

**NIAGARA FALLS CITY SCHOOL
DISTRICT, NEW YORK**

*Basic Financial Statements, Required Supplementary
Information, Supplemental and Federal Financial
Assistance Schedules for the Year Ended
June 30, 2013 and Independent Auditors' Reports*

NIAGARA FALLS CITY SCHOOL DISTRICT
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FINANCIAL SECTION

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Board of Education
Niagara Falls 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 Niagara Falls City School District, New York (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplemental schedules and Schedule of Expenditures of Federal awards, as required by 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 supplemental schedules and Schedule of Expenditures of Federal Awards are the responsibility of the District's 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 supplemental schedules and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



October 29, 2013

NIAGARA FALLS CITY SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2013

As management of the Niagara Falls 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, 2013. 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 District's net position at the close of the fiscal year was \$(57,376,308).
- ◆ The District's net position deteriorated by \$6,464,944 during the year ended June 30, 2013.
- ◆ As of the close of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$4,343,862 in comparison with the prior year's fund balance of \$7,869,664. This decrease is primarily attributable to capital outlay within the Capital Projects Fund as well as a planned use of General Fund fund balance.
- ◆ At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$2,499,636, or approximately 2.1% of total General Fund expenditures and transfers out. This total amount is *available for spending* at the District's discretion and constitutes approximately 36.2% of the General Fund's total fund balance of \$6,910,789 at June 30, 2013.
- ◆ The District's total bonded indebtedness decreased by \$4,458,476. This was the result of principal payments of \$4,263,476 made on existing bonded indebtedness and the issuance of \$6,425,000 refunding bonds, which refunded \$6,620,000 of principal during the year ended June 30, 2013.

In accordance with New York State Real Property Tax Law, the District maintains a fund balance within its General Fund. By law, the District cannot retain more than 4.0% of the ensuing year's General Fund budget in its unassigned fund balance at year end. At June 30, 2013, the General Fund's unassigned fund balance represents approximately 2.0% of the subsequent year's General Fund budget. Additionally, State Law allows for the creation of various reserves, which may be maintained in addition to the unassigned fund balance. The District maintains two reserves; a reserve for workers compensation and a reserve for debt service. These reserves are designed to allocate or "reserve" district assets for liabilities which will materialize in the District's future. Fund balance reserves can serve to protect the District from large changes in its tax rates.

Overview of the Financial Statements

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

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 and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes, state aid, and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the District include general support, instruction, pupil transportation, school food service operations, and interest on long-term debt.

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

The District adopts an annual budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-18 of this report.

Fiduciary funds—Fiduciary funds are used to account for resources held for the benefit of parties outside the District. The District maintains two fiduciary funds, a Private Purpose Trusts Fund and an Agency Fund. All of the District’s fiduciary activities are reported in two separate statements; a Statement of Fiduciary Net Position and a Statement of Changes in Net Position—Fiduciary Fund. These activities 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 Fiduciary Fund statements can be found on pages 19-20 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 21-43 of this report.

Other information—As stated earlier, in addition to the basic financial statements and accompanying notes, this report also presents supplemental schedules for the purposes of additional analysis and the District’s Schedule of Expenditures of Federal Awards. The other information can be found following the notes to the financial statements of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the District’s financial position. In the case of the District, liabilities exceeded assets by \$57,376,308 at June 30, 2013.

Table 1—Condensed Statements of Net Position

	June 30,	
	2013	2012
Current assets	\$ 21,588,819	\$ 21,060,500
Capital assets	93,773,050	94,624,838
Total assets	<u>115,361,869</u>	<u>115,685,338</u>
Current liabilities	15,495,367	8,051,224
Long-term liabilities	157,242,810	158,545,479
Total liabilities	<u>172,738,177</u>	<u>166,596,703</u>
Net position:		
Net investment in capital assets	(17,448,486)	(20,515,808)
Restricted	1,044,545	1,024,813
Unrestricted	<u>(40,972,367)</u>	<u>(31,420,369)</u>
Total net position	<u>\$ (57,376,308)</u>	<u>\$ (50,911,364)</u>

The District’s net investment (deficit) in capital assets is in a deficit position, \$(17,448,486) at June 30, 2013. This category of net position reflects the District’s investment in capital assets (e.g., land, construction in progress, building and improvements, and equipment); less any related debt used to acquire those assets that is still outstanding. Capital 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 (generally state building aid and real property taxes), since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position, \$1,044,545 represents resources that are subject to external restrictions on how they may be used. The remaining balance, *unrestricted net position* (amount available to meet the District's ongoing obligations to citizens and creditors) was in a deficit position of \$(40,972,367).

The deficits demonstrate that future funding will be necessary to liquidate long-term obligations.

Governmental activities—Governmental activities decreased the District's net position by \$6,464,944 during the year ended June 30, 2013. Key elements of the net position decrease are presented on the following page.

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

	<u>Year Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
Program revenues:		
Charges for services	\$ 513,969	\$ 1,311,325
Operating grants and contributions	13,929,382	13,851,260
General revenues:	<u>114,732,922</u>	<u>116,960,693</u>
Total revenues	129,176,273	132,123,278
Program expenses	<u>135,641,217</u>	<u>131,757,534</u>
Change in net position	(6,464,944)	365,744
Net position--beginning	<u>(50,911,364)</u>	<u>(51,277,108)</u>
Net position--ending	<u>\$ (57,376,308)</u>	<u>\$ (50,911,364)</u>

As presented in Table 3 on the following page, the District's most significant sources of revenue for the year ended June 30, 2013 are:

- ◆ Unrestricted state aid comprises approximately 67.3% of total revenues, and increased by \$940,428 when compared to the prior year. State aid is dependent upon many factors including total education aid appropriated by the state, student population, area wealth, and various other factors.
- ◆ Taxes comprise approximately 21.4% of total revenues and decreased by \$1,164,756 from the previous year. This category includes real property taxes, payments in lieu of taxes, utility taxes, and State Tax Assessment Relief payments. The District's levy is approved as a part of the annual budget.
- ◆ Operating grants and contributions comprise approximately 10.8% of all revenues and increased by \$78,122 from 2012 due to an increase in federal grant funding. This

category includes various grants and other aid, and is dependent upon grants requested and approved and other state and federal funding.

Similarly, for the year ended June 30, 2012, the District's most significant sources of revenue were unrestricted state aid, which comprised approximately 65.1% of total revenues; taxes, which comprised approximately 21.8% of total revenues; and operating grants and contributions, which comprised 10.5% of total revenues.

Table 3—Summary of Sources of Revenues

	Year Ended June 30,		Increase/(Decrease)	
	2013	2012	Dollars	Percent
Charges for services	\$ 513,969	\$ 1,311,325	\$ (797,356)	(60.8)
Operating grants and contributions	13,929,382	13,851,260	78,122	0.6
Taxes	27,602,933	28,767,689	(1,164,756)	(4.0)
Use of money and property	201,835	186,795	15,040	8.1
Sale of property and compensation for loss	9,781	19,817	(10,036)	(50.6)
Miscellaneous	23,525	2,031,972	(2,008,447)	(98.8)
Unrestricted state aid	86,894,848	85,954,420	940,428	1.1
Total revenues	<u>\$ 129,176,273</u>	<u>\$ 132,123,278</u>	<u>\$ (2,947,005)</u>	(2.2)

Overall, total District expenses increased by \$3,883,683 when compared to the prior fiscal year. As presented in Table 4 below, the District's significant expense items for the year ended June 30, 2013 were instruction which comprised \$99,262,170, or 73.2%, of total expenses; general support which comprised \$20,241,281, or 14.9%, of total expenses; and pupil transportation which comprised \$7,591,309, or 5.6%, of total expenses.

Similarly, for the year ended June 30, 2012, the District's most significant expense items were instruction which comprised \$96,075,976, or 72.9%, of total expenses; general support which comprised \$19,002,236, or 14.4%, of total expenses; and pupil transportation which comprised \$7,642,871, or 5.8%, of total expenses.

Table 4—Summary of Program Expenses:

	Year Ended June 30,		Increase/(Decrease)	
	2013	2012	Dollars	Percent
General support	20,241,281	19,002,236	1,239,045	6.5
Instruction	99,262,170	96,075,976	3,186,194	3.3
Pupil transportation	7,591,309	7,642,871	(51,562)	(0.7)
Community services	161,175	154,875	6,300	4.1
Interest and other fiscal charges	5,243,189	5,616,352	(373,163)	(6.6)
School lunch program	<u>3,142,093</u>	<u>3,265,224</u>	<u>(123,131)</u>	(3.8)
Total program expenses	<u>\$ 135,641,217</u>	<u>\$ 131,757,534</u>	<u>\$ 3,883,683</u>	2.9

The District's largest expense area is instruction, which encompasses all teaching salaries, benefits, supplies, maintenance, and depreciation on school facilities and various other related costs.

Financial Analysis of the District's Funds

Governmental funds—The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$4,343,862, a fund balance decrease of \$3,525,802 from the prior year's fund balance of \$7,869,664. The District's total unassigned fund balance is in a deficit of \$422,590. The remainder of fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending because it has already been committed to: (1) inventory, (2) prepaid items, (3) liquidate contracts and purchase orders of the prior period; (4) future debt service payments; (5) pay for employee related expenses; (6) pay school lunch spending; and (7) fund expenditures in the subsequent year.

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 \$2,499,636, while the total fund balance reached \$6,910,789. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned and total fund balance to total General Fund expenditures and transfers out. Unassigned fund balance represents approximately 2.1% of total General Fund expenditures, while total fund balance represents approximately 5.8% of that same amount. The total fund balance of the District's General Fund decreased by \$844,214 during the current fiscal year.

The Special Aid Fund reports a zero fund balance. This fund is used to account for matching revenues to corresponding expenditures for the instruction of students. Accordingly, there is no change in fund balance for the year ended June 30, 2013.

The refunding issuance of \$6,425,000 was recorded in the Debt Service Fund. At June 30, 2013, the Debt Service Fund reported a zero fund balance.

The School Lunch Fund has a total fund balance of \$355,299, of which \$31,195 is composed of inventory and is unavailable for spending, and the remainder, \$324,104, is assigned fund balance. During the year ended June 30, 2013, fund balance increased \$317,529.

The Capital Projects Fund has a deficit of \$2,922,226 at June 30, 2013. The net decrease in fund balance in the Capital Projects Fund was \$2,999,117, which was due to capital outlay. The District issued \$3,500,000 of bond anticipation notes to finance current and future capital projects. The deficit is expected to be remedied by the issuance of long-term debt.

General Fund Budgetary Highlights

The District's General Fund budget contains a minimal amount of budget amendments every year. The District has made it a practice to only amend the annual operating budget for the inclusion of purchase orders which have been carried over from the previous year (i.e. encumbrances), donations, and income from other unanticipated sources. The budget is allowed to be amended upward (increased) for prior year's encumbrances 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. A summary of revisions from adopted budget to final budget is presented on the following page.

Table 5—General Fund Budget

	Budget—Year Ended June 30, 2013
Adopted budget—adopted by the Board of Education and approved by District voters	\$ 122,438,834
Add: prior year's encumbrances	<u>103,568</u>
Original budget	122,542,402
Add: budget revisions for gifts and donations	<u>27,454</u>
Final budget	<u>\$ 122,569,856</u>

The District also approves a number of budget transfers annually. This is because it is not possible for the District to adequately foresee all student population shifts, special education requirements and various other factors (e.g. utility and fuel needs) and the related changes in supply and equipment needs for educational programs. When this occurs, initial plans are reprioritized and budget transfers are made. It is anticipated that while the District will continue to control the number of budget transfers necessary to operate its programs, there will always be the need to transfer funds within instructional program budget lines.

More detailed information about the District's General Fund budget is presented in the Statement of Revenues, Expenditures and Changes in Fund Balance—Budget and Actual—General Fund on page 18.

Capital Asset and Debt Administration

Capital assets—The District's investment in capital assets for its governmental activities as of June 30, 2013, amounted to \$93,773,050 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and equipment. Construction in progress at June 30, 2013 represents expenses to date for facilities improvements approved by the voters of the District, but not yet placed in service.

Major capital asset events during the current fiscal year included the following:

- ◆ The District recorded total additions to capital assets of \$3,044,660 while disposing of \$104,735 of previously acquired capital assets.
- ◆ The District recorded total depreciation expense for the year of \$3,895,185, and removed \$103,472 of previously accumulated depreciation related to the aforementioned asset disposals.
- ◆ The District reclassified \$137,262 of building improvements that had been previously reported as land improvements.

A summary of capital assets, net of depreciation, for the District's governmental activities is presented on the following page.

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

	Year Ended June 30,		Increase/(Decrease)	
	2013	2012	Dollars	Percent
Land	\$ 1,706,376	\$ 1,706,376	\$ -	n/a
Construction in progress	2,924,330	-	2,924,330	n/a
Land improvements	1,136,706	1,440,376	(303,670)	(21.1)
Buildings and improvements	86,640,118	89,971,096	(3,330,978)	(3.7)
Furniture and equipment	1,248,335	1,356,269	(107,934)	(8.0)
Vehicles	117,185	150,721	(33,536)	(22.3)
Total	<u>\$ 93,773,050</u>	<u>\$ 94,624,838</u>	<u>\$ (851,788)</u>	(0.9)

Additional information on the District's capital assets is presented in Note 4 to the financial statements.

Long-term debt—At June 30, 2013, the District had total long-term debt outstanding of \$157,242,810 as compared to \$158,545,479 in the prior year. Of the total long-term debt outstanding at June 30, 2013, \$47,735,000 represents serial bonds issued by the District. The District uses such debt issuances as a primary source of funds for building construction, renovation and improvement. The District generally receives state aid on authorized projects over a predetermined useful life of such project. Debt is issued in an effort to match the District's debt payments with the District's anticipated receipt of building aid related to the project.

Table 6—Summary of Long-term debt

	June 30,		Increase/(Decrease)	
	2013	2012	Dollars	Percent
Serial bonds	\$ 47,735,000	\$ 52,193,476	\$ (4,458,476)	(8.5)
Bond premium	940,134	581,971	358,163	61.5
Certificates of participation	55,285,000	57,765,000	(2,480,000)	(4.3)
Energy performance contracts	4,474,176	4,942,491	(468,315)	(9.5)
Due to retirement system	1,791,735	1,060,686	731,049	68.9
Compensated absences	8,535,865	7,748,308	787,557	10.2
Judgments and claims	8,167,351	6,111,276	2,056,075	33.6
Other post-employment benefits	30,313,549	28,142,271	2,171,278	7.7
Total	<u>\$ 157,242,810</u>	<u>\$ 158,545,479</u>	<u>\$ (1,302,669)</u>	(0.8)

More detailed information about the District's long-term debt can be found in Note 11 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate, not seasonally adjusted, for the Niagara County region at June 30, 2013 was 7.4 percent, which is an decrease from a rate of 8.8 percent a year ago. This compares favorably to New York State's average unemployment rate of 7.6 percent. Additionally over the past two decades, the region has experienced a steady decline in population and business. All of these factors are considered in preparing the District's budget.

The District's 2013-14 budget includes the appropriation of \$2,300,000 of the General Fund's fund balance. The 2013-2014 budget appropriations total of \$124,060,725 is an approximate increase of 1.3% as compared to \$122,438,834 in 2012-2013. The District's total tax levy in 2013-2014 is \$17,006,400, which is an approximate increase of 3.6% as compared to \$16,410,987 levied during the 2012-2013 year.

Requests 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 in this report, or requests for additional financial information should be addressed to Timothy Hyland, Administrator for School Business Services, Niagara Falls City School District, 630 66th Street, Niagara Falls, NY 14304.

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BASIC FINANCIAL STATEMENTS

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NIAGARA FALLS CITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2013

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 5,528,882
Restricted cash and cash equivalents	4,748,526
Due from other governments	7,954,730
Accounts receivable	120,528
Taxes receivable	2,413,420
Inventories	31,195
Prepaid items	791,538
Capital assets not being depreciated	4,630,706
Capital assets, net of accumulated depreciation	<u>89,142,344</u>
Total assets	<u>115,361,869</u>
 LIABILITIES	
Accounts payable	2,041,851
Accrued liabilities	869,682
Retainage payable	28,110
Bond anticipation notes payable	3,500,000
Internal balances	154,791
Due to other governments	133,773
Due to retirement systems	6,210,791
Unearned revenue	2,556,369
Non-current liabilities:	
Due within one year	9,065,703
Due within more than one year	<u>148,177,107</u>
Total liabilities	<u>172,738,177</u>
 NET POSITION	
Net investment in capital assets	(17,448,486)
Restricted:	
Workers' compensation	950,292
Debt service	94,253
Unrestricted	<u>(40,972,367)</u>
Total net position	<u>\$ (57,376,308)</u>

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

NIAGARA FALLS CITY SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2013

<u>Function/Program</u>	<u>Expense</u>	<u>Program Revenues</u>		<u>Net (Expense)</u> <u>Revenue and Change</u> <u>in Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Primary</u> <u>Governmental</u> <u>Activities</u>
Primary Government:				
Governmental activities:				
General support	\$ 20,241,281	\$ -	\$ -	\$ (20,241,281)
Instruction	99,262,170	93,592	11,139,091	(88,029,487)
Pupil transportation	7,591,309	-	-	(7,591,309)
Community services	161,175	-	-	(161,175)
Interest and other fiscal charges	5,243,189	-	-	(5,243,189)
School lunch program	<u>3,142,093</u>	<u>420,377</u>	<u>2,790,291</u>	<u>68,575</u>
Total primary government	<u>\$ 135,641,217</u>	<u>\$ 513,969</u>	<u>\$ 13,929,382</u>	<u>(121,197,866)</u>
General revenues:				
				25,610,385
Real property taxes and tax items				1,992,548
Utility tax				201,835
Use of money and property				9,781
Sale of property and compensation for loss				23,525
Miscellaneous				<u>86,894,848</u>
Unrestricted state aid				114,732,922
Total general revenues				<u>114,732,922</u>
Change in net position				(6,464,944)
Net position—beginning				<u>(50,911,364)</u>
Net position—ending				<u>\$ (57,376,308)</u>

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

NIAGARA FALLS CITY SCHOOL DISTRICT
Balance Sheet—Governmental Funds
June 30, 2013

ASSETS	General	Special Aid	School Lunch	Capital Projects	Debt Service	Total Governmental Funds
Cash and cash equivalents	\$ 5,444,743	\$ 66,230	\$ 17,909	\$ -	\$ -	5,528,882
Restricted cash and cash equivalents	3,600,914	-	-	1,147,612	-	4,748,526
Due from other funds	967,407	-	1,569,039	-	-	2,536,446
Due from other governments	6,783,979	983,689	187,062	-	-	7,954,730
Accounts receivable	93,786	26,412	330	-	-	120,528
Taxes receivable	2,413,420	-	-	-	-	2,413,420
Prepaid items	791,538	-	-	-	-	791,538
Inventory	-	-	31,195	-	-	31,195
Total assets	<u>\$ 20,095,787</u>	<u>\$ 1,076,331</u>	<u>\$ 1,805,535</u>	<u>\$ 1,147,612</u>	<u>\$ -</u>	<u>\$ 24,125,265</u>
LIABILITIES						
Liabilities:						
Accounts payable	\$ 1,519,572	\$ 4,105	\$ 5,814	\$ 512,360	\$ -	\$ 2,041,851
Accrued liabilities	268,360	26,633	39,662	7,437	-	342,092
Bond anticipation notes payable	-	-	-	3,500,000	-	3,500,000
Due to other funds	318,862	946,133	1,404,311	21,931	-	2,691,237
Due to other governments	33,864	99,460	449	-	-	133,773
Due to retirement systems	6,210,791	-	-	-	-	6,210,791
Retainage payable	-	-	-	28,110	-	28,110
Unearned revenues	2,556,369	-	-	-	-	2,556,369
Total liabilities	<u>10,907,818</u>	<u>1,076,331</u>	<u>1,450,236</u>	<u>4,069,838</u>	<u>-</u>	<u>17,504,223</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues - taxes	2,277,180	-	-	-	-	2,277,180
Total deferred inflow of resources	<u>2,277,180</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,277,180</u>
FUND BALANCES (DEFICIT)						
Nonspendable:						
Inventory	-	-	31,195	-	-	31,195
Prepaid items	791,538	-	-	-	-	791,538
Restricted for:						
Workers' compensation	950,292	-	-	-	-	950,292
Debt service	94,253	-	-	-	-	94,253
Assigned to:						
Encumbrances	275,070	-	-	-	-	275,070
Subsequent year's expenditures	2,300,000	-	-	-	-	2,300,000
School lunch	-	-	324,104	-	-	324,104
Unassigned	2,499,636	-	-	(2,922,226)	-	(422,590)
Total fund balances	<u>6,910,789</u>	<u>-</u>	<u>355,299</u>	<u>(2,922,226)</u>	<u>-</u>	<u>4,343,862</u>
Total liabilities, deferred inflows of resources, and fund balance (deficit)	<u>\$ 20,095,787</u>	<u>\$ 1,076,331</u>	<u>\$ 1,805,535</u>	<u>\$ 1,147,612</u>	<u>\$ -</u>	<u>\$ 24,125,265</u>

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

NIAGARA FALLS CITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2013

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

Total fund balances—governmental funds (page 14)		\$ 4,343,862
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$151,117,174 and the accumulated depreciation is \$57,344,124.		93,773,050
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable	\$ (47,735,000)	
Bond issuance premium	(940,134)	
Certificates of participation	(55,285,000)	
Energy performance contract	(4,474,176)	
Due to retirement system	(1,791,735)	
Compensated absences	(8,535,865)	
Judgments and claims	(8,167,351)	
Other post-employment benefits	<u>(30,313,549)</u>	(157,242,810)
Certain amounts relating to taxes receivable are reported as inflows of resources in the governmental funds, as they are not current financial resources.		2,277,180
Net accrued interest expense on long-term debt not reported in the funds		
Accrued interest on bonds payable	\$ (412,419)	
Accrued interest on certificates of participation	<u>(115,171)</u>	<u>(527,590)</u>
Net position of governmental activities		<u>\$ (57,376,308)</u>

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

NIAGARA FALLS CITY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit)—Governmental Funds
Year Ended June 30, 2013

REVENUES	General	Special Aid	School Lunch	Capital Projects	Debt Service	Total Governmental Funds
Real property taxes	\$ 24,926,022	\$ -	\$ -	\$ -	\$ -	\$ 24,926,022
Real property tax items	843,260	-	-	-	-	843,260
Utility taxes	1,992,548	-	-	-	-	1,992,548
Charges for services	93,592	-	-	-	-	93,592
School lunch	-	-	420,377	-	-	420,377
Use of money and property	167,984	31,747	-	2,104	-	201,835
Sale of property and compensation for loss	9,781	-	-	-	-	9,781
Miscellaneous	3,256,615	-	-	-	-	3,256,615
Interfund revenue	-	386	-	-	-	386
State sources	87,789,365	2,869,564	77,184	-	-	90,736,113
Federal sources	46,753	7,328,257	2,713,107	-	-	10,088,117
Total revenues	<u>119,125,920</u>	<u>10,229,954</u>	<u>3,210,668</u>	<u>2,104</u>	<u>-</u>	<u>132,568,646</u>
EXPENDITURES						
Current:						
General support	13,053,951	-	-	-	145,547	13,199,498
Instruction	61,071,847	9,386,879	-	-	-	70,458,726
Pupil transportation	6,640,884	-	-	-	-	6,640,884
Community services	161,175	-	-	-	-	161,175
Cost of sales (school lunch)	-	-	2,345,571	-	-	2,345,571
Employee benefits	26,237,745	1,169,428	547,568	-	-	27,954,741
Capital outlay	-	-	-	2,924,330	-	2,924,330
Debt service:						
Principal	7,211,791	-	-	-	-	7,211,791
Interest	5,360,641	-	-	-	-	5,360,641
Total expenditures	<u>119,738,034</u>	<u>10,556,307</u>	<u>2,893,139</u>	<u>2,924,330</u>	<u>145,547</u>	<u>136,257,357</u>
Excess (deficiency) of revenues over expenditures	<u>(612,114)</u>	<u>(326,353)</u>	<u>317,529</u>	<u>(2,922,226)</u>	<u>(145,547)</u>	<u>(3,688,711)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	77,366	326,828	-	-	-	404,194
Transfers out	(326,828)	(475)	-	(76,891)	-	(404,194)
Refunding bonds issued	-	-	-	-	6,425,000	6,425,000
Premium on refunding bonds issued	-	-	-	-	455,903	455,903
Bond anticipation notes premium	17,362	-	-	-	-	17,362
Payment to escrow agent	-	-	-	-	(6,735,356)	(6,735,356)
Total other financing sources (uses)	<u>(232,100)</u>	<u>326,353</u>	<u>-</u>	<u>(76,891)</u>	<u>145,547</u>	<u>162,909</u>
Net changes in fund balances (deficit)	(844,214)	-	317,529	(2,999,117)	-	(3,525,802)
Fund balances—beginning	7,755,003	-	37,770	76,891	-	7,869,664
Fund balances (deficit)—ending	<u>\$ 6,910,789</u>	<u>\$ -</u>	<u>\$ 355,299</u>	<u>\$ (2,922,226)</u>	<u>\$ -</u>	<u>\$ 4,343,862</u>

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

NIAGARA FALLS CITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
Year Ended June 30, 2013

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

Net change in fund balances (deficit) - total governmental funds (page 16) \$(3,525,802)

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

Capital asset additions	\$ 3,044,660	
Net disposals	(1,263)	
Depreciation expense	<u>(3,895,185)</u>	(851,788)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (3,409,735)

The issuance of long-term debt 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. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:

Change in retirement system liability	\$ (731,049)	
Repayment of bond principal and capital leases	7,211,791	
Payment to escrow agent	6,620,000	
Proceeds from debt issuance	(6,425,000)	
Net change in bond premium	(358,163)	
Change in interest expense accrual	<u>19,712</u>	6,337,291

In the statement of activities, certain operating expenses (compensated absences, workers compensation, and other post-employment benefits) 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). This amount is the net effect of these differences in the treatment of such items as follows:

Compensated absences	\$ (787,557)	
Judgments and claims	(2,056,075)	
Other post-employment benefits	<u>(2,171,278)</u>	<u>(5,014,910)</u>

Change in net position of governmental activities \$(6,464,944)

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

NIAGARA FALLS CITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual—General Fund
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance</u> <u>with Final</u> <u>Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Real property taxes	\$ 25,062,206	\$ 24,926,020	\$ 24,926,022	\$ 2
Real property tax items	1,209,152	843,260	843,260	-
Non property tax items	2,210,000	1,992,548	1,992,548	-
Charges for services	148,200	458,549	93,592	(364,957)
Use of money and property	151,100	167,984	167,984	-
Sale of property and compensation for loss	27,500	9,781	9,781	-
Miscellaneous	2,189,000	3,289,402	3,256,615	(32,787)
Interfund revenue	-	-	-	-
State sources	88,315,676	87,582,684	87,789,365	206,681
Federal sources	375,000	367,694	46,753	(320,941)
Total revenues	<u>119,687,834</u>	<u>119,637,922</u>	<u>119,125,920</u>	<u>(512,002)</u>
EXPENDITURES				
Current:				
General support	14,236,685	14,034,349	13,053,951	980,398
Instruction	61,554,086	61,795,728	61,071,847	723,881
Pupil transportation	7,021,495	6,730,361	6,640,884	89,477
Community services	125,500	171,676	161,175	10,501
Employee benefits	26,624,818	26,353,363	26,237,745	115,618
Debt service:				
Principal	7,166,791	7,211,791	7,211,791	-
Interest	5,498,571	5,392,380	5,360,641	31,739
Total expenditures	<u>122,227,946</u>	<u>121,689,648</u>	<u>119,738,034</u>	<u>1,951,614</u>
Excess (deficiency) of revenues over expenditures	<u>(2,540,112)</u>	<u>(2,051,726)</u>	<u>(612,114)</u>	<u>1,439,612</u>
OTHER FINANCING SOURCES/USES				
Transfers in	51,000	128,366	77,366	(51,000)
Transfers out	(314,456)	(880,208)	(326,828)	553,380
Bond anticipation notes premium	-	-	17,362	17,362
Total other financing uses	<u>(263,456)</u>	<u>(751,842)</u>	<u>(232,100)</u>	<u>519,742</u>
Net change in fund balances*	(2,803,568)	(2,803,568)	(844,214)	1,959,354
Fund balances—beginning	<u>7,755,003</u>	<u>7,755,003</u>	<u>7,755,003</u>	<u>-</u>
Fund balances—ending	<u>\$ 4,951,435</u>	<u>\$ 4,951,435</u>	<u>\$ 6,910,789</u>	<u>\$ 1,959,354</u>

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

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

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NIAGARA FALLS CITY SCHOOL DISTRICT
Statement of Net Position—Fiduciary Funds
June 30, 2013

	<u>Private Purpose Trusts</u>	<u>Agency Fund</u>
ASSETS		
Restricted cash	\$ 90,143	\$ 111,161
Due from other funds	-	<u>154,791</u>
Total assets	<u>90,143</u>	<u>\$ 265,952</u>
LIABILITIES		
Extraclassroom activity balances	-	\$ 85,798
Other liabilities	-	<u>180,154</u>
Total liabilities	<u>-</u>	<u>\$ 265,952</u>
NET POSITION		
Endowment scholarships	<u>90,143</u>	
Total net position	<u>\$ 90,143</u>	

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

NIAGARA FALLS CITY SCHOOL DISTRICT
Statement of Changes in Net Position—Fiduciary Fund
June 30, 2013

	Private Purpose Trusts
ADDITIONS	
Interest income	\$ 93
Miscellaneous revenue	<u>500</u>
Total additions	<u>593</u>
 DEDUCTIONS	
Scholarships awarded	<u>4,000</u>
Total deductions	<u>4,000</u>
Change in net position	(3,407)
Net position - beginning	<u>93,550</u>
Net position - ending	<u>\$ 90,143</u>

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

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NIAGARA FALLS CITY SCHOOL DISTRICT
Notes to Financial Statements
Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Niagara Falls City School District, New York (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (the “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 primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* are supported by taxes and intergovernmental revenues. The District reports no business-type activities or component units.

Reporting Entity

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

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

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

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

Joint Venture—The District is one of 13 participating school districts in the Orleans-Niagara Board of Cooperative Educational Services (“BOCES”). Formed under Section 1950 of Education Law, a BOCES is a voluntary cooperative association of school districts in a geographic area that share planning, services, and programs, and also provides educational and support activities. There is no authority or process by which the District can terminate its status as a component of BOCES.

The component school district boards elect the members of the BOCES governing body. There are no equity interests and no single participant controls the financial or operating policies. 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, 2013 there was no such debt issued by the District on behalf of BOCES.

During the year ended June 30, 2013, the District was billed \$11,400,164 for BOCES administrative and program costs and the District's share of BOCES aid amounted to \$5,146,922. Audited financial statements for the Orleans-Niagara BOCES are available at the BOCES' administrative offices.

Basis of Presentation – Government-wide Financial Statements

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

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

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

Basis of Presentation – Fund Financial Statements

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. For the year ended June 30, 2013, all of the District's funds were considered major fund.

The District reports the following major governmental funds:

- ◆ *General Fund*—is the principal operating fund of the District and includes all operations not required to be recorded in other funds.
- ◆ *Special Aid Fund*—is used to account for special operating projects or programs supported in whole, or in part, with federal and state grants.
- ◆ *School Lunch Fund*—is used to account for transactions of the District's food service operations.
- ◆ *Capital Projects Fund*—is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.

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

Additionally, the District reports the following 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 Fund of the District includes a *Private-Purpose Trusts* and an *Agency Fund*.

- ◆ *Private-Purpose Trusts*—is used to account for assets held by the District for scholarships.
- ◆ *Agency Fund*—is used to account for assets held by the District as an agent for individuals, private organizations and/or other government units.

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

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

Budgetary Information

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

- ◆ The District administration culminates a proposed budget for approval by the District’s Board of Education.
- ◆ The proposed appropriation budget is approved by the voters within the District.
- ◆ Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred.
- ◆ The New York State Uniform System of Accounts requires that fixed budgetary control be used.

Special Aid, School Lunch, and Debt Service Funds—No formal annual budget is adopted for Special Aid, School Lunch and Debt Service funds. Appropriation limits 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 and Debt Service Fund as a management tool for internal control purposes.

Capital Projects Fund—Appropriations for capital projects are not included in the District’s annual adopted budget. Appropriations are approved through a resolution of the Board of Education and by the voters within the District. Project length budgets do not coincide with, and may overlap, the District’s fiscal years.

Encumbrances—Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve applicable appropriations, is employed as a control in preventing over expenditure of established appropriations. Encumbrances outstanding at year end are accounted for on the lapsing method, which re-appropriates encumbrances in the subsequent year’s budget. Accordingly, the District assigns fund balance for all encumbrances it intends to honor in the subsequent period. Encumbrances do not constitute expenditures or liabilities.

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

Cash, Cash Equivalents and Investments—The District’s cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the District’s investment policies. 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 has no investments at June 30, 2013; however, it is the District’s policy to state investments at fair value when applicable.

Restricted Cash—Restricted cash represents amounts to support restricted fund balances in addition to unspent proceeds from serial bonds and bond anticipation notes, as well as amounts considered to be unearned revenues.

Prepaid items—Prepaid items represent payment made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. These items are reported as assets on the statement of net position or balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the good or services are consumed.

Inventory —Inventories of food and/or supplies in the School Lunch Fund are recorded at cost on a first-in, first-out basis or, in the case of surplus food, at stated value which approximates market. Purchases of inventory items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

Capital Assets—Capital assets, which include land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than an established threshold 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 if purchased or constructed. 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 extend its useful life beyond the original estimate. 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	Useful Life
Land	\$ 5,000	n/a
Buildings	5,000	50 years
Improvements	5,000	20 years
Furniture and equipment	5,000	5-20 years

Unearned Revenue—Certain revenues have not met the revenue recognition criteria for government-wide or fund purposes. At June 30, 2013, the District reported unearned revenues of \$2,551,369 that are received under an agreement with the New York Power Authority. These funds will be recognized as revenues when they are expended according to the agreement. Additionally, the District reported a \$5,000 donation as unearned revenues. The donation will be recognized in the 2013-14 fiscal year when it is expended in accordance with the donor’s request.

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

In addition to liabilities, the statement of financial position and the balance sheet for governmental funds 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, 2013 the District reported a deferred inflow of resources on the balance sheet for governmental funds in the amount of \$2,277,180, 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. The District's policies do not address the order of spending fund balance. The default would expend fund balances in the following order: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

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

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

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

Revenues and Expenditures/Expenses

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

Property Taxes—Real property taxes are levied annually no later than September 1, and become a lien as of July 1st. The city and county in which the District is located enforce uncollected real property taxes. An amount representing all uncollected real property taxes must be transmitted by the City of Niagara Falls, New York 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.

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

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, 2013, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The District also elected to early implement the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement Nos. 63 and 65 did not have a material impact on the District's financial position or results from operations. However, \$2,277,180 representing taxes receivable that will not be collected within 60 days of year end have been recorded as a deferred inflow of resources within the fund financial statements. These amounts were previously reported as a deferred revenue liability.

Additionally, during the year ended June 30, 2013, the District completed the process of evaluating the impact that will result from adopting GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB Statement Nos. 60, 61, and 62 did not have a material impact on the District’s financial position or results from operations.

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

Deficit Fund Balances—Certain capital projects have deficit fund balances at June 30, 2013 totaling \$2,922,226. These deficits will be remedied by proceeds from future bond issuances.

2. CASH, CASH EQUIVALENTS, RESTRICTED CASH, AND INVESTMENTS

The District’s investment policies are governed by the 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 in an amount equal to, or greater than, the amount of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York.

Total cash and cash equivalents reported by the District at June 30, 2013, are as follows:

	Governmental Activities	Fiduciary Fund	Total Balance
Petty cash uncollateralized	\$ 862	\$ -	\$ 862
Deposits	5,528,020	-	5,528,020
Restricted cash held by District	2,197,199	201,304	2,398,503
Restricted cash held by fiscal agent	2,551,327	-	2,551,327
Total	<u>\$ 10,277,408</u>	<u>\$ 201,304</u>	<u>\$ 10,478,712</u>

Deposits—All deposits are carried at fair value, and are classified by custodial credit risk at June 30, 2013 as follows:

	Bank Balance	Carrying Amount
Insured (FDIC)	\$ 1,022,517	\$ 1,022,517
Uninsured:		
Collateral held by bank's agent in the District's name	9,265,470	7,154,006
Collateral held by fiscal agent	2,301,327	2,301,327
Total	<u>\$ 12,589,314</u>	<u>\$ 10,477,850</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, 2013, the District's deposits were either FDIC insured or collateralized with securities held by the pledging bank's agent in the District's name or held by a fiscal agent.

Restricted Cash and Cash Equivalents—The District reports restricted fund balances and unspent proceeds from serial bonds and bond anticipation notes as restricted cash and cash equivalents. Additionally, cash held by fiscal agents, which represents cash held by a third party in the District's name pursuant to an agreement with the New York Power Authority, which may be used to assist in financing future capital improvements, is reported as restricted. At June 30, 2013, the District reported \$4,748,526 of restricted cash within its governmental funds. Of this amount, \$2,551,327 is cash held by a fiscal agent.

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

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.

3. RECEIVABLES

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

Accounts Receivable—Represents amounts due primarily for PILOTs, relievis, and other miscellaneous items. An allowance for doubtful accounts, in the amount of \$359,367, has been provided for certain amounts, which may not be collectible within one year.

Taxes Receivable—Represents taxes due from individuals and certain PILOTs. These amounts are recognized as revenue when the amounts are both measureable and available. The District has recorded an allowance for doubtful accounts, which at June 30, 2013 amounted to \$837,156.

Due From Other Governments—Represents amounts due from other units of government, such as Federal, New York State and other local governments. Amounts due from other governments at June 30, 2013 are presented as follows:

General Fund:

Excess cost aid	\$	4,322,224	
Casino funds		2,250,000	
Sales tax		179,917	
BOCES aid		9,761	
Various		<u>22,077</u>	<u>\$ 6,783,979</u>

Special Aid Fund:

Federal aid - Title I	\$	232,166	
Federal aid - Title II		39,261	
Federal aid - IDEA		333,484	
Federal aid - Race to the Top ARRA		36,382	
Federal aid - varioius		97,763	
State aid - Universal Pre-K		<u>244,633</u>	<u>\$ 983,689</u>

School Lunch Fund:

Federal aid - Child Nutrition	\$	165,250	
State aid - Child Nutrition		<u>21,811</u>	<u>\$ 187,061</u>

4. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2013 is presented as follows:

	Balance 7/1/2012	Additions and Reclassifications	Deletions and Reclassifications	Balance 6/30/2013
Capital assets, not being depreciated:				
Land	\$ 1,706,376	\$ -	\$ -	\$ 1,706,376
Construction in process	<u>-</u>	<u>2,924,330</u>	<u>-</u>	<u>2,924,330</u>
Total capital assets, not being depreciated	<u>1,706,376</u>	<u>2,924,330</u>	<u>-</u>	<u>4,630,706</u>
Capital assets, being depreciated:				
Land improvements	4,269,928	-	(137,262)	4,132,666
Buildings and improvements	136,930,022	137,262	-	137,067,284
Furniture and equipment	4,573,198	120,330	(12,626)	4,680,902
Vehicles	<u>697,725</u>	<u>-</u>	<u>(92,109)</u>	<u>605,616</u>
Total capital assets, being depreciated	<u>146,470,873</u>	<u>257,592</u>	<u>(241,997)</u>	<u>146,486,468</u>
Less accumulated depreciation for:				
Land improvements	(2,829,552)	(166,408)	-	(2,995,960)
Buildings and improvements	(46,958,926)	(3,468,240)	-	(50,427,166)
Furniture and equipment	(3,216,929)	(227,001)	11,363	(3,432,567)
Vehicles	<u>(547,004)</u>	<u>(33,536)</u>	<u>92,109</u>	<u>(488,431)</u>
Total accumulated depreciation	<u>(53,552,411)</u>	<u>(3,895,185)</u>	<u>103,472</u>	<u>(57,344,124)</u>
Total capital assets, being depreciated, net	<u>92,918,462</u>	<u>(3,637,593)</u>	<u>(138,525)</u>	<u>89,142,344</u>
Governmental activities capital assets, net	<u>\$ 94,624,838</u>	<u>\$ (713,263)</u>	<u>\$ (138,525)</u>	<u>\$ 93,773,050</u>

During the year ended June 30, 2013, \$137,262 of improvements that had previously been reported as land improvements were reclassified as building improvements.

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

Governmental activities	
General support	\$ 66,218
Instruction	2,878,542
Pupil transportation	<u>950,425</u>
Total depreciation expenses	<u>\$ 3,895,185</u>

5. ACCRUED LIABILITIES

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

	General Fund	Special Aid Fund	School Lunch Fund	Capital Fund	Total Governmental Funds
Salary and employee benefits	\$ 268,360	\$ 26,633	\$ 39,662	\$ 7,437	\$ 342,092
Total accrued liabilities	\$ 268,360	\$ 26,633	\$ 39,662	\$ 7,437	\$ 342,092

6. PENSION PLANS

New York State Teachers' Retirement System ("NYSTRS")

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

Funding Policy—Plan members who joined the System before July 27, 1976 are not required to make contributions. Those joining after July 27, 1976 and before January 1, 2010 with less than ten years of membership are required to contribute three percent of their annual salary. Those joining on or after January 1, 2010 and before April 1, 2012 are required to contribute three and one-half percent of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. Employers are required to contribute at an actuarially determined rate, currently 11.84% of the annual covered payroll for the fiscal year ended June 30, 2013. Rate applicable to the fiscal years ended June 30, 2012 and 2011 were 11.11% and 8.72%, respectively.

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

Year	Contributions
2013	\$ 4,967,148
2014	4,939,600
2015	4,229,115

The District's contribution made to the NYSTRS was equal to 100 percent of the contributions required for each year.

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

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

Year	Contributions
2013	\$ 1,691,506
2014	1,925,466
2015	1,614,257

Legislation requires participating employers to make payments on a current basis. The District’s contributions made to the Systems 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.

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

Plan description - The District pays for a portion of eligible retirees’ health insurance, depending on the type of health plan provided. Eligibility for postemployment benefits depends upon union group as follows: (1) *Niagara Falls Teachers* – employee must be 55 years of age and eligible to retire under NYSTRS, (2) *Niagara Falls School Systems Unit 7696, Local 872 of the Civil Service Employees Association, Inc. Local 1000, AFSCME, AFL-CIO* – employee must be 55 and have 20 years of service, (3) *Administrative and Supervisory Council of the Public Schools, Niagara Falls, New York* – employee must have 20 years of service with the District or 10 years of service as an administrator with the District, or (4) *Classified Administrators and Supervisors* – employee must be eligible to retire under either NYSTRS or NYSERS and have 20 years of service with the District.

Funding policy - Authorization for the District to pay a portion of retiree health insurance premiums was enacted through a union contract, which was ratified by the District’s Board of Education. Upon retirement, the District generally pays 100% of the cost of the medical plan in effect at the time of retirement until an employee reaches the age of 65. At 65, the District pays 100% of supplemental health coverage for life. An exception to the general benefit levels is those employees hired after July 1, 2006 under the *Niagara Falls School Systems Unit 7696, Local 872 of the Civil Service Employees Association, Inc. Local 1000, AFSCME, AFL-CIO* contract who receive 80% of such benefit.

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

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

	Year Ended June 30,	
	2013	2012
Annual required contribution	\$ 7,269,454	\$ 7,269,454
Interest on net OPEB obligation	1,266,402	1,158,652
Adjustment to annual required contribution	(1,164,578)	(1,065,492)
Annual OPEB costs (expense)	7,371,278	7,362,614
Contributions made	5,200,000	4,968,159
Increase in net OPEB obligation	2,171,278	2,394,455
Net OPEB obligation - beginning of year	28,142,271	25,747,816
Net OPEB obligation - end of year	<u>\$30,313,549</u>	<u>\$28,142,271</u>

Funding status and funding progress - As of June 30, 2013, the District’s most recent valuation performed utilized a valuation date of June 30, 2012. The plan was unfunded as of June 30, 2012, and the unfunded actuarial accrued liability for benefits for governmental activities as of that date was \$119,024,924.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress (below) presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability ("AAL")	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL to Budget Covered Payroll
6/30/2012	-	119,024,924	119,024,924	0.0%	\$ 49,985,599	238.1%
6/30/2010	-	131,056,400	131,056,400	0.0%	48,063,076	272.7%
7/1/2008	-	262,308,509	262,308,509	0.0%	53,967,480	486.0%

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 \$5,200,000 for the fiscal year ended June 30, 2013.

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

Year Ended June 30,	Annual		
	OPEB Costs	Contributions Made	Percentage Contributed
2013	\$ 7,371,278	\$ 5,200,000	70.5%
2012	7,362,614	4,968,159	67.5%
2011	8,129,406	6,186,315	76.1%

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, 2012 actuarial valuation, the Entry Age Normal Method was used. The actuarial assumptions included a valuation date and measurement date of June 30, 2012. The expected investment rate of return on employer's assets is 4.5%. The 2008-2009 New York State Teachers' retirement System rates were used for mortality rates. The rates of decrement due to retirement is based on the experience under the New York State & Local Retirement System as prepared by the Department of Civil Service's actuarial consultant in the report titled, Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation . The unfunded actuarial accrued liability is being amortized over 30 years, therefore the remaining amortization period at June 30, 2013, was twenty-four years.

8. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District purchases commercial insurance to cover such potential risk. There have not been any significant changes in any type of insurance coverage from the prior year, nor had there been any settlements which have exceeded insurance coverage in the past three fiscal years. The general liability is limited to \$1 million per occurrence and \$3 million in aggregate.

The District has chosen to establish a self-funded workers' compensation benefit program for its employees. The program administrator is responsible for the approval, processing and payment of claims, after which they bill the District for reimbursement. The District is also responsible for a monthly administrative fee. The benefit program reports on a fiscal year ending June 30. The program expenditures are accounted for in the General Fund of the District. At year-end, the District has a liability of \$8,167,351, which represents reported and unreported claims which were incurred on or before year-end, but which were not paid by the District as of that date. This amount consists of claims reported to the District by the benefits program administrator of \$4,193,797, and the estimated incurred claims that were not reported to either the benefits program administrator or the District of \$3,973,554.

Claims activity since July 1, 2012 is summarized below:

Year Ended June 30,	Liability, Beginning of Year	Claims and Changes in Estimates	Claims Payments	Liability, End of Year
2012	\$ 5,212,756	\$ 2,099,815	\$ 1,201,295	\$ 6,111,276
2013	6,111,276	3,204,958	1,148,883	8,167,351

9. LEASE PURCHASE OBLIGATIONS

Lease Purchase Obligations—The District’s lease purchase type of obligation consist of the following:

Description	Balance June 30, 2013
Certificates of participation	\$ 55,285,000
Energy performance contracts	4,474,176
	<u>\$ 59,759,176</u>

Certificates of Participation—In November 1997, the Board of Education consolidated its existing two high school facilities into one state of the art facility. To further this goal, in March 1998, the District leased a site for the Project from the City of Niagara Falls for a period of 99 years. This lease contemplates that the site will be used for the purpose of operating and conducting a school and such other uses as may from time to time be approved by the City of Niagara Falls.

In accordance with Chapter 562 of the laws of New York for 1996, as amended by Chapter 671 of the Laws of New York for 1997, the District has agreed to make Lease Payments under the Lease Purchase Agreement in connection with the Project. The District is responsible for maintenance and repair of the Project, for taxes, assessments and charges (if any), and for maintaining insurance respecting the project. The obligation for the District to make payments under the lease purchase agreement is subject to, and dependent upon, the making of annual appropriations there for by the District. The lease purchase agreement is subject to termination during any fiscal year of the District if the District does not appropriate funds sufficient for its continuation.

The District has agreed in the lease purchase agreement to make semi-annual lease payments (the “lease payments” or “lease payment requirement”) which have been assigned to a Trustee pursuant to an assignment agreement. The lease payments have been calculated to aggregate in the six-month period preceding each payment date to an amount equal to the interest and in the twelve-month period preceding each payment date to an amount equal to the principal due on certificates of participation on such payment date. Such certificates of participation were used to finance the project. Under the lease purchase agreement, the District is required to make lease payments on June 15 and December 15 of each year. The District made its first lease payment on December 15, 1998 and has continues to make lease payments in the amount and at the times due under the lease purchase agreement. All lease payments are required to be made without any right of defense, offset, or counterclaim.

The District has been advised by the New York State Education Department that lease payments made in connection with the project are eligible for State Building Aid at 83.1% of eligible lease payments. Under the terms of the lease, the District has instructed the State Comptroller’s office to forward all state aid payments to the designated depository, Chase Manhattan Bank, in accordance with the Depository

Agreement dated July 23, 1998. These deposits of state aid will continue until such time as the required lease payments for the applicable fiscal year are satisfied.

During 2005, Refunding Certificates of Participation were issued to refund and defease all of the District's \$63,985,000 outstanding principal amount of the \$70,870,000 School District Certificates of Participation – Series 1998 and \$5,285,000 outstanding principal amount of the \$5,700,000 School District Certificates of Participation – Series 2000 pursuant to the District's refunding plan (the "Refunding Financial Plan"). The Refunding Financial Plan provides for (i) the payment of the principal of and redemption premiums, if any, on the outstanding Prior Certificates, together with interest payable thereon to earlier of the maturity date or optional redemption date of the Prior Certificates, (ii) payment to the District of amounts held in the Reserve Account established for the benefit of the Prior Certificates and (iii) the payment of expenses to be incurred in connection with the issuance of the Certificates. The issuance of the Certificates and defeasance and redemption of the Prior Certificates pursuant to the Refunding Financial Plan has permitted the District to restructure its annual debt service such that savings in both the total debt service and in the present value thereof was realized.

The proceeds of the Certificates, after payment of certain costs of issuance and other costs related to the issuance of the Certificates, are deposited with the Trustee in the Redemption Account and invested in U.S. Government Securities which will be in amounts sufficient and timely to make payments when due of principal of, interest on, and redemption premiums payable with respect to, the Prior Certificates.

The Refunding Financial Plan calls for the Trustee to call the Prior Certificates for early redemption on the earliest date set for optional redemption thereof.

The economic gain on the refunding (the difference between the present values of the debt service payment on the prior and Refunding Certificates) was approximately \$797,951.

Energy Performance Contract—On June 21, 2006, the District entered into an Energy Performance Contract Municipal Lease/Purchase Agreement with Manufacturers and Traders Trust Company. The District received an amount equal to the cost of energy conservation improvements and equipment to be delivered to the District as per an Energy Performance Contract with Johnson Controls, Inc.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013, are presented below:

Fiscal year ended June 30,	Certificates of Participation	Energy Performance Contract	Total
2014	\$ 5,309,310	\$ 662,702	\$ 5,972,012
2015	5,309,060	662,702	5,971,762
2016	5,307,310	662,703	5,970,013
2017	5,307,510	662,702	5,970,212
2018	5,310,125	662,702	5,972,827
2019-2023	26,534,000	1,988,107	28,522,107
2024-2028	26,539,000	-	26,539,000
Total minimum lease payment	79,616,315	5,301,618	84,917,933
Less: Interest portion	24,331,315	827,443	25,158,758
Present value of net lease payments	<u>\$ 55,285,000</u>	<u>\$ 4,474,175</u>	<u>\$ 59,759,175</u>

10. SHORT-TERM DEBT

Liabilities for bond anticipation notes (“BANs”) are 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 seven years after the original issue date. The following is a summary of the District’s BAN activity for the fiscal year ended June 30, 2013:

Description	Interest Rate	Maturity Date	Balance 7/1/2012	Additions	Deletions	Balance 6/30/2013
Capital Projects Fund:						
Bond anticipation notes	1.25%	12/20/2013	\$ -	\$ 3,500,000	\$ -	\$3,500,000
			<u>\$ -</u>	<u>\$ 3,500,000</u>	<u>\$ -</u>	<u>\$3,500,000</u>

Liabilities for revenue anticipation notes (“RANs”) are accounted for in the General Fund.

Transactions in RANs for the year ended June 30, 2013 are summarized below:

Description	Interest Rate	Maturity Date	Balance 7/1/2012	Additions	Deletions	Balance 6/30/2013
General Fund:						
Revenue anticipation notes	0.94%	6/27/2013	\$ -	\$10,000,000	\$10,000,000	\$ -
			<u>\$ -</u>	<u>\$10,000,000</u>	<u>\$10,000,000</u>	<u>\$ -</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, as well as bond issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. 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 bonds payable, certificates of participation, energy performance contracts, due to retirement system, compensated absences, judgments and claims, and other post-employment benefits.

The bonds payable of the District are secured by its general credit and revenue raising powers, as per State statute.

A summary of the District’s long term debt at June 30, 2013 is presented on the following page.

	Balance 7/1/2012	Additions	Deletions	Balance 6/30/2013	Current Portion
Serial bonds	\$ 52,193,476	\$ 6,425,000	\$ 10,883,476	\$ 47,735,000	\$ 3,970,000
Net premium on serial bonds	581,971	455,903	97,740	940,134	122,276
Net serial bonds	52,775,447	6,880,903	10,981,216	48,675,134	4,092,276
Certificates of participation (note 9)	57,765,000	-	2,480,000	55,285,000	2,605,000
Energy performance contracts (note 9)	4,942,491	-	468,315	4,474,176	486,733
Due to retirement system	1,060,686	944,567	213,518	1,791,735	306,018
Compensated absences	7,748,308	1,426,163	638,606	8,535,865	426,793
Judgments and claims (note 8)	6,111,276	3,204,958	1,148,883	8,167,351	1,148,883
Other post-employment benefits (note 7)	28,142,271	7,371,278	5,200,000	30,313,549	-
Total	<u>\$ 158,545,479</u>	<u>\$ 19,827,869</u>	<u>\$ 21,130,538</u>	<u>\$ 157,242,810</u>	<u>\$ 9,065,703</u>

Serial Bonds—The District has bond debt outstanding for building construction, renovations, and technology improvements.

On October 31, 2012, the District issued \$6,425,000 of current refunding bonds, which refunded the previously issued 1994, 1995, and 2000 refunding bonds. The bonds mature December 1, 2021 and bear an interest rate of 2.0% to 5.0%. The bonds were issued at a \$455,903 premium and included \$115,356 of issuance costs. As a result, the original 1994, 1995, and 2000 refunding bonds are refunded and the liability of those bonds, \$6,620,000 has been removed from the financial statements. The refunded bonds will produce a net present value debt service savings of \$691,568.

The premium on the refunding bonds of \$455,903 is being amortized on a straight line basis over the life of the bonds.

The activity on the District's outstanding bond issues for the year ended June 30, 2013 follows:

Issue Date	Description	Maturity Date	Interest Rate (%)	Balance 7/1/2012	Additions	Deletions	Refunded	Balance 6/30/2013
2002	Refunding bonds 1994	2022	3.5-5.375	\$ 2,202,000	\$ -	\$ -	\$ 2,202,000	\$ -
2002	Refunding bonds 1995	2014	3.5-5.75	438,000	-	-	438,000	-
2002	Refunding bonds 2000	2016	3.5-5.75	3,980,000	-	-	3,980,000	-
2005	Serial bonds 2005	2036	4.25-4.75	27,185,000	-	645,000	-	26,540,000
2008	Serial bonds 2008	2014	4.10	265,000	-	130,000	-	135,000
2009	Serial bonds 2009	2025	4.0-5.0	16,260,000	-	1,030,000	-	15,230,000
2003	Variable MB Series A	2013	2.0-3.0	403,476	-	403,476	-	-
2003	DASNY Series 2003A	2012	4.0-5.0	1,460,000	-	715,000	-	745,000
2012	Uninsured 2012 refunding	2015	2.0-4.0	-	3,850,000	1,340,000	-	2,510,000
2012	Insured 2012 refunding	2021	3.0-5.0	-	2,575,000	-	-	2,575,000
Total				<u>\$52,193,476</u>	<u>\$ 6,425,000</u>	<u>\$ 4,263,476</u>	<u>\$ 6,620,000</u>	<u>\$47,735,000</u>

The annual debt service requirements to maturity for governmental activity serial bonds are as presented on the following page.

Fiscal Year Ending			
June 30,	Principal	Interest	Total
2014	\$ 3,970,000	\$ 2,117,964	6,087,964
2015	2,995,000	1,970,134	4,965,134
2016	3,130,000	1,837,584	4,967,584
2017	2,220,000	1,688,938	3,908,938
2018	2,325,000	1,586,109	3,911,109
2019-2023	13,120,000	6,210,291	19,330,291
2024-2028	7,535,000	3,498,688	11,033,688
Thereafter	<u>12,440,000</u>	<u>2,356,531</u>	<u>14,796,531</u>
Total	<u>\$ 47,735,000</u>	<u>\$ 21,266,239</u>	<u>\$ 69,001,239</u>

Due to Retirement Systems—The District has chosen to amortize portions of its retirement bills in accordance with Chapter 57 of the Laws of 2010 of the State of New York. The long-term liability at June 30, 2012 is \$1,791,735.

Compensated Absences—As explained in Note 1, the District provides employees the option of converting accumulated sick, vacation and sabbatical time at the time of retirement. The District accrues for future compensated absences in the government-wide financial statements under the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*. The value recorded in the government-wide financial statements at June 30, 2013, for governmental activities is \$8,535,865. Management estimates that \$426,793 is due within one year. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

12. NET POSITION AND FUND BALANCE

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

- ◆ **Net Investment in Capital Assets**—This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construct or improvement of these assets reduce the balance in this category. A reconciliation of capital assets (net of accumulated depreciation), net of total indebtedness to net investment in capital assets is presented below:

Capital assets, net of accumulated depreciation	\$ 93,773,050	
Less:		
Bonds outstanding	\$ (47,735,000)	
Unamortized premium on bonds payable	(940,134)	
BAN proceeds	(3,500,000)	
Lease purchase obligations	<u>(59,759,176)</u>	(111,934,310)
Add:		
Bonds issued for other than capital acquisition	135,000	
Unspent proceeds from debt in		
Capital Projects Fund	<u>577,774</u>	<u>712,774</u>
Net investment in capital assets		<u>\$ (17,448,486)</u>

- ◆ **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.
- ◆ **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, 2013 include:

- ◆ **Inventory**—Representing the portion of fund balance, \$31,195 composed of inventory. This balance is nonspendable as the inventory does not represent an available resource.
- ◆ **Prepaid items**—Representing the portion of fund balance, \$791,538 composed of prepaid expenditures. This balance is nonspendable as the balance does not represent an available resource.

In the fund financial statements, restrictions represent a portion of fund balance that has been legally segregated for a specific use or is not able to be appropriated for expenditure by the District at June 30, 2013, and include:

- ◆ **Restricted for Workers' Compensation**—Represents funds accumulated for workers compensation claims, which are not anticipated to be funded through the District's operating budget.
- ◆ **Restricted for Debt Service**—Represents resources that have been legally restricted for principal and interest payments that will be made in future periods.

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

- ◆ **Assigned to Subsequent Year's Expenditures**—Representing available fund balance being appropriated to meet expenditure requirements in the 2013-14 fiscal year.
- ◆ **Assigned to Encumbrances**—Representing amounts related to unperformed (executory) contracts for goods and services.

Significant encumbrances are amounts encumbered in excess of \$20,000. As of June 30, 2013, the following significant encumbrances were:

Description	Amount
General Fund—Siemens equipment	\$ 215,000
General Fund—supplies	20,151

- ◆ **Assigned to School Lunch**—Represents funds to be used for activities to support the School Lunch Fund.

Unassigned fund balance represents the residual classification of the government's General Fund and deficit balance of the Capital Projects Fund. As of June 30, 2013, the District's unassigned fund deficit was \$422,590.

13. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short term in nature and exist because of temporary advances or payments made on behalf of other funds. All of these balances are expected to be collected/paid within the subsequent year. Interfund transfers are used primarily to finance certain special aid programs and to finance capital projects. Interfund receivables, payables and transfers of the District as of, and for the year ended June 30, 2013 are presented below.

	Interfunds		Transfers	
	Receivables	Payables	In	Out
Governmental Funds:				
General Fund	\$ 967,407	\$ 318,862	\$ 77,366	\$ 326,828
Special Aid Fund	-	946,133	326,828	475
School Lunch Fund Fund	1,569,039	1,404,311	-	-
Capital Projects	-	21,931	-	76,891
Total Governmental Funds	<u>\$ 2,536,446</u>	<u>\$ 2,691,237</u>	<u>\$ 404,194</u>	<u>\$ 404,194</u>
Fiduciary Funds:				
Agency Fund	\$ 154,791	\$ -	\$ -	\$ -
Total	<u>\$ 2,691,237</u>	<u>\$ 2,691,237</u>	<u>\$ 404,194</u>	<u>\$ 404,194</u>

14. AGENCY FUND

An agency fund exists for temporary deposit funds. The following is a summary of changes in assets and liabilities for the fiscal year ended June 30, 2013.

	Balance 7/1/2012	Additions	Deductions	Balance 6/30/2013
ASSETS				
Restricted cash	\$ 130,499	\$ 58,664,607	\$ 58,683,945	\$ 111,161
Due from other funds	109,641	45,940	790	154,791
Total assets	<u>\$ 240,140</u>	<u>\$ 58,710,547</u>	<u>\$ 58,684,735</u>	<u>\$ 265,952</u>
LIABILITIES				
Extraclassroom activity funds	83,085	368,294	365,581	85,798
Other liabilities	157,055	58,342,253	58,319,154	180,154
Total liabilities	<u>\$ 240,140</u>	<u>\$ 58,710,547</u>	<u>\$ 58,684,735</u>	<u>\$ 265,952</u>

15. LABOR RELATIONS

District employees are represented by four bargaining units and Board of Education rules and regulations, including Civil Service Employees Association, Civil Service Employees Association Teachers Associates Unity, Teachers, The Substitute Teachers United, The Classified Administrators and Supervisors and The Administrative and Supervisory Council. Negotiated contracts are in place through June 30, 2015.

16. CONTINGENCIES

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

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

17. SUBSEQUENT EVENTS

On July 2, 2013, the District issued \$45,500,000 of bond anticipation notes (“BANs”) at the rate of 2% per annum, maturing June 26, 2014.

Management has evaluated subsequent events through October 29, 2013, which is the date the financial statements are available for issuance, and have determined there are no other subsequent events that require disclosure under generally accepted accounting principles.

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SUPPLEMENTAL SCHEDULES

NIAGARA FALLS CITY SCHOOL DISTRICT
Schedule of Change from Adopted Budget to Final Budget
and the Real Property Tax Limit
Year Ended June 30, 2013

Change from Adopted Budget to Final Budget

Adopted budget 2012-2013	\$ 122,438,834
Add: Prior year's encumbrances (June 30, 2012)	<u>103,568</u>
Original budget 2012-2013	122,542,402
Add: Budget revisions (Gifts and donations)	<u>27,454</u>
Final budget 2012-2013	<u>\$ 122,569,856</u>

Section 1318 of Real Property Tax Law Limit Calculation

2013-14 Voter-approved Budget	\$ <u>124,060,725</u>
Maximum allowed (4% of 2013-14 budget)	<u>\$ 4,962,429</u>

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

Unrestricted fund balance:	
Assigned fund balance	\$ 2,575,070
Unassigned fund balance	<u>2,499,636</u>
Total unrestricted fund balance	<u>\$ 5,074,706</u>
Less:	
Appropriated fund balance	\$ 2,300,000
Encumbrances included in assigned fund balance	<u>275,070</u>
Total adjustments	<u>\$ 2,575,070</u>

General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law \$ 2,499,636

Actual percentage 2.01%

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

NIAGARA FALLS CITY SCHOOL DISTRICT
Schedule of Capital Project Expenditures
Year Ended June 30, 2013

Project title	Original Appropriation	Revised Appropriation	Expenditures			Unexpended Balance
			Prior Years' Expenditures	Current Year's Expenditures	Total Expenditures	
Inventing Tomorrow						
Phases 1 and 2						
Maintenance Barn	\$ -	\$ 1,087	\$ -	\$ 1,844	\$ 1,844	\$ (757)
NFHS Field House	-	186,766	-	210,914	210,914	(24,148)
Main Stadium Press Box	-	906	-	1,537	1,537	(631)
Varsity Baseball Press Box	-	833	-	1,414	1,414	(581)
Varsity Softball Press Box	-	797	-	1,352	1,352	(555)
NFHS	-	878,697	-	962,429	962,429	(83,732)
GPS	-	25,911	-	29,465	29,465	(3,554)
LPS	-	76,060	-	362,788	362,788	(286,728)
Abate	-	451,413	-	505,761	505,761	(54,348)
Kalfas	-	569,984	-	633,763	633,763	(63,779)
Maple Avenue	-	98,401	-	109,891	109,891	(11,490)
GJ Mann	-	74,769	-	84,080	84,080	(9,311)
Nicoletti Press Box	-	942	-	1,598	1,598	(656)
Nicoletti Lighting Hut	-	17,294	-	17,494	17,494	(200)
District Wide	<u>3,500,000</u>	<u>1,116,140</u>	-	-	-	<u>1,116,140</u>
	<u>\$ 3,500,000</u>	<u>\$ 3,500,000</u>	<u>\$ -</u>	<u>\$ 2,924,330</u>	<u>\$ 2,924,330</u>	<u>\$ 575,670</u>

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NIAGARA FALLS CITY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Encumbrances—
Budget and Actual—General Fund
Year Ended June 30, 2013

	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Revenues</u>	<u>Variance with Final Budget</u>
REVENUES				
Local sources:				
Real property taxes	\$ 25,062,206	\$ 24,926,020	\$ 24,926,022	\$ 2
Real property tax items	1,209,152	843,260	843,260	-
Non property tax items	2,210,000	1,992,548	1,992,548	-
Charges for services	148,200	458,549	93,592	(364,957)
Use of money and property	151,100	167,984	167,984	-
Sale of property and compensation for loss	27,500	9,781	9,781	-
Miscellaneous	<u>2,189,000</u>	<u>3,289,402</u>	<u>3,256,615</u>	<u>(32,787)</u>
Total local sources	30,997,158	31,687,544	31,289,802	(397,742)
State sources	88,315,676	87,582,684	87,789,365	206,681
Federal sources	<u>375,000</u>	<u>367,694</u>	<u>46,753</u>	<u>(320,941)</u>
Total revenues	119,687,834	119,637,922	119,125,920	(512,002)
OTHER FINANCING SOURCES				
Transfers in	51,000	128,366	77,366	(51,000)
Bond anticipation note premium	<u>-</u>	<u>-</u>	<u>17,362</u>	<u>-</u>
Total revenue and other financing sources	119,738,834	119,766,288	<u>\$ 119,220,648</u>	<u>\$ (563,002)</u>
Appropriated fund balance	<u>2,700,000</u>	<u>2,803,568</u>		
Total revenues, other financing sources and appropriated fund balance	<u>\$ 122,438,834</u>	<u>\$ 122,569,856</u>		

(continued)

NIAGARA FALLS CITY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Encumbrances—
Budget and Actual—General Fund
Year Ended June 30, 2013

(concluded)

	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Expenditures</u>	<u>Encumbrances</u>	<u>Variance with Final Budget</u>
EXPENDITURES					
General support:					
Board of Education	\$ 238,843	\$ 259,994	\$ 219,830	\$ -	\$ 40,164
Central administration	249,304	252,990	248,344	-	4,646
Finance	1,610,638	1,399,443	1,332,476	-	66,967
Staff	861,351	899,471	872,034	452	26,985
Central services	9,793,457	9,948,105	9,153,637	269,442	525,026
Special items	<u>1,397,554</u>	<u>1,274,346</u>	<u>1,227,630</u>	<u>-</u>	<u>46,716</u>
Total general support	<u>14,151,147</u>	<u>14,034,349</u>	<u>13,053,951</u>	<u>269,894</u>	<u>710,504</u>
Instructional:					
Instruction, administration and improvement	12,684,565	12,426,084	12,287,174	-	138,910
Teaching—regular school	33,861,758	34,099,151	33,828,656	-	270,495
Programs for pupils with handicapping conditions	6,065,941	6,293,496	6,218,243	-	75,253
Occupational education	2,208,000	2,206,989	2,198,632	-	8,357
Teaching—special schools	862,535	992,165	977,111	-	15,054
Instructional media	1,514,051	1,517,567	1,472,404	5,176	39,987
Pupil services	<u>4,339,206</u>	<u>4,260,276</u>	<u>4,089,627</u>	<u>-</u>	<u>170,649</u>
Total instructional	<u>61,536,056</u>	<u>61,795,728</u>	<u>61,071,847</u>	<u>5,176</u>	<u>718,705</u>
Pupil transportation	7,021,495	6,730,361	6,640,884	-	89,477
Community services	125,500	171,676	161,175	-	10,501
Employee benefits	26,624,818	26,353,363	26,237,745	-	115,618
Debt service:					
Principal	7,166,791	7,211,791	7,211,791	-	-
Interest	<u>5,498,571</u>	<u>5,392,380</u>	<u>5,360,641</u>	<u>-</u>	<u>31,739</u>
Total expenditures	122,124,378	121,689,648	119,738,034	275,070	1,676,544
OTHER FINANCING USES					
Transfers out	<u>314,456</u>	<u>880,208</u>	<u>326,828</u>	<u>-</u>	<u>553,380</u>
Total expenditures/encumbrances and other financing uses	<u>\$ 122,438,834</u>	<u>\$ 122,569,856</u>	<u>\$ 120,064,862</u>	<u>\$ 275,070</u>	<u>\$ 2,229,924</u>
Deficiency of revenues and other financing sources over expenditures and other financing uses			<u>\$ (844,214)</u>		

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FEDERAL AWARDS

NIAGARA FALLS CITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

<u>Federal Grantor Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Agency Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:			
Passed through NYS Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	n/a	\$ 486,323
National School Lunch Program	10.555	n/a	<u>2,226,784</u>
Total Child Nutrition Cluster			<u>2,713,107</u>
 U.S. Department of Labor:			
Passed through Niagara County:			
WIA Youth Activities	17.259	PY-2012-Y-07	<u>60,991</u>
Total U.S. Department of Labor			<u>60,991</u>
 U.S. Department of Education:			
Direct Programs:			
Indian Education-Grants to Local Educational Agencies	84.060		<u>103,749</u>
Total Direct Programs			<u>103,749</u>
 Passed through NY State Department of Education:			
Special Education Cluster:			
Special Education-Grants to States	84.027	0032-13-0608	1,898,132
Special Education-Preschool Grants	84.173	0033-13-0608	<u>97,413</u>
Total Special Education Cluster			<u>1,995,545</u>
 Title I Grants to Local Educational Agencies	 84.010	 0011-12-2360	 28,916
Title I Grants to Local Educational Agencies	84.010	0021-12-1965	371,140
Title I Grants to Local Educational Agencies	84.010	0021-13-1966	3,546,359

(continued)

NIAGARA FALLS CITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

(concluded)

<u>Federal Grantor Program Title</u>	<u>CFDA Number</u>	<u>Agency Number</u>	<u>Federal Expenditures</u>
Improving Teacher Quality State Grants	84.367	0147-12-1965	685,415
Improving Teacher Quality State Grants	84.367	0147-13-1965	28,041
English Language Acquisition Grants	84.365	0149-13-1965	1,408
English Language Acquisition Grants	84.365	0149-12-1966	1,252
English Language Acquisition Grants	84.365	0293-12-1965	701
English Language Acquisition Grants	84.365	0293-13-1965	14,582
ARRA-Race-to-the-Top	84.395	5500-13-1965	310,659
ARRA-Race-to-the-Top	84.395	5580-13-0007	147,841
Passed through NYS Higher Education Services Corporation:			
College Access Challenge Grant Program	84.378	T112221	<u>31,656</u>
Total U.S. Department of Education			<u>7,163,515</u>
 Total Expenditures of Federal Awards			 <u><u>\$10,041,362</u></u>

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

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

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Depew Union Free School District, New York (the "District") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. BASIS OF ACCOUNTING

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

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

3. NON-MONETARY FEDERAL PROGRAM

The District is the recipient of a federal award program that does not result in cash receipts or disbursements termed a "non-monetary program." During the year ended June 30, 2013, the District used \$143,208 worth of commodities.

4. RECONCILIATION OF FEDERAL AID

Total federal expenditures for the District's 2012-2013 fiscal year is reconciled to Federal Sources as reported in the basic financial statements as follows:

Balance per Schedule of Expenditures of Federal Awards	\$ 10,041,362
Medicaid reimbursement	<u>46,755</u>
Total Federal sources per financial statements	<u>\$ 10,088,117</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
Niagara Falls 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 and each major fund of Niagara Falls City School District, New York (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated October 29, 2013.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be a significant deficiency in internal control over financial reporting.

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*.

The District's Response to Findings

The District's response to the findings 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 the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



October 29, 2013



Certified Public Accountants

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

The Board of Education
Niagara Falls City School District, New York

Report on Compliance for Each Major Federal Program

We have audited the Niagara Falls City School District, New York's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-2. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance 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.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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



October 29, 2013

NIAGARA FALLS CITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Part I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- | | | |
|---|---|--|
| 1. Material weakness(es) identified? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
| 2. Significant deficiency(ies) identified not considered to be material weakness(es)? | _____ <input checked="" type="checkbox"/> Yes | _____ None reported |
| 3. Noncompliance material to financial statements noted? | _____ Yes | _____ <input checked="" type="checkbox"/> No |

Federal Awards:

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 weakness(es)? | _____ Yes | _____ <input checked="" type="checkbox"/> None reported |

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

- | | | |
|---|---|----------|
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | _____ <input checked="" type="checkbox"/> Yes | _____ No |
|---|---|----------|

7. The District's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Title I Grants to Local Educational Agencies	84.010
Improving Teacher Quality	84.367
ARRA - Race to the Top	84.395

8. Dollar threshold used to distinguish between Type A and Type B programs? \$ 301,241

- | | | |
|---|-----------|--|
| 9. Auditee qualified as low-risk auditee? | _____ Yes | _____ <input checked="" type="checkbox"/> No |
|---|-----------|--|

Part II. Financial Statement Findings Section

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

2013-1 – Extraclassroom Activities

➤ Receipts and Deposits

Criteria—All extraclassroom deposit transactions should be supported with complete documentation, including a completed deposit slip signed both the club representative and the central treasurer. This slip should indicate the club as well as the activity for which the funds were collected. Additionally, receipts should be deposited in a timely manner.

Condition—Results of our testing indicated that two out of a sample of twenty-five receipts were not deposited in a timely manner, while another receipt lacked date information. Further cash receipts within one school lacked the source of the funds.

Cause—Appropriate documentation was not obtained and/or retained. Additionally, cash receipts were not deposited in a timely manner

Effect—Risk of misappropriation of extraclassroom assets.

Audit Recommendation—We recommend that treasurers utilize pre-numbered receipts, ensure that receipts are filled out completely and properly, and deposit receipts in a timely manner.

Management’s Response—The District will remind treasurers of extraclassroom internal control procedures. The District will remind all treasurers that deposits should be made at least weekly when receipts exceed \$50.00 on hand. If receipts on hand are less than \$50.00 the treasurers can hold the cash in the office safe until they exceed \$50.00, but must make a deposit at least within two weeks.

➤ Elementary Schools and Student Treasurers

Criteria—According to “The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds – Finance Pamphlet 2,” which is issued by the New York State Education Department to summarize the Regulations of the Commissioner of Education, the student Extraclassroom activities may only be formed by students in districts with education programs beyond the 6th grade. In addition, two separate and independent sets of records of receipts and disbursements should be maintained.

Condition—During our audit of the extraclassroom activities we noted elementary accounts whereby only one set of records is kept by the school treasurer. Students are not involved in operating the clubs. Elementary students are not capable of carrying out proper bookkeeping procedures in order to operate an activity.

Cause—The District operates extraclassroom activities at the elementary schools and fails to require two separate sets of records be maintained.

Effect—The District is not in compliance with “The Safeguarding, Accounting, and Auditing of Extraclassroom Activities Funds: Finance Pamphlet 2”, as approved by the State Education Department.

Audit Recommendation—We recommend that the District close the elementary account or provide additional oversight to maintain a duplicate set of records for all clubs.

Management’s Response—District management plans to remove extraclassroom funds from the elementary school after research and careful planning is done to appropriately monitor funds intended for extracurricular activities within these schools.

➤ **Sales Tax**

Criteria—School districts are not exempt from the provisions of the New York (“NYS”) Sales Tax Law whenever it becomes the vendor of services or property ordinarily sold by private persons. Each faculty advisor should know which of the activities a club undertakes are subject to sales tax and take steps to see that all sales tax information is accurately recorded and sent to the central treasurer.

Condition—During our testing we noted that the extraclassroom clubs are not collecting appropriate sales tax and consequently the District is not remitting the tax to the New York State Department of Taxation and Finance as required.

Cause—The District was unaware the extraclassroom activities were required to collect sales tax on certain activities.

Effect— The District is not in compliance with NYS Sales Tax Law and may be subject to fines and penalties.

Audit Recommendation—The District should develop procedures and controls to ensure the extraclassroom activities collect sales tax when appropriate. Central treasurers and club advisors should be aware of which activities require the collection of sales tax.

Management’s Response—The District intends to enforce sales tax collection on all applicable cash receipts relating to extraclassroom activities. All sales tax collected will be remitted to NYS Department of Taxation and Finance.

➤ **Dormant Clubs**

Criteria—When extraclassroom clubs have no activity during the year, the District should evaluate the interest in the club. Funds remaining in dormant clubs should be transferred to another club benefiting the entire student population

Condition—Results of testing revealed the District had eleven inactive or dormant clubs that showed no activity during the 2012-13 school year.

Cause—Inactive clubs were not closed.

Effect—There is an increased potential for a misstatement of assets and opportunity for the misappropriation of assets.

Audit Recommendation—We recommend the District continue to monitor the activity level of all clubs. Those clubs showing no activity during the year should be closed and the funds transferred to the student council club.

Management's Response—Extraclassroom club treasurers were reminded to review their accounts each year and determine if any clubs are actually dormant. If they are found to be dormant, the treasurer is to close the account according to process as outlined in "The Safeguarding, Accounting, and Auditing of Extraclassroom Activities Funds: Finance Pamphlet 2".

Part III. Federal award findings and questioned costs section

Finding 2013-2 – Allowable Costs Title I Grants to Local Educational Agencies (CFDA No. 84.010)

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

Condition: Employees of the non-public schools within the District being paid with grant funds are not completing employee certifications of their time and effort.

Cause: The District was unaware that such certifications were required.

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

Recommendation: We recommend that the District develop a procedure to certify payroll in accordance with federal standards as explained above at all schools receiving Title I funds.

Management's Corrective Action Plan: Management will implement for future years.

NIAGARA FALLS CITY SCHOOL DISTRICT
Schedule of Prior Year Federal Awards Audit Findings
Year Ended June 30, 2013

Finding 2012-4 – Eligibility – Title I Cluster (CFDA 84.010 & 84.389)

Criteria—When Title I programs are operated on a school wide basis; the LEA must allocate funds in rank order, on the basis of the total number of children from low-income families in each area or school.

Condition—The District operates Title I on a school wide basis and does not allocate funds to the schools in rank order based on the number of children from low income families. Many initiatives benefit entire district and expenditures are not tracked on a per school basis, however, an after the fact check indicated that the District is in compliance with the requirement stated above.

Cause—Lack of assignment of responsibility for ensuring that allocation amounts are appropriate.

Effect—This could cause the District to expend monies inappropriately.

Recommendation—We recommend the district allocate funds to their schools based in rank order based on the number of children from low-income families.

Management’s Response—The District awards more funds to G.J. Mann Elementary School, as students who attend this school are more likely to be eligible for the English as a Second Language (ESL) Program.

Status—The District is now allocating Title I funds based on the number of free and reduced lunches in the school lunch program. The District now includes both private and parochial schools in their allocation determination of Title I funds.

Finding 2012-5 – Allowable Costs – Race to the Top (CFDA 84.395)

Criteria—The District receives funds from the Department of Education in the form of Race to the Top Grant funds. The specific requirements for activities allowed or unallowed are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. Registration fees for conferences intended for professional development are not allowable activities/costs under Race to the Top. No fees for registration conferences may be reimbursed with Recovery Funds, as a portion of the registration will be applied to the cost of food.

Condition—The District requested and received reimbursement under Race to the Top for conference registration fees totaling \$1,622.

Cause—The District was unaware that these costs were unallowable under Race to the Top.

Effect—The District is not in compliance with the OMB Circular A-133 and ED program Race to the Top grant guidelines.

Recommendation—We recommend that the District review all expenditures it requests from Race to the Top to ensure they are allowable under the grant.

Management's Response—Management was unaware these costs were unallowable. In the future, management will ensure that all District expenditures requested for reimbursement under Race to the Top are reimbursable costs. The District has been accustomed to other grants that have required training to allow the costs of the training (travel costs) to be charged to the grant.

Status—The District is no longer charging registration fees to the Race to the Top program. Current year expenditure testing revealed no unallowable costs/activities charged to the program.