u>1,192,217</u>
Total capital assets, being depreciated	<u>111,790,907</u>	<u>35,028</u>	<u>111,825,935</u>
Less accumulated depreciation for:			
Buildings	29,785,356	8,017,926	37,803,282
Land improvements	1,865,336	1,398,922	3,264,258
Furniture and equipment	2,259,672	(450,357)	1,809,315
Vehicles	<u>1,387,221</u>	<u>(656,187)</u>	<u>731,034</u>
Total accumulated depreciation	<u>35,297,585</u>	<u>8,310,304</u>	<u>43,607,889</u>
Total capital assets, being depreciated, net	<u>76,493,322</u>	<u>(8,275,276)</u>	<u>68,218,046</u>
Governmental activities capital assets, net	<u>\$ 76,739,429</u>	<u>\$ (8,275,276)</u>	<u>\$ 68,464,153</u>

The restatement of \$8,275,276 decreased the District's net position and is reflected as an adjustment to the beginning net position. There is no impact on the fund balances of the District.

## 6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at June 30, 2014, were as follows:

	General Fund	Special Aid Fund	Total Governmental Funds
Salary and employee benefits	\$ 1,103,078	\$ 25,516	\$ 1,128,594
Workers' compensation	302,318	-	302,318
Out of district tuition	73,396	-	73,396
Other	<u>19,710</u>	<u>-</u>	<u>19,710</u>
Total accrued liabilities	<u>\$ 1,498,502</u>	<u>\$ 25,516</u>	<u>\$ 1,524,018</u>

## 7. PENSION PLANS

The District participates in the New York State Teacher's Retirement System ("NYSTRS") and the New York State and Local Employee' Retirement System ("NYSERS"). These cost-sharing multiple-employer public employee retirement systems compute contribution retirements based on the New York State Retirement and Local Security Law ("NYSRSSL").

***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 NYSTRS before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 are required to contribute three percent (3.0%) of their annual salary for the first ten years. Those joining on or after January 1, 2010 (Tier 5) are required to contribute three and one-half percent (3.5%) of their annual salary for their entire working career. Those joining on or after April 1, 2012 (Tier 6) are required to contribute ranging from three percent (3%) to six percent (6%) based on salary. Employers are required to contribute at an actuarially determined rate, currently 16.25% of the annual covered payroll for the fiscal year ended June 30, 2014. Rates applicable to the fiscal years ended June 30, 2013 and 2012 were 11.84% and 11.11%, respectively.

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

<u>Year ended June 30,</u>	<u>Contributions</u>
2014	\$ 4,100,902
2013	3,025,099
2012	2,953,518

The District's contribution made to the NYSTRS was equal to 100 percent of the contributions required for the 2012 and 2013 years. The District deferred \$523,852 from the 2014 amount due.

***New York State Employees' 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 three percent (3%) of their salary for the first ten years of membership. Those who joined on or after January 10, 2010 (Tier 5) generally contribute three percent of their salary for their entire length of service. Those joining after April 1, 2012 (Tier 6) are required to contribute ranging from three percent to six percent, based on salary. Under the authority of the NYSRSSL, the Comptroller annually certifies the

actuarially determined rates expressly used in computing the employer’s contributions based on salaries paid during the New York State Local Retirement System’s 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:

<u>Year ended June 30,</u>	<u>Contributions</u>
2014	\$ 1,029,069
2013	1,155,461
2012	934,820

Legislation requires participating employers to make payments on a current basis. The District’s contributions made to NYSERS were equal to 100 percent of the contributions required for each year, and the District has not bonded or amortized any of the excess amounts.

## 8. OTHER POST-EMPLOYMENT BENEFIT (“OPEB”) OBLIGATIONS

**Plan Description**—In addition to pension benefits, the District pays for a portion of eligible retirees’ health insurance, depending on the type of health plan provided in accordance with the provisions of various employment contracts. The benefit level, employee contributions and employer contributions are governed by the District’s contractual agreements. The estimated cost of such benefits totaled \$839,931 for the year ended June 30, 2014.

**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 \$706,000 for the fiscal year ended June 30, 2014.

The District’s annual other post-employment 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. 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 30 years.

The table on the following page shows the components of the District’s annual OPEB cost for the year, the amount contributed to the plan, and changes in the District’s net OPEB obligation.

	<u>Year ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 853,430	\$ 853,430
Interest on net OPEB obligation	34,492	30,284
Adjustment to annual required contribution	<u>(47,991)</u>	<u>(42,136)</u>
Annual OPEB costs (expense)	839,931	841,578
Contributions made	<u>(706,000)</u>	<u>(736,368)</u>
Increase in net OPEB obligation	133,931	105,210
Net OPEB obligation—beginning of year	<u>862,300</u>	<u>757,090</u>
Net OPEB obligation—end of year	<u>\$ 996,231</u>	<u>\$ 862,300</u>

**Funding Status and Funding Progress**—As of July 1, 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. This schedule presents multiyear 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 Contributions for the most recent three years is shown below:

Year Ended June 30,	Annual OPEB Costs	Annual Contributions Made	Percentage Contributed
2014	\$ 839,931	\$ 706,000	84.1%
2013	841,484	736,368	87.5%
2012	862,929	607,342	70.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**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, 2014 was twenty-four years.

## 9. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, vehicle liability, injuries to employees, health insurance, unemployment insurance, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The District purchases insurance for: general liability, property, crime, earthquake and flood. The general liability insurance is limited to \$1 million per occurrence and a \$3 million aggregate. The District also carries an umbrella policy with a \$15,000,000 coverage limit per occurrence. There have not been any significant changes in any type of insurance coverage from the prior year, nor have there been any settlements which have exceeded insurance coverage in the past three fiscal years.

**Medical Self-Insurance**—During the year ended June 30, 2014, the District participated in a Administrative Services Agreement with Independent Health. As part of the agreement, Independent Health prepares forms, provides access to Independent Health’s Networks Providers and processes claims for a fee per covered person per month. The responsibility of insuring claims however, lies with the District.

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

## 10. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BANs”) are generally accounted for in the Capital Projects Fund. Principal payments on BANs must be made annually. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. A summary of the District’s short-term debt for the fiscal year ended June 30, 2014 is presented below:

Description	Date of Issue	Interest Rate	Maturity Date	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014
Buildings improvements	9/19/2012	0.59%	9/19/2013	\$ 10,000,000	\$ -	\$ 10,000,000	\$ -
Buildings improvements	9/19/2012	1.25%	9/19/2013	27,565,000	-	27,565,000	-
Buildings improvements	9/18/2013	0.36%	9/18/2014	-	35,305,000	-	35,305,000
				<u>\$ 37,565,000</u>	<u>\$ 35,305,000</u>	<u>\$ 37,565,000</u>	<u>\$ 35,305,000</u>

## 11. LONG-TERM LIABILITIES

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

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

The District’s outstanding long-term liabilities include serial bonds, compensated absences, New York State retirement liability, workers’ compensation liability, and other post-employment benefits obligation. The serial bonds of the District are secured by its general credit and revenue raising powers, as per State statute.

A summary of changes in the District's long term debt at June 30, 2014 follows:

	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014	Due Within One Year
Serial bonds	\$ 3,920,000	\$ -	\$ 1,270,000	\$ 2,650,000	\$ 1,110,000
Premium on serial bonds	204,229	-	58,351	145,878	58,351
Bonds payable	4,124,229	-	1,328,351	2,795,878	1,168,351
Capital leases	1,268,986	-	173,045	1,095,941	180,598
Compensated absences	4,284,922	28,565	692,236	3,621,251	599,101
OPEB obligation	862,300	133,931	-	996,231	-
Retirement system payable	-	523,852	-	523,852	-
Total	<u>\$ 10,540,437</u>	<u>\$ 162,496</u>	<u>\$ 2,193,632</u>	<u>\$ 9,033,153</u>	<u>\$ 1,948,050</u>

**Serial Bonds**—The District issues general obligation bonds to provide funds for the acquisition, construction, and renovation of major capital facilities. Serial bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 5 to 12 years.

The activity on the District's outstanding bond issues, for the year ended June 30, 2014 follows:

Description	Year of Issue/ Maturity	Amount of Original Issue	Interest Rate	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014
Series A	2002/2014	3,230,000	3.77%	\$ 595,000	\$ -	\$ 290,000	\$ 305,000
Series B	2002/2014	1,260,000	3.81%	125,000	-	125,000	-
Series B	2002/2015	1,495,000	3.85%	210,000	-	140,000	70,000
DASNY Refunding	2012/2017	3,725,000	2.95%	2,990,000	-	715,000	2,275,000
Total				<u>\$ 3,920,000</u>	<u>\$ -</u>	<u>\$ 1,270,000</u>	<u>\$ 2,650,000</u>

**Premium on Serial Bonds**—On September 26, 2012 the District issued serial bonds totaling \$3,725,000 and received a bond premium of \$233,405. The premium is being amortized on a straight-line basis over the life of the bonds, which mature on June 1, 2017. The unamortized premium balance totaled \$145,878 at June 30, 2014.

**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, 2014 financial statements do not reflect the obligation, now equal to \$2,456,000, in its financial statements.

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

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014, are as follows:

Year Ending June 30,	Governmental Activities
2015	224,786
2016	224,786
2017	224,786
2018	224,786
2019	224,786
2020	112,393
Total minimum lease payments	1,236,323
Less: amount representing interest	(140,382)
Present value of minimum lease payments	<u>\$ 1,095,941</u>

**Compensated Absences**—As explained in Note 1, the District records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at June 30, 2014, for governmental activities is \$3,621,251. Management estimates that \$599,101 is due within one year. A non-current liability totaling \$3,022,150 has also been recorded. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

**OPEB Obligation**—As explained in Note 8, the District provides health insurance coverage for certain retirees. The District’s annual other post-employment benefit (“OPEB”) cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. The estimated long-term OPEB liability is estimated to be \$996,231 as of June 30, 2014.

**Retirement System Payable**—This amount represents previous payments to the New York State Teachers’ Retirement System that the District has elected to amortize over a ten year period. In the current year the District deferred \$523,852 relating to the New York State Teachers’ Retirement System.

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

	Serial Bonds	Premium on Obligations	Capital Leases	Compensated Absences	OPEB Obligation	Retirement System Payable	Total
2015	\$ 1,110,000	\$ 58,351	\$ 180,598	\$ 599,101	\$ -	\$ -	\$ 1,948,050
2016	760,000	58,351	188,481	-	-	-	1,006,832
2017	780,000	29,176	196,707	-	-	-	1,005,883
2018	-	-	205,293	-	-	-	205,293
2019	-	-	214,253	-	-	-	214,253
2020-2024	-	-	110,609	3,022,150	996,231	523,852	4,652,842
	<u>\$ 2,650,000</u>	<u>\$ 145,878</u>	<u>\$ 1,095,941</u>	<u>\$ 3,621,251</u>	<u>\$ 996,231</u>	<u>\$ 523,852</u>	<u>\$ 9,033,153</u>

Interest requirements on serial bonds payable are as follows:

Year ending June 30,	Interest
2015	\$ 77,150
2016	46,200
2017	<u>23,400</u>
	<u>\$ 146,750</u>

## 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.

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

In the fund financial statements, nonspendable amounts represent net current financial resources that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance maintained by the District at June 30, 2014 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, 2014 was \$260.
- **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, 2014 was \$104,132.
- **Inventories**—Representing the portion of fund balance, \$31,536 composed of inventory. This balance is nonspendable as the inventory does not represent an available resource.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as creditors, grantors, contributors, or laws and regulations of other governments) through constitutional provisions or enabling legislation. A summary of the District’s restricted funds at June 30, 2014 is presented on the following page.

	General Fund
Capital - buildings	\$ 3,368,570
Capital - technology	2,062,846
Debt service - Lowry	4,834
Debt service	1,608,394
Workers' compensation	211,758
Unemployment insurance	156,093
Retirement contribution	420,372
Insurance	1,161,707
Employee benefits	104,140
	<u>\$ 9,098,714</u>

- ***Restricted for Capital Projects (Buildings and Technology)***—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.

In the fund financial statements, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the District's highest level of decision-making authority. As of June 30, 2014, the District has no committed fund balance.

In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the District at June 30, 2014 and include:

- ***Assigned to Encumbrances***—Representing amounts related to unperformed (executory) contracts for goods and services. The District's General Fund has \$29,422 of fund balance assigned to encumbrances at June 30, 2014.
- ***Assigned to Subsequent Year's Expenditures***—Representing available fund balance being appropriated to meet expenditure requirements in the 2014-15 fiscal year, \$4,757,385 at June 30, 2014.

- **Assigned to School Lunch**— Representing remaining fund balance of \$408,494 within the special revenue fund used to maintain school lunch operations.

**Unassigned**—Represents a residual classification and could report a surplus or deficit. As of June 30, 2014, the unassigned deficit fund balance was \$33,110,246, which includes the General Fund unassigned fund balance of \$2,077,229 and the negative unassigned fund balance in the Capital Projects Fund of \$35,187,475.

The Capital Projects Fund deficit fund balance totaling \$35,187,475 at June 30, 2014 is due to project expenditures exceeding revenues and other sources to date and will be remedied 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. The composition of interfund balances as of June 30, 2014 is as follows:

	Interfund	
	Receivables	Payables
Governmental Funds:		
General Fund	\$ 7,677,021	\$ 5,505
Special Aid Fund	186,137	7,078,360
School Lunch Fund	-	504,835
Capital Projects Fund	-	439,111
Total Governmental Funds	7,863,158	8,027,811
Fiduciary Funds:		
Agency Fund	164,653	-
Total	<u>\$ 8,027,811</u>	<u>\$ 8,027,811</u>

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

The District made the following transfers during the year ended June 30, 2014:

Transfers in:	Transfers Out:				Total
	General Fund	Special Aid Fund	School Lunch Fund	Capital Projects Fund	
General Fund	\$ -	\$ 28,412	\$ 126,945	\$ 200,999	\$ 356,356
Special Aid Fund	136,155	-	-	-	136,155
Capital Projects Fund	2,260,000	-	-	-	2,260,000
Total	<u>\$ 2,396,155</u>	<u>\$ 28,412</u>	<u>\$ 126,945</u>	<u>\$ 200,999</u>	<u>\$ 2,752,511</u>

Transfers are used primarily to finance certain special aid programs and to support capital project expenditures and school lunch activities.

#### 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, 2014:

	Balance 7/1/2013	Increases	Decreases	Balance 6/30/2014
<b>ASSETS</b>				
Restricted cash and cash equivalents	285,108	33,321,648	33,471,239	135,517
Due from other funds	-	33,062,921	32,898,268	164,653
	<u>\$ 285,108</u>	<u>\$ 66,384,569</u>	<u>\$ 66,369,507</u>	<u>\$ 300,170</u>
<b>LIABILITIES</b>				
Agency fund liabilities	\$ 196,743	\$ 33,169,867	\$ 33,132,545	\$ 234,065
Due to other funds	16,863	250,632	267,495	-
Extraclassroom activity funds	71,502	313,686	319,083	66,105
	<u>\$ 285,108</u>	<u>\$ 33,734,185</u>	<u>\$ 33,719,123</u>	<u>\$ 300,170</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, three of which have been extended to June 30, 2016.

#### 16. CONTINGENCIES

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

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

#### 17. SUBSEQUENT EVENTS

On September 17, 2014 the District issued \$23,760,000 in bond anticipation notes with an interest rate of 1.0%. These bond anticipation notes will mature on September 17, 2015. Additionally, on October 1, 2014 the District authorized the issuance of \$9,160,000 of serial bonds.

Management has evaluated subsequent events through October 15, 2014, which is the date the financial statements are available for issuance, and have determined, except as disclosed above, there are no subsequent events that require disclosure under generally accepted accounting principles.

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## REQUIRED SUPPLEMENTARY INFORMATION



**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Funding Progress—Other Post-Employment Benefits Plan**  
**Year Ended June 30, 2014**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability ("AAL") (b)</b>	<b>Unfunded AAL ("UAAL") (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
As of September 15, 2013	\$ -	\$ 12,941,078	\$ 12,941,078	0.00%	\$ 5,116,870	252.9%
As of September 15, 2011	-	13,343,968	13,343,968	0.00%	4,920,067	271.2%
As of October 1, 2008	-	11,597,079	11,597,079	0.00%	4,548,879	254.9%

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance—**  
**Budget (Non-GAAP Basis) and Actual—General Fund**  
**Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local sources:				
Real property taxes and other tax items	\$ 27,135,215	\$ 27,135,215	\$ 27,124,636	\$ (10,579)
Charges for services	138,399	138,399	89,675	(48,724)
Use of money and property	462,480	462,480	492,136	29,656
Sale of property and compensation for loss	87,860	87,860	34,709	(53,151)
Miscellaneous	606,428	606,428	496,935	(109,493)
State sources:				
Basic formula	17,433,159	17,433,159	16,779,202	(653,957)
Excess cost	6,379,245	6,379,245	6,824,865	445,620
Lottery	4,492,036	4,492,036	4,494,267	2,231
VLT lottery	1,407,712	1,407,712	1,408,512	800
BOCES	1,990,300	1,990,300	2,004,167	13,867
Tuition for students with disabilities	200,000	200,000	407,647	207,647
Textbooks	262,300	262,300	248,844	(13,456)
Computer software	134,187	134,187	134,289	102
Library loan program	24,950	24,950	24,968	18
Federal sources:				
Medicaid assistance	<u>150,000</u>	<u>150,000</u>	<u>205,381</u>	<u>55,381</u>
Total revenues	<u>60,904,271</u>	<u>60,904,271</u>	<u>60,770,233</u>	<u>(134,038)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	<u>79,100</u>	<u>79,100</u>	<u>356,356</u>	<u>277,256</u>
Total other financing sources	<u>60,983,371</u>	<u>60,983,371</u>	<u>356,356</u>	<u>277,256</u>
Total revenues and other financing sources	<u>\$ 60,983,371</u>	<u>\$ 60,983,371</u>	<u>\$ 61,126,589</u>	<u>\$ 143,218</u>

(continued)

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance—**  
**Budget (Non-GAAP Basis) and Actual—General Fund**  
**Year Ended June 30, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Encumbrances</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>		<u>Final Budget</u>
<b>EXPENDITURES</b>					
General Support:					
Board of Education	\$ 23,262	\$ 70,276	\$ 60,951	\$ -	\$ 9,325
Central administration	202,431	207,140	202,360	-	4,780
Finance	440,940	477,088	421,348	-	55,740
Staff	414,119	410,280	308,799	-	101,481
Central services	6,196,083	5,563,299	4,643,967	12,115	907,217
Special items	803,526	752,222	617,469	-	134,753
Instruction:					
Instruction, administration and improvement	1,685,212	1,632,296	1,590,210	-	42,086
Teaching—regular school	18,385,424	18,457,358	18,348,628	2,963	105,767
Programs for children with handicapping conditions	10,300,808	10,954,163	10,776,040	-	178,123
Occupational education	1,532,050	1,625,330	1,625,330	-	-
Teaching—special schools	60,815	14,948	14,948	-	-
Instructional media	999,723	1,099,679	1,074,543	9,314	15,822
Pupil services	2,858,511	2,777,513	2,666,645	4,075	106,793
Pupil transportation	2,763,859	2,625,170	2,366,731	955	257,484
Employee benefits	14,635,768	14,635,768	13,374,383	-	1,261,385
Debt service	4,279,448	4,279,449	2,019,449	-	2,260,000
Total expenditures/encumbrances	<u>65,581,979</u>	<u>65,581,979</u>	<u>60,111,801</u>	<u>29,422</u>	<u>5,440,756</u>
<b>OTHER FINANCING USES</b>					
Transfers out	<u>225,000</u>	<u>225,000</u>	<u>2,396,155</u>	<u>-</u>	<u>(2,171,155)</u>
Total expenditures/encumbrances and other financing uses	<u>65,806,979</u>	<u>65,806,979</u>	<u>62,507,956</u>	<u>29,422</u>	<u>3,269,601</u>
Net change in fund balance	(4,823,608)	(4,823,608)	(1,381,367)		
Fund balance—beginning	<u>17,448,509</u>	<u>17,448,509</u>	<u>17,448,509</u>		
Fund balance—ending	<u>\$ 12,624,901</u>	<u>\$ 12,624,901</u>	<u>\$ 16,067,142</u>		

(concluded)

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## SUPPLEMENTARY INFORMATION



**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Change from Adopted Budget to Final Budget**  
**And the Real Property Tax Limit**  
**Year Ended June 30, 2014**

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**Changes from Adopted Budget to Final Budget**

Adopted budget, 2013-2014	\$ 65,740,756
Add: Prior year's encumbrances	<u>66,223</u>
Original budget	<u>65,806,979</u>
Final budget, 2013-2014	<u>\$ 65,806,979</u>

**Section 1318 of Real Property Tax Law Limit Calculation**

2014-15 Voter-approved expenditure budget	\$ <u>68,423,968</u>
Maximum allowed (4% of 2014-2015 budget)	<u>\$ 2,736,959</u>

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

Unrestricted fund balance:

Assigned fund balance	\$ 4,786,807
Unassigned fund balance	<u>2,077,229</u>
Total unrestricted fund balance	<u>\$ 6,864,036</u>

Less:

Appropriated fund balance	\$ 4,757,385
Encumbrances included in assigned fund balance	<u>29,422</u>
Total adjustments	<u>\$ 4,786,807</u>

General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law \$ 2,077,229

Actual percentage 3.04%

\* 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 Fund—**  
**Project Expenditures and Financing Resources**  
**Year Ended June 30, 2014**

Project Title	S.E.D. Project No.	Original Approp- riation	Revised Approp- riation	Expenditures			Methods of Financing				Fund Balance (Deficit) 6/30/2014
				Prior Years	Current Year	Total	Proceeds of Obligations	E-Rate / Rescue Aid	Local Source	Total	
\$48M Project - Unallocated	N/A	\$ -	\$ -	\$ 2,593,914	\$ -	\$ 2,593,914	\$ -	\$ -	\$ -	\$ -	\$ (2,593,914)
\$48M Project	N/A	-	119,039	436,173	49,000	485,173	2,260,000	-	-	2,260,000	1,774,827
Grant School	002-008	219,489	-	6,173	-	6,173	-	-	-	-	(6,173)
Drake School	003-009	3,811,754	4,185,390	3,873,976	-	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	5,682,517	1,656	5,684,173	-	-	-	-	(5,684,173)
Ohio School	014-010	5,055,232	5,534,357	5,119,515	-	5,119,515	-	-	-	-	(5,119,515)
Ohio School - Roof	014-011	850,000	731,739	644,311	-	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	17,218,909	6,133	17,225,042	-	-	1,061,150	1,061,150	(16,163,892)
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	11,449,716	-	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)
Totals		<u>\$ 48,906,404</u>	<u>\$ 48,092,154</u>	<u>\$ 47,917,842</u>	<u>\$ 56,789</u>	<u>\$ 47,974,631</u>	<u>\$ 6,518,305</u>	<u>\$ 1,376,696</u>	<u>\$ 4,892,155</u>	<u>\$ 12,787,156</u>	<u>\$ (35,187,475)</u>

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Net Investment in Capital Assets**  
**For the Year Ended June 30, 2014**

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Capital assets, net of accumulated depreciation	\$ 65,833,963
Add: Unspent debt proceeds	117,525
Deduct:	
Serial bonds	\$(2,650,000)
Premium on bonds payable	(145,878)
Bond anticipation notes payable	(35,305,000)
Capital leases	<u>(1,095,941)</u>
	<u>(39,196,819)</u>
Net Investment in Capital Assets	<u>\$ 26,754,669</u>

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# FEDERAL AWARDS INFORMATION



**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2014**

Federal Grantor / Pass-through Grantor Program or Cluster Title (1)	Federal CFDA Number (2)	Pass-through Identifying Number	Federal Expenditures (3)
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>			
<i>Passed through New York State Department of Agriculture:</i>			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	n/a	\$ 135,960
National School Lunch Program	10.555	n/a	<u>694,281</u>
Total Child Nutrition Cluster			<u>830,241</u>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>830,241</u>
<b>U.S. DEPARTMENT OF EDUCATION:</b>			
<i>Passed through New York State Department of Education:</i>			
Special Education Cluster:			
Special Education-Grants to States (IDEA, Part B)	84.027	0032-14-0611	992,757
Special Education-Preschool Grants (IDEA Preschool)	84.173	0033-14-0611	<u>70,348</u>
Total Special Education Cluster			1,063,105
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies (LEAs)	84.010	012-14-1970	<u>614,063</u>
Total Title I, Part A Cluster			614,063
Fit for Life	84.215	n/a	952,070
Title III - Immigrant Education	84.365	0149-14-1970	30,688
Improving Teacher Quality - State Grants	84.367	0147-14-1970	155,438
Race to the Top (ARRA)	84.395	5545-14-3034	32,656
Race to the Top (ARRA)	84.395	5500-14-1970	<u>33,622</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>2,881,642</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u>\$ 3,711,883</u>

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

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2014**

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**1. BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District. The following notes were identified on the schedule of expenditures of federal awards:

- (1) Includes all federal award programs of the North Tonawanda City School District, New York.
- (2) Source: Catalog of Federal Domestic Assistance.
- (3) Prepared under accounting principles generally accepted in the United States of America and includes all federal award programs.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principle contained in OMB Circular A-87, *Cost Principles for State, Local & Indian Tribal Governments*, wherein certain types of expenditure are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**3. NON-MONETARY FEDERAL PROGRAM**

The District is the recipient of a federal award program that does not result in cash receipts or disbursements termed a "non-monetary program." During the year ended June 30, 2014, the District used \$60,457 worth of commodities.

**4. RECONCILIATION OF FEDERAL AID**

Total federal expenditures for the District's 2013-14 fiscal year is reconciled to Federal Sources as reported in the basic financial statements as follows:

Balance per schedule of expenditures of federal awards	\$ 3,711,883
Add: Medicaid reimbursement	205,381
Total Federal Sources per financial statements	<u>\$ 3,917,264</u>

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Certified Public Accountants

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

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

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Tonawanda City School District, New York (the "District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 15, 2014.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Drescher & Malecki LLP*

October 15, 2014

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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH 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 U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2014. 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, 2014.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance with the compliance requirements referred to above that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

### **Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

*Drescher & Malecki LLP*

October 15, 2014

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2014**

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**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 | _____ <input checked="" type="checkbox"/> No            |
| 2. Significant deficiency(ies) identified not considered to be material weaknesses? | _____ Yes | _____ <input checked="" type="checkbox"/> None reported |
| 3. Noncompliance material to the financial statements noted?                        | _____ Yes | _____ <input checked="" type="checkbox"/> No            |

**Federal Awards:**

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

Internal control over major programs:

- |   |   |   |
|---|---|---|
| 4. Material weakness(es) identified?  | _____ Yes                                     | _____ <input checked="" type="checkbox"/> No            |
| 5. Significant deficiency(ies) identified not considered to be material weaknesses?                                       | _____ Yes                                     | _____ <input checked="" type="checkbox"/> None reported |
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | _____ <input checked="" type="checkbox"/> Yes | _____ None  |

7. The District's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
National School Breakfast Program	10.553
National School Lunch Program	10.555
Special Education-Grants to States (IDEA, Part B)	84.027
Special Education-Grants to States (IDEA Preschool)	84.173
Fit for Life	84.215
Race to the Top (ARRA)	84.395

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, NEW YORK**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2014**

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**Part II. Financial Statement Findings Section**

No findings.

**Part III. Federal Awards Findings and Questioned Costs Section**

**2014-001—Child Nutrition Cluster Eligibility**

*Criteria*—The District should have adequate procedures in place to ensure that all free and reduced school meal applications are maintained and retrievable.

*Condition*—During our testing of child nutrition eligibility, the District was unable to provide free/reduced school lunch applications for two of the students selected.

*Context*—The lack of adequate procedures surrounding the free/reduced Meals applications.

*Effect or Potential Effect*—The District is not in compliance with the OMB Circular A-133 surrounding eligibility due to lack of supporting evidence.

*Cause*—The lack of formal procedures in regards to free/reduced meal applications.

*Recommendation*—We recommend the District review the structure of the school breakfast/lunch program and determine adequate procedures to ensure applications are maintained and updated, as necessary.

*Management Response*—The District intends to review the school lunch operations and identify areas which improvements can be implemented.

**NORTH TONAWANDA CITY SCHOOL DISTRICT, NEW YORK**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2014**

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No findings noted.

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