

NIAGARA FALLS CITY
SCHOOL DISTRICT, NEW YORK
*Basic Financial Statements, Required Supplementary
Information, Supplementary Information and Federal
Awards Information for the Year Ended
June 30, 2015 and Independent Auditors' Reports*

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
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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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 2 to the financial statements, during the year ended June 30, 2015 the District implemented Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

The Supplementary Information, as listed in the table of contents, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information, as

listed in the table of contents, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2015 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 the District's internal control over financial reporting and compliance.

Drescher & Malecki LLP

November 5, 2015

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Management's Discussion and Analysis
Year Ended June 30, 2015

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, 2015. 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. For comparative purposes, certain data from the prior year has been reclassified to conform with the current year presentation.

Financial Highlights

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$35,697,600 (*net position*). This consists of a deficit net investment in capital assets of \$5,499,119 and an unrestricted net deficit of \$32,238,005, offset by a \$2,039,524 net position restricted for specific purposes.
- The District's net position increased by \$12,268,324 during the year ended June 30, 2015.
- At the close of the current fiscal year, the District's governmental funds reported a combined ending fund balance deficit position of \$47,150,530. During the year, fund balance decreased by \$16,116,103. The reduction results from the capital outlay exceeding capital revenues in the current year.
- At the end of the current fiscal year, *unassigned fund balance* for the General Fund was \$5,344,224, or approximately 4.3 percent of total General Fund expenditures and transfers out. This total amount is *available for spending* at the District's discretion and constitutes approximately 60.7 percent of the General Fund's total fund balance of \$8,803,091 at June 30, 2015.
- The District's total bond indebtedness decreased by \$3,370,000 as a result of principal payments of \$28,520,000 offset by the issuance of refunding bonds of \$25,150,000.

Overview of the Financial Statements

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

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 matter similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include general support, instruction, pupil transportation, community services, school food service operations, and interest on long-term debt. The District does not engage in any business-type activities.

The government-wide financial statements can be found on pages 12-13 of this report.

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

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

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

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

The basic governmental fund financial statements can be found on pages 14-17 of this report.

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

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

Notes to the financial statements—The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-45 of this report.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* concerning the District’s progress in funding its obligation to provide post-employment benefits to its employees, the District’s net pension liability, and the District’s budgetary comparison for the General Fund. Required Supplementary Information and a related note to the required supplementary information can be found on pages 46-53 of this report.

Other Supplementary Information, as listed in the table of contents, is presented immediately following the Required Supplementary Information in the Supplementary Information section of this report on pages 54-56 of this report.

The Federal Awards Information section presents the District’s Schedule of Expenditures of Federal Awards. This section can be found on pages 57-68 of this report.

Government-wide Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government’s financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$35,697,600 at the close of the most recent fiscal year, as compared to \$47,965,924 (as restated) at the close of the fiscal year ended June 30, 2014.

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

Table 1—Condensed Statements of Net Position

| | June 30, | |
|----------------------------------|------------------------|------------------------|
| | 2015 | 2014 (as restated) |
| Current assets | \$ 25,725,959 | \$ 49,672,492 |
| Noncurrent assets | 181,903,972 | 130,144,851 |
| Total assets | <u>207,629,931</u> | <u>179,817,343</u> |
| | | |
| Deferred outflows of resources | <u>11,025,141</u> | <u>8,134,847</u> |
| | | |
| Current liabilities | 71,157,821 | 78,910,257 |
| Noncurrent liabilities | <u>159,126,238</u> | <u>157,007,857</u> |
| Total liabilities | <u>230,284,059</u> | <u>235,918,114</u> |
| | | |
| Deferred inflows of resources | <u>24,068,613</u> | <u>-</u> |
| | | |
| Net position: | | |
| Net investment in capital assets | (5,499,119) | (11,237,408) |
| Restricted | 2,036,524 | 1,273,858 |
| Unrestricted | <u>(32,235,005)</u> | <u>(38,002,374)</u> |
| Total net position | <u>\$ (35,697,600)</u> | <u>\$ (47,965,924)</u> |

The District’s net investment in capital assets is in a deficit position of \$(5,499,119) at June 30, 2015, this category of net position reflects the District’s investment in capital assets (e.g. land, construction in progress, buildings and equipment), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide a variety of services to students. Accordingly, these assets are

not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position, \$2,039,524, represents resources that are subject to external restrictions on how they may be used. Any remaining portion of the District's net position would represent resources that are unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors. Unrestricted net position was in a deficit position of \$32,238,005. This demonstrates that future funding will be necessary to liquidate long-term obligations.

Table 2, as presented below, shows the changes in net position for the years ended June 30, 2015 and June 30, 2014.

Table 2—Condensed Statements of Changes in Net Position

| | Year Ended June 30, | |
|------------------------------------|------------------------|------------------------|
| | 2015 | 2014 (as restated) |
| Program revenues: | | |
| Charges for services | \$ 336,766 | \$ 368,486 |
| Operating grants and contributions | 14,190,152 | 14,045,784 |
| Capital grants and contributions | 4,620,634 | 2,901,482 |
| General revenues | <u>127,023,282</u> | <u>124,082,807</u> |
| Total revenues | <u>146,170,834</u> | <u>141,398,559</u> |
| Program expenses | <u>133,902,510</u> | <u>140,409,871</u> |
| Change in net position | 12,268,324 | 988,688 |
| Net position—beginning | (47,965,924) | (56,387,620) |
| Restatement (Note 2) | <u>-</u> | <u>8,421,696</u> |
| Net position—ending | <u>\$ (35,697,600)</u> | <u>\$ (47,965,924)</u> |

Overall revenues increased 3.4 percent from the prior year, due primarily to increases in unrestricted state sources and taxes. Total expenses decreased 4.6 percent from the year ended June 30, 2014, which is primarily attributed to the effect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* had on 2015 activity. During 2015, the District recognized its' proportionate share of the New York State Employee Retirement System net pension asset and New York State Teacher's Retirement System net pension liability, which reduced the employee benefit expenses recognized on the government-wide statements.

A summary of sources of revenues for the years ended June 30, 2015 and June 30, 2014 is presented below in Table 3.

Table 3—Summary of Sources of Revenues

| | Year Ended June 30, | | Increase/(Decrease) | |
|------------------------------------|-----------------------|-----------------------|---------------------|-------------|
| | 2015 | 2014 | Dollars | Percent (%) |
| Charges for services | \$ 336,766 | \$ 368,486 | \$ (31,720) | (8.6) |
| Operating grants and contributions | 14,190,152 | 14,045,784 | 144,368 | 1.0 |
| Capital grants and contributions | 4,620,634 | 2,901,482 | 1,719,152 | 59.3 |
| Taxes | 29,174,396 | 29,142,638 | 31,758 | 0.1 |
| Use of money and property | 119,200 | 531,086 | (411,886) | (77.6) |
| Other items | 2,785,616 | 4,577,867 | (1,792,251) | (39.2) |
| State sources—unrestricted | 94,944,070 | 89,831,216 | 5,112,854 | 5.7 |
| Total revenues | <u>\$ 146,170,834</u> | <u>\$ 141,398,559</u> | <u>\$ 4,772,275</u> | 3.4 |

The most significant sources of revenues for the year ended June 30, 2015 were unrestricted State sources of \$94,944,070, or 65.0 percent of total revenues and taxes of \$29,174,396, or 20.0 percent of total revenues. Similarly for the year ended June 30, 2014, the largest sources of revenues were unrestricted State sources of \$89,831,216, or 63.5 percent of total revenues, and taxes of \$29,142,638, or 20.6 percent of total revenues.

A summary of program expenses for the years ended June 30, 2015 and June 30, 2014 is presented below in Table 4:

Table 4—Summary of Program Expenses

| | Year Ended June 30, | | Increase/(Decrease) | |
|-----------------------------------|-----------------------|-----------------------|-----------------------|-------------|
| | 2015 | 2014 | Dollars | Percent (%) |
| General support | \$ 19,112,424 | \$ 18,986,724 | \$ 125,700 | 0.7 |
| Instruction | 99,216,837 | 103,664,682 | (4,447,845) | (4.3) |
| Pupil transportation | 8,120,791 | 7,960,308 | 160,483 | 2.0 |
| Community services | 138,074 | 187,862 | (49,788) | (26.5) |
| School food service | 3,780,877 | 3,794,056 | (13,179) | (0.3) |
| Interest and other fiscal charges | 3,533,507 | 5,816,239 | (2,282,732) | (39.2) |
| Total program expenses | <u>\$ 133,902,510</u> | <u>\$ 140,409,871</u> | <u>\$ (6,507,361)</u> | (4.6) |

The most significant expense items for the year ended June 30, 2015 were instruction of \$99,216,837, or 74.1 percent of total expenses, general support of \$19,112,424, or 14.3 percent of total expenses, and pupil transportation of \$8,120,791, or 6.1 percent of total expenditures. Similarly, for the year ended June 30, 2014, was instruction of \$103,664,682, or 73.8 percent of total expenses, general support of \$18,986,724, or 13.5 percent of total expenses, and pupil transportation of \$7,960,308, or 5.7 percent of total expenditures.

Financial Analysis of Governmental Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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 discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Board of Education.

At June 30, 2015, the District’s governmental funds reported combined ending fund balance deficit of \$(47,150,530), a decrease of fund balance of \$16,116,103 from the prior year deficit balance of \$(31,034,427). Excluding the Capital Projects Fund, the District’s governmental funds combined ending fund balances totaled \$9,738,827. Approximately 54.8 percent of this amount, \$5,344,224, constitutes *unassigned fund balance*, which is available for spending at the District’s discretion. The remainder of fund balance is either *nonspendable*, *restricted*, or *assigned* to indicate that it is: (1) not in spendable form, \$80,344, (2) restricted for particular purposes, \$2,039,524, or (3) assigned for particular purposes, \$2,274,735.

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 \$5,344,224, while the total fund balance increased to \$8,803,091. As a measure of the General Fund’s liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total General Fund expenditures and transfers out. Unassigned fund balance represents approximately 4.3 percent of total General Fund expenditures and transfers out, while total fund balance represents approximately 7.0 percent of that same amount.

The total fund balance of the District’s General Fund increased by \$2,350,900 during the current fiscal year. During the annual budget process, the District anticipated utilizing \$2,056,841 of fund balance (this included funds appropriated from fund balance (\$2,000,000), and the re-appropriation of prior year’s encumbrances (\$56,841)). Thus, as a result of spending less than anticipated, the District’s fund balance ended \$4,407,741 higher than anticipated.

Special Aid Fund expenditures for the year ended June 30, 2015 amounted to \$10,182,787, which was slightly higher than the prior year.

At June 30, 2015, the District’s School Lunch fund reports a fund balance of \$202,022, a decrease of \$189,043 from the prior year. Nonspendable fund balance of \$48,760 is reported to reflect the amounts of inventory not in spendable form, which results in an assigned fund balance of \$153,262.

Due to expansive capital outlay supported primarily by short-term debt during the year ended June 30, 2015, the District’s Capital Projects Fund reported a fund deficit of \$56,889,357 compared to the prior year’s fund deficit of \$36,104,615. It is anticipated that the current year deficit will be remedied through the redemption of short-term debt obligations and future issuance of serial bonds.

At June 30, 2015, the District’s Debt Service Fund reports a fund balance of \$733,714, an increase of \$506,782 from the prior year. This total fund balance amount is classified as restricted fund balance for the future payment of debt principal and interest.

General Fund Budgetary Highlights

The District's General Fund budget contains a minimal amount of budget amendments every year. 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 below in Table 5:

Table 5—General Fund Budget

| | |
|--------------------------------|-----------------------|
| Adopted budget, 2014-2015 | \$ 126,363,144 |
| Add: Prior year's encumbrances | <u>56,841</u> |
| Original budget, 2014-2015 | 126,419,985 |
| Budget revisions: | |
| Gifts and donations | <u>35,194</u> |
| Final budget, 2014-2015 | <u>\$ 126,455,179</u> |

More detailed information about the District's General Fund budget is presented in the Schedule of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual—General Fund within the Required Supplementary Information section of this report.

Capital Asset and Debt Administration

Capital assets—The District's investment in capital assets for its governmental activities as of June 30, 2015, amounted to \$146,885,215 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Construction in progress at June 30, 2015 represents expenses to date for facilities' improvements approved by the voters of the District, but not yet placed in service.

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

Capital assets, net of depreciation for the governmental activities at the years ended June 30, 2015 and June 30, 2014 are presented below in Table 6.

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

| | June 30, | |
|----------------------------|-----------------------|-----------------------|
| | 2015 | 2014 |
| Land | \$ 1,706,376 | \$ 1,706,376 |
| Construction in progress | 21,279,004 | 29,980,618 |
| Land improvements | 820,299 | 970,299 |
| Buildings and improvements | 121,690,162 | 93,780,428 |
| Furniture and equipment | 1,332,477 | 1,592,890 |
| Vehicles | <u>56,897</u> | <u>86,897</u> |
| Total | <u>\$ 146,885,215</u> | <u>\$ 128,117,508</u> |

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

Long-term debt—At June 30, 2015, the District had bonded debt outstanding of \$40,395,000, as compared to \$43,765,000 in the prior year. During the year ended June 30, 2015, the District issued refunding bonds of \$25,150,000 and used the proceeds to redeem previously issued bonds. Additionally, the District made scheduled debt principal payments of \$3,360,000.

A summary of the District’s long-term liabilities at June 30, 2015 and June 30, 2014 is presented below in Table 7.

Table 7—Summary of Long-Term Liabilities

| | June 30, | |
|-------------------------------|-----------------------|-----------------------|
| | 2015 | 2014 (as restated) |
| Serial bonds | \$ 40,395,000 | \$ 43,765,000 |
| Premium on serial bonds | 5,203,215 | 817,858 |
| Certificates of participation | 48,215,000 | 52,680,000 |
| Energy performance contracts | 3,481,567 | 3,987,443 |
| Due to retirement systems | 5,285,192 | 3,272,266 |
| Compensated absences | 9,382,003 | 9,036,503 |
| Workers' compensaton | 10,020,500 | 8,452,414 |
| Net pension liability | 1,301,172 | 1,740,494 |
| OPEB obligation | 35,842,589 | 33,255,879 |
| Total | <u>\$ 159,126,238</u> | <u>\$ 157,007,857</u> |

Additional information on 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 City of Niagara Falls at June 30, 2015 was 7.3 percent. This compares unfavorably to New York State’s average unemployment rate of 5.2 percent. These factors are considered in preparing the District’s budget.

During the current fiscal year, the District assigned \$21,473 of General Fund fund balance for encumbrances and appropriated \$2,100,000 for subsequent years’ expenditures of the General Fund’s unassigned fund balance for spending in the District’s 2015-2016 fiscal year budget. The 2015-2016 adopted budget appropriations total of \$133,605,602 is an approximate increase of 5.7 percent as compared to \$126,363,144 in 2014-2015. The District’s total tax levy in 2015-2016 is \$25,828,989 and remains unchanged with the amount levied in the 2014-2015 year.

Requests for Information

This financial report is designed to provide a general overview of the District’s finances and to show the District’s accountability for the money it receives for those with an interest in the District’s finances. If you have any questions about this report or need additional financial information, contact Superintendent, Niagara Falls City School District, 630 66th Street, Niagara Falls, New York 14304.

BASIC FINANCIAL STATEMENTS

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NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Statement of Net Position
June 30, 2015

| | <u>Primary Government Governmental Activities</u> |
|--|---|
| ASSETS | |
| Cash and cash equivalents | \$ 9,552,926 |
| Restricted cash and cash equivalents | 5,776,126 |
| Taxes receivable (net of allowance for uncollectibles) | 2,411,190 |
| Receivables (net of allowance for uncollectibles) | 47,741 |
| Intergovernmental receivables | 7,857,632 |
| Inventories | 48,760 |
| Prepaid items | 31,584 |
| Noncurrent net pension asset | 35,018,757 |
| Capital assets not being depreciated | 22,985,380 |
| Capital assets, net of accumulated depreciation | <u>123,899,835</u> |
| Total assets | <u>207,629,931</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows—relating to pensions | 9,225,336 |
| Deferred loss on refunding | <u>1,799,805</u> |
| Total deferred outflows of resources | <u>11,025,141</u> |
| LIABILITIES | |
| Accounts payable | 1,233,751 |
| Retainage payable | 1,272,118 |
| Accrued liabilities | 1,249,250 |
| Intergovernmental payables | 50,603 |
| Due to retirement systems | 7,594,332 |
| Due to Agency Fund | 140,204 |
| Bond anticipation notes payable | 59,109,094 |
| Unearned revenue | 508,469 |
| Non-current liabilities: | |
| Due within one year | 8,834,908 |
| Due within more than one year | <u>150,291,330</u> |
| Total liabilities | <u>230,284,059</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows—relating to pensions | <u>24,068,613</u> |
| Total deferred inflows of resources | <u>24,068,613</u> |
| NET POSITION | |
| Net investment in capital assets | (5,499,119) |
| Restricted: | |
| Workers' compensation | 952,435 |
| Retirement contributions | 258,884 |
| Debt service | 828,205 |
| Unrestricted | <u>(32,238,005)</u> |
| Total net position | <u>\$ (35,697,600)</u> |

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

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Statement of Activities
Year Ended June 30, 2015

| <u>Function/Program</u> | <u>Expense</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Change in Net Position</u> |
|-----------------------------------|-----------------------|---------------------------------|---|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Primary Governmental Activities</u> |
| Governmental activities: | | | | | |
| General support | \$ 19,112,424 | \$ - | \$ - | \$ 4,614,424 | \$ (14,498,000) |
| Instruction | 99,216,837 | 63,139 | 10,942,547 | 6,210 | (88,204,941) |
| Pupil transportation | 8,120,791 | - | - | - | (8,120,791) |
| Community services | 138,074 | - | - | - | (138,074) |
| School food service | 3,780,877 | 273,627 | 3,247,605 | - | (259,645) |
| Interest and other fiscal charges | 3,533,507 | - | - | - | (3,533,507) |
| Total primary government | <u>\$ 133,902,510</u> | <u>\$ 336,766</u> | <u>\$ 14,190,152</u> | <u>\$ 4,620,634</u> | (114,754,958) |
| General revenues: | | | | | |
| | | | | | 27,158,739 |
| | | | | | 2,015,657 |
| | | | | | 119,200 |
| | | | | | 14,994 |
| | | | | | 94,944,070 |
| | | | | | <u>2,770,622</u> |
| | | | | | <u>127,023,282</u> |
| | | | | | 12,268,324 |
| | | | | | <u>(47,965,924)</u> |
| | | | | | <u>\$ (35,697,600)</u> |

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

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Balance Sheet—Governmental Funds
June 30, 2015

| | General | Special Revenue | | Capital Projects | Debt Service | Total Governmental Funds |
|--|----------------------|---------------------|-------------------|---------------------|-------------------|--------------------------|
| | | Special Aid | School Lunch | | | |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 9,071,756 | \$ 450,482 | \$ 30,688 | \$ - | \$ - | \$ 9,552,926 |
| Restricted cash and cash equivalents | 1,814,279 | - | - | 3,961,847 | - | 5,776,126 |
| Taxes receivable (net of allowance for uncollectibles) | 2,411,190 | - | - | - | - | 2,411,190 |
| Receivables (net of allowance for uncollectibles) | 30,804 | 14,923 | 2,014 | - | - | 47,741 |
| Intergovernmental receivable | 5,038,201 | 2,548,215 | 271,216 | - | - | 7,857,632 |
| Due from other funds | 2,766,713 | - | 3,300 | 349,536 | 733,714 | 3,853,263 |
| Inventories | - | - | 48,760 | - | - | 48,760 |
| Prepaid items | 31,584 | - | - | - | - | 31,584 |
| Total assets | <u>\$ 21,164,527</u> | <u>\$ 3,013,620</u> | <u>\$ 355,978</u> | <u>\$ 4,311,383</u> | <u>\$ 733,714</u> | <u>\$ 29,579,222</u> |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 1,066,225 | \$ 58,474 | \$ 23,318 | \$ 85,734 | \$ - | \$ 1,233,751 |
| Retainage payable | - | - | - | 1,272,118 | - | 1,272,118 |
| Intergovernmental payables | 45,912 | 4,035 | 656 | - | - | 50,603 |
| Accrued liabilities | 713,585 | 41,601 | 83,177 | 80 | - | 838,443 |
| Due to retirement systems | 7,594,332 | - | - | - | - | 7,594,332 |
| Due to other funds | 303,438 | 2,909,510 | 46,805 | 733,714 | - | 3,993,467 |
| Bond anticipation notes payable | - | - | - | 59,109,094 | - | 59,109,094 |
| Unearned revenue | 508,469 | - | - | - | - | 508,469 |
| Total liabilities | <u>10,231,961</u> | <u>3,013,620</u> | <u>153,956</u> | <u>61,200,740</u> | <u>-</u> | <u>74,600,277</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Unavailable revenues-property taxes | <u>2,129,475</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,129,475</u> |
| Total deferred inflow of resources | <u>2,129,475</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,129,475</u> |
| FUND BALANCES (DEFICIT) | | | | | | |
| Nonspendable | 31,584 | - | 48,760 | - | - | 80,344 |
| Restricted | 1,305,810 | - | - | - | 733,714 | 2,039,524 |
| Assigned | 2,121,473 | - | 153,262 | - | - | 2,274,735 |
| Unassigned | <u>5,344,224</u> | <u>-</u> | <u>-</u> | <u>(56,889,357)</u> | <u>-</u> | <u>(51,545,133)</u> |
| Total fund balances | <u>8,803,091</u> | <u>-</u> | <u>202,022</u> | <u>(56,889,357)</u> | <u>733,714</u> | <u>(47,150,530)</u> |
| Total liabilities, deferred inflows of resources, and fund balance (deficit) | <u>\$ 21,164,527</u> | <u>\$ 3,013,620</u> | <u>\$ 355,978</u> | <u>\$ 4,311,383</u> | <u>\$ 733,714</u> | <u>\$ 29,579,222</u> |

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

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Reconciliation of the Balance Sheet—Governmental Funds
to the Government-wide Statement of Net Position
June 30, 2015

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

| | | |
|--|---------------------|------------------------|
| Total fund balances (deficit)—governmental funds (page 14) | | \$ (47,150,530) |
| Net pension assets are not financial resources and, therefore, are not reported in the funds. | | 35,018,757 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$212,490,596 and the accumulated depreciation is \$65,605,381. | | 146,885,215 |
| Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds: | | |
| Deferred outflows related to employer contributions | \$ 8,581,162 | |
| Deferred outflows related to experience and investment earnings | 644,174 | |
| Deferred inflows of resources related to pension plans | <u>(24,068,613)</u> | (14,843,277) |
| For refunding bonds, the difference between the reacquisition price and the net carrying amount of the refunded debt should be reported as a deferred charge and recognized as a component of interest expense over either the lesser of the life of the debt issuance or the bonds refunded for the government-wide statements. | | 1,799,805 |
| To recognize interest accrual on long-term debt, which is not recognized in the fund financial statements. | | (410,807) |
| Long-term liabilities are not due and payable in the current period and, therefore are not reported in the funds. The effect of these items are: | | |
| Serial bonds | \$ (40,395,000) | |
| Premium on serial bonds | (5,203,215) | |
| Certificates of participation | (48,215,000) | |
| Energy performance contracts | (3,481,567) | |
| Due to retirement systems | (5,285,192) | |
| Compensated absences | (9,382,003) | |
| Workers' compensation | (10,020,500) | |
| Other post-employment benefits | (35,842,589) | |
| Net pension liability | <u>(1,301,172)</u> | (159,126,238) |
| Certain amounts relating to taxes receivable are reported as inflows of resources in the governmental funds, as they are not current financial resources. | | <u>2,129,475</u> |
| Net position of governmental activities | | <u>\$ (35,697,600)</u> |

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

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Statement of Revenues, Expenditures and Changes in Fund
Balances (Deficit)—Governmental Funds
Year Ended June 30, 2015

| | <u>Special Revenue</u> | | | | <u>Debt Service</u> | <u>Total Governmental Funds</u> |
|---|------------------------|--------------------|---------------------|-------------------------|---------------------|---------------------------------|
| | <u>General</u> | <u>Special Aid</u> | <u>School Lunch</u> | <u>Capital Projects</u> | | |
| REVENUES | | | | | | |
| Real property taxes and other tax items | \$ 27,319,848 | \$ - | \$ - | \$ - | \$ - | \$ 27,319,848 |
| Non-property tax items | 2,015,657 | - | - | - | - | 2,015,657 |
| Charges for services | 63,139 | - | - | - | - | 63,139 |
| School lunch | - | - | 273,627 | - | - | 273,627 |
| Use of money and property | 110,246 | - | - | 8,954 | - | 119,200 |
| Sale of property and compensation for loss | 14,994 | - | - | - | - | 14,994 |
| State sources | 95,039,049 | 3,238,680 | 81,978 | 4,614,424 | - | 102,974,131 |
| Federal sources | 301,185 | 6,678,430 | 3,165,627 | - | - | 10,145,242 |
| Miscellaneous | 2,808,851 | 84,262 | - | 6,210 | - | 2,899,323 |
| Total revenues | <u>127,672,969</u> | <u>10,001,372</u> | <u>3,521,232</u> | <u>4,629,588</u> | <u>-</u> | <u>145,825,161</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General support | 12,811,335 | - | - | - | - | 12,811,335 |
| Instruction | 64,601,342 | 9,412,229 | - | - | - | 74,013,571 |
| Pupil transportation | 6,997,171 | - | - | - | - | 6,997,171 |
| Community services | 131,864 | - | - | 6,210 | - | 138,074 |
| Cost of sales (school lunch) | - | - | 2,920,124 | - | - | 2,920,124 |
| Employee benefits | 30,400,535 | 770,558 | 790,151 | - | - | 31,961,244 |
| Debt service: | | | | | | |
| Principal | 6,425,876 | - | - | - | - | 6,425,876 |
| Interest | 3,772,531 | - | - | - | - | 3,772,531 |
| Capital outlay | - | - | - | 23,408,120 | - | 23,408,120 |
| Total expenditures | <u>125,140,654</u> | <u>10,182,787</u> | <u>3,710,275</u> | <u>23,414,330</u> | <u>-</u> | <u>162,448,046</u> |
| Excess (deficiency) of revenues over expenditures | <u>2,532,315</u> | <u>(181,415)</u> | <u>(189,043)</u> | <u>(18,784,742)</u> | <u>-</u> | <u>(16,622,885)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | 181,415 | - | - | - | 181,415 |
| Transfers out | (181,415) | - | - | - | - | (181,415) |
| Premium on debt issuances | - | - | - | - | 5,088,704 | 5,088,704 |
| Proceeds on refunding bond/certificate of participation | - | - | - | - | 75,925,000 | 75,925,000 |
| Payment to refunding bond/certificate of participation escrow agent | - | - | - | - | (80,506,922) | (80,506,922) |
| Total other financing sources (uses) | <u>(181,415)</u> | <u>181,415</u> | <u>-</u> | <u>-</u> | <u>506,782</u> | <u>506,782</u> |
| Net change in fund balances (deficit) | 2,350,900 | - | (189,043) | (18,784,742) | 506,782 | (16,116,103) |
| Fund balances (deficit)—beginning | 6,452,191 | - | 391,065 | (38,104,615) | 226,932 | (31,034,427) |
| Fund balances (deficit)—ending | <u>\$ 8,803,091</u> | <u>\$ -</u> | <u>\$ 202,022</u> | <u>\$(56,889,357)</u> | <u>\$ 733,714</u> | <u>\$(47,150,530)</u> |

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

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances (Deficit)—Governmental Funds to the Government-wide Statement of Activities
Year Ended June 30, 2015

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

Net change in fund balances (deficit)—total governmental funds (page 16) \$ (16,116,103)

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

| | | |
|---|--------------------|------------|
| Capital asset additions, net of transfers | \$ 23,446,935 | |
| Capital asset disposals | (74,228) | |
| Depreciation expense | <u>(4,605,000)</u> | 18,767,707 |

Net differences between pension contributions recognized on the fund financial statements and the government-wide financial statements are as follows:

| | | |
|---|------------------|------------|
| District pension contributions | \$ 8,581,162 | |
| Cost of benefits earned net of employee contributions | <u>1,871,450</u> | 10,452,612 |

In the statement of activities, interest expense is recognized as it accrues, regardless of when it is paid. 83,115

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

| | | |
|---|--------------------|-----------|
| Proceeds from refunding serial bonds | \$ (25,150,000) | |
| Principal repayment of serial bonds/refunding bonds | 28,520,000 | |
| Net change in premium on serial bonds/refunding bonds | (4,385,357) | |
| Proceeds from refunding certificates of participation | (50,775,000) | |
| Principal repayment of certificates of participation | 55,240,000 | |
| Principal repayment of energy performance contracts | 505,876 | |
| Deferred loss on refunding | 1,799,805 | |
| Change in due to retirement systems | (2,012,926) | |
| Change in compensated absences | (345,500) | |
| Change in workers' compensation liability | (1,568,086) | |
| Change in other post-employment benefits obligation | <u>(2,586,710)</u> | (757,898) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (161,109)

Change in net position of governmental activities \$ 12,268,324

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

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Statement of Net Position—Fiduciary Funds
June 30, 2015

| | Private Purpose Fund | Agency Fund |
|----------------------------------|-------------------------------------|------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 84,751 | \$ 127,117 |
| Due from other funds | - | 153,902 |
| Total assets | 84,751 | \$ 281,019 |
| LIABILITIES | | |
| Extraclassroom activity balances | - | \$ 86,610 |
| Due to other funds | - | 13,698 |
| Other liabilities | - | 180,711 |
| Total liabilities | - | \$ 281,019 |
| NET POSITION | | |
| Restricted for scholarships | \$ 84,751 | |

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

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Statement of Changes in Net Position—Fiduciary Funds
Year Ended June 30, 2015

| | Private Purpose Fund |
|------------------------|-------------------------------------|
| ADDITIONS | |
| Interest income | \$ 46 |
| Miscellaneous revenue | 4,450 |
| Total additions | <u>4,496</u> |
| DEDUCTIONS | |
| Scholarships awarded | <u>7,453</u> |
| Total deductions | <u>7,453</u> |
| Change in net position | (2,957) |
| Net position—beginning | <u>87,708</u> |
| Net position—ending | <u>\$ 84,751</u> |

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

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NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Notes to the Financial Statements
Year Ended June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic 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 governmental units. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

Description of Government-wide Financial Statements

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

Reporting Entity

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

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

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

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

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

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

The BOCES budget is comprised of separate spending plans for administrative, program, and capital costs. Each component school district shares in administrative and capital costs determined by its enrollment. Participating districts are charged a service fee for programs in which students participate, and for other shared contracted administrative services. Participating districts may also issue debt on behalf of BOCES. As of June 30, 2015, there was no debt issued by the District on behalf of BOCES.

During the fiscal year ended June 30, 2015, the District was billed \$11,117,968 for BOCES administrative and program costs. The District's share of BOCES aid and refunds amounted to \$4,983,633 for the year ended June 30, 2015. 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.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

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

- *Debt Service Fund*—The Debt Service Fund is used to account for the accumulation of resources that are restricted, committed, or assigned for payment of principal and interest on long-term debt obligations of the governmental funds.

Additionally, the District reports the following fund type:

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

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

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

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

Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are 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, and except for property taxes, for which the period of availability is 60 days, the government considers revenues to be available if they are collected within 90 days of the end of the

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

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

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

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

Cash, Cash Equivalents and Investments—The District’s cash and cash equivalents consist of cash on hand, demand deposits, time deposits, and short-term highly liquid investments with original maturities of three months or less from date of acquisition. New York State law governs the District’s investment policies. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. The District had no investments at June 30, 2015; however, when the District does have investments they are recorded at fair value based on the quoted market value.

Restricted Cash and Cash Equivalents—Restricted cash represents unspent funds received under an agreement with the New York Power Authority as well as unspent debt proceeds of debt and amounts to support restricted fund balances.

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

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

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. The reported value excludes normal maintenance and repairs, which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life.

Donated capital assets are recorded at estimated fair market value of the item at the date of its donation. Major outlays for capital assets and improvements are capitalized as projects are completed.

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

| | Capitalization Threshold | Estimated Useful Life |
|----------------------------|-----------------------------|--------------------------|
| Land | \$ 5,000 | n/a |
| Land improvements | 5,000 | 20 |
| Buildings and improvements | 5,000 | 20-50 |
| Furniture and equipment | 5,000 | 5-20 |
| Vehicles | 5,000 | 5 |

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

Deferred Outflows/Inflows of Resources—In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2015, the District has two items that qualify for reporting in this category. The first item is related to pensions reported in the government-wide financial statements. This represents the effect of the net change in the District’s proportion of the collective net pension asset or liability, and the difference during the measurement period between the District’s contributions and its proportionate share of the total contribution to the pension systems not included in the pension expense and any contributions to the pension systems made subsequent to the measurement date. The second item is a deferred loss on refunding which the District reports within its governmental activities. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. At June 30, 2015, the District has two items that qualify for reporting in this category. The first item represents the effect of the net change in the District’s proportion of the collective net pension liability and the difference during the measurement periods between the District’s contributions and its proportionate share of total contributions to the pension systems not included in pension expense and is reported on the government-wide statements. Additionally, the District reported a deferred inflow of resources on the balance sheet for governmental funds in the amount of \$2,129,475, which represents taxes receivable that the District does not expect to receive within 60 days of year end, in accordance with the modified accrual basis of accounting.

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

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

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

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

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

Revenues and Expenditures/Expenses

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

Property Taxes—Real property taxes are levied annually by the Board of Education 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.

Unearned Revenue—Certain revenues have not met the revenue recognition criteria for government-wide or fund purposes. At June 30, 2015, the District reported unearned revenues of \$447,998 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 \$9,000 donation and \$51,471 of overpayments as unearned revenues. The donation will be recognized in the 2015-16 fiscal year when it is expended in accordance with the donor's request and the overpayments will be returned to the taxpayers.

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.

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

Other

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 Pronouncement—During the year ended June 30, 2015, the District implemented GASB Statements No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*; No. 69, *Government Combinations and Disposals of Government Operations*; and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. GASB Statements No. 68 and No. 71 improve accounting and financial reporting of governments for pensions by establishing standards for measuring and recognizing liabilities/(assets), deferred outflows of resources, deferred inflows of resources and expenses related to pensions. GASB Statement No. 69 improves accounting and financial reporting for reporting mergers, acquisitions, and transfers of operations by providing specific guidance for combinations and disposals in the governmental environment.

Future Impacts of Accounting Pronouncements—The District has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 72, *Fair Value Measurement and Application* and No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the year ending June 30, 2016, No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements No. 67 and No.*

68; No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*; and No. 77, *Tax Abatement Disclosures*, effective for the year ending June 30, 2017, and No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for the year ending June 30, 2018. The District is, therefore, unable to disclose the impact that adopting GASB Statements No. 72, 73, 74, 75, 76, and 77 will have on its financial position and results of operations when such statements are adopted.

2. RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The implementation of GASB Statements No. 68 and No. 71 resulted in the reporting of an asset, deferred outflows of resources, a liability and a deferred inflow of resources related to the District’s participation in the New York State Teachers’ and Employees’ Retirement Systems.

The District’s net position as of June 30, 2014 has been restated as follows:

| | |
|--|------------------------|
| Net position—June 30, 2014, as previously stated | \$ (56,387,620) |
| GASB Statements No. 68 and No. 71 implementation: | |
| Beginning system asset—Teachers' Retirement System | 2,027,343 |
| Beginning system liability—Employees' Retirement System | (1,740,494) |
| Beginning deferred outflow of resources for contributions subsequent to the measurement date: | |
| Teachers' Retirement System | 7,546,047 |
| Employees' Retirement System | 588,800 |
| Net position—June 30, 2014, as restated | <u>\$ (47,965,924)</u> |

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100 percent of all deposits not covered by Federal deposit insurance (FDIC). The District has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Obligations that may be pledged as collateral are outlined in Chapter 623 of the laws of the State of New York. Cash and cash equivalents at June 30, 2015 are shown below:

| | Governmental Funds | Fiduciary Funds | Total |
|-------------------------------|-----------------------|--------------------|----------------------|
| Petty cash (uncollateralized) | \$ 870 | \$ - | \$ 870 |
| Deposits | 15,328,182 | 211,868 | 15,540,050 |
| Total | <u>\$ 15,329,052</u> | <u>\$ 211,868</u> | <u>\$ 15,540,920</u> |

Deposits—All deposits are carried at fair value, and are classified by custodial credit risk at June 30, 2015 as follows:

| | Bank Balance | Carrying Balance |
|--|----------------------|----------------------|
| FDIC insured | \$ 1,192,020 | \$ 1,133,611 |
| Uninsured: | | |
| Collateral held by pledging bank's agent in the District's name | <u>16,613,199</u> | <u>14,406,439</u> |
| Total | <u>\$ 17,805,219</u> | <u>\$ 15,540,050</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, 2015, the District’s deposits were either FDIC insured or collateralized with securities held by the pledging bank’s agent in the District’s name.

Restricted Cash and Cash Equivalents—The District reports restricted fund balances and unspent proceeds from serial bonds and bond anticipation notes as restricted cash and cash equivalents. Additionally, cash held 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, 2015, the District reported \$5,776,126 of restricted cash within its governmental funds. Of this amount, \$447,998 is cash held for Greenway Commission projects.

Investments—The District had no investments at June 30, 2015.

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

4. RECEIVABLES

Major revenues accrued by the District at June 30, 2015 consisted of the following:

Receivables—Represents amounts due from various sources for out-of-District tuition, reimbursements and other services provided, net of allowances for uncollectible accounts totaling \$52,189. The District reported receivables, net of allowance for uncollectibles, of \$30,804, \$14,923, and \$2,014 in the General Fund, Special Aid Fund and School Lunch Fund, respectively.

Intergovernmental Receivables—Represent amounts due from other units of government, such as Federal, New York State and other local governments. Intergovernmental receivables at June 30, 2015 are presented on the following page.

| | | | |
|--------------------------|----|-----------|--------------|
| General Fund: | | | |
| New York State aid | \$ | 2,497,917 | |
| Niagara County sales tax | | 235,297 | |
| BOCES aid | | 2,242,635 | |
| Other | | 62,352 | \$ 5,038,201 |
| <hr/> | | | |
| Special Aid Fund: | | | |
| Title I | | 483,328 | |
| Title IIA | | 75,406 | |
| Title IIB math/science | | 154,814 | |
| Section 611 & 619 IDEA | | 301,579 | |
| Universal pre-k | | 849,779 | |
| Race to the top ARRA | | 37,538 | |
| Other grants | | 645,771 | \$ 2,548,215 |
| <hr/> | | | |
| School Lunch Fund: | | | |
| State aid | | 7,404 | |
| Federal aid | | 263,812 | \$ 271,216 |
| <hr/> | | | |
| Total governmental funds | | | \$ 7,857,632 |

5. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2015 was as follows:

| | Balance 7/1/2014 | Increases | Decreases | Balance 6/30/2015 |
|--|-----------------------|----------------------|------------------------|-----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,706,376 | \$ - | \$ - | \$ 1,706,376 |
| Construction in progress | 29,980,618 | 23,408,120 | 32,109,734 | 21,279,004 |
| Total capital assets, not being depreciated | <u>31,686,994</u> | <u>23,408,120</u> | <u>32,109,734</u> | <u>22,985,380</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 4,132,666 | - | - | 4,132,666 |
| Buildings and improvements | 147,794,979 | 32,109,734 | - | 179,904,713 |
| Furniture and equipment | 5,269,507 | 38,815 | 396,701 | 4,911,621 |
| Vehicles | 605,616 | - | 49,400 | 556,216 |
| Total capital assets, being depreciated | <u>157,802,768</u> | <u>32,148,549</u> | <u>446,101</u> | <u>189,505,216</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 3,162,367 | 150,000 | - | 3,312,367 |
| Buildings and improvements | 54,014,551 | 4,200,000 | - | 58,214,551 |
| Furniture and equipment | 3,676,617 | 225,000 | 322,473 | 3,579,144 |
| Vehicles | 518,719 | 30,000 | 49,400 | 499,319 |
| Total accumulated depreciation | <u>61,372,254</u> | <u>4,605,000</u> | <u>371,873</u> | <u>65,605,381</u> |
| Total capital assets, being depreciated, net | <u>96,430,514</u> | <u>27,543,549</u> | <u>(74,228)</u> | <u>123,899,835</u> |
| Governmental activities capital assets, net | <u>\$ 128,117,508</u> | <u>\$ 50,951,669</u> | <u>\$ (32,183,962)</u> | <u>\$ 146,885,215</u> |

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

| | |
|----------------------------|---------------------|
| Governmental activities: | |
| General support | \$ 78,285 |
| Instruction | 3,403,095 |
| Pupil transportation | <u>1,123,620</u> |
| Total depreciation expense | <u>\$ 4,605,000</u> |

6. ACCRUED LIABILITIES

Accrued liabilities reported by governmental funds at June 30, 2015, were as follows:

| | General Fund | Special Aid Fund | School Lunch Fund | Capital Projects Fund | Total Governmental Funds |
|------------------------------|-------------------|---------------------|----------------------|-----------------------------|--------------------------------|
| Salary and employee benefits | <u>\$ 713,585</u> | <u>\$ 41,601</u> | <u>\$ 83,177</u> | <u>\$ 80</u> | <u>\$ 838,443</u> |
| Total accrued liabilities | <u>\$ 713,585</u> | <u>\$ 41,601</u> | <u>\$ 83,177</u> | <u>\$ 80</u> | <u>\$ 838,443</u> |

7. PENSION OBLIGATIONS

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

Plan Descriptions and Benefits Provided

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

Employees' Retirement System ("ERS")—The District participates in the New York State and Local Employees' Retirement System ("ERS"). This is a cost-sharing multiple-employer retirement system. ERS provides retirement benefits as well as death and disability benefits. The net position of ERS is held in the New York State Common Retirement Fund (the "Fund"), which was established to hold all net assets and record changes in plan net position allocated to ERS. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of ERS. ERS benefits are established under the provisions of the New York State Retirement and Social Security Law

("RSSL"). Once a public employer elects to participate in ERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan ("GLIP"), which provides death benefits in the form of life insurance. ERS is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—At June 30, 2015, the District reported the following liability/(asset) for its proportionate share of the net pension liability/(asset) for each of the Systems. The net pension liability/(asset) was measured as of June 30, 2014 for TRS and March 31, 2015 for ERS. The total pension liability/(asset) used to calculate the net pension liability/(asset) was determined by actuarial valuations as of June 30, 2013 and April 1, 2014, respectively, with update procedures used to roll forward the total pension liability to the measurement dates. The District's proportion of the net pension liability/(asset) was based on a projection of the District's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS and ERS Systems in reports provided to the District.

| | TRS | ERS |
|--|-----------------|----------------|
| Measurement date | June 30, 2014 | March 31, 2015 |
| Net pension (asset)/liability | \$ (35,018,757) | \$ 1,301,172 |
| District's portion of the Plan's total | | |
| Net pension (asset)/liability | 0.314369% | 0.0385162% |

For the year ended June 30, 2015, the District recognized a pension actuarial increase of \$1,376,728 for the TRS and pension expense of \$1,271,705 for the ERS. At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | | Deferred Inflows of Resources | |
|---|--------------------------------|-------------------|-------------------------------|-------------|
| | TRS | ERS | TRS | ERS |
| Differences between expected and actual experiences | \$ - | \$ 41,652 | \$ 512,085 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | 225,997 | 23,518,901 | - |
| Changes in proportion and differences between the District's contributions and proportionate share of contributions | - | 376,525 | 37,627 | - |
| District contributions subsequent to the measurement date | 8,379,067 | 202,095 | - | - |
| Total | <u>\$ 8,379,067</u> | <u>\$ 846,269</u> | <u>\$ 24,068,613</u> | <u>\$ -</u> |

District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30, | TRS | ERS |
|---------------------|--------------|------------|
| 2016 | \$ 5,943,645 | \$ 161,044 |
| 2017 | 5,943,645 | 161,044 |
| 2018 | 5,943,645 | 161,044 |
| 2019 | 5,943,645 | 161,042 |
| 2020 | 63,920 | - |
| Thereafter | 230,113 | - |

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

| | TRS | ERS |
|--------------------------|--------------------------------|----------------------------------|
| Measurement date | June 30, 2014 | March 31, 2015 |
| Actuarial valuation date | June 30, 2013 | April 1, 2014 |
| Interest rate | 8.00% | 7.50% |
| Salary scale | 4.01%-10.91% | 4.90% |
| Decrement tables | July 1, 2005- June 30, 2010 | April 1, 2005- March 31, 2010 |
| Inflation rate | 3.0% | 2.7% |

For TRS, annuitant mortality rates are based on July 1, 2005 – June 30, 2010 System experience with adjustments for mortality improvements based on the Society of Actuaries Scale AA. For ERS,

annuitant mortality rates are based on April 1, 2005 – March 31, 2010 System’s experience with adjustments for mortality improvements based on the Society of Actuaries Scale MP-2014.

For TRS, the actuarial assumptions used in the June 30, 2013 valuation are based on the results of an actuarial experience study for the period July 1, 2005 – June 30, 2010. For ERS, the actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 – March 31, 2010.

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

| Measurement date Asset class: | Target Allocation | | Long-Term Expected Real Rate of Return | |
|----------------------------------|-------------------|----------------|---|----------------|
| | TRS | ERS | TRS | ERS |
| | | | June 30, 2014 | March 31, 2015 |
| Domestic equities | 37.0 % | 38.0 % | 7.3 % | 7.3 % |
| International equities | 18.0 | 13.0 | 8.5 | 8.6 |
| Private equity | 0.0 | 10.0 | 0.0 | 11.0 |
| Real estate | 10.0 | 8.0 | 5.0 | 8.3 |
| Alternative investments | 7.0 | 0.0 | 11.0 | 0.0 |
| Absolute return strategies | 20.0 | 3.0 | 1.4 | 6.8 |
| Opportunistic portfolio | 0.0 | 3.0 | 0.0 | 8.6 |
| Real assets | 0.0 | 3.0 | 0.0 | 8.7 |
| Bonds and mortgages | 8.0 | 18.0 | 3.4 | 4.0 |
| Cash | 0.0 | 2.0 | 0.0 | 2.3 |
| Inflation-indexed bonds | 0.0 | 2.0 | 0.0 | 4.0 |
| Total | <u>100.0 %</u> | <u>100.0 %</u> | | |

Discount Rate—The discount rate used to calculate the total pension liability was 8.0% for TRS and 7.5% for ERS. The projection of cash flows used to determine the discount rate assumes that the contributions from plan employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption—The chart on the following page presents the District’s proportionate share of the net pension liability/(asset) calculated using the discount rate of 8.0% for TRS and 7.5% for ERS, as well as what the District’s proportionate share of the net pension liability/(asset) would be if it were calculated using a discount rate that is one percentage-point lower (7.0% for TRS and 6.5% for ERS) or one percentage-point higher (9.0% for TRS and 8.5% for ERS) than the current assumption.

| | 1% Decrease (7.0%) | Current Assumption (8.0%) | 1% Increase (9.0%) |
|--|--------------------------|---------------------------------|--------------------------|
| <u>TRS</u> | | | |
| Employer's proportionate share of the net pension liability/(asset) | \$ (755,404) | \$ (35,018,757) | \$ (64,215,893) |
| | 1% Decrease (6.5%) | Current Assumption (7.5%) | 1% Increase (8.5%) |
| <u>ERS</u> | | | |
| Employer's proportionate share of the net pension liability/(asset) | \$ 8,672,875 | \$ 1,301,172 | \$ (4,922,373) |

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

| | (Dollars in Thousands) | | |
|---|------------------------|---------------------|-----------------------|
| | TRS | ERS | Total |
| Valuation date | June 30, 2014 | March 31, 2015 | |
| Employers' total pension liability/(asset) | \$ 97,015,707 | \$ 164,591,504 | \$ 261,607,211 |
| Plan fiduciary net position | <u>108,155,083</u> | <u>161,213,259</u> | <u>269,368,342</u> |
| Employers' net pension liability/(asset) | <u>\$ (11,139,376)</u> | <u>\$ 3,378,245</u> | <u>\$ (7,761,131)</u> |
| System fiduciary net position as a percentage of total pension liability/(asset) | 111.48% | 97.95% | 102.97% |

Payables to the Pension Plan—For TRS, employer and employee contributions for the fiscal year ended June 30, 2015 are paid to the System in September, October and November 2015 through a state aid intercept. Accrued retirement contributions as of June 30, 2015 represent employee and employer contributions for the fiscal year ended June 30, 2015 based on paid TRS wages multiplied by the employer's contribution rate, by tier, and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2015 amounted to \$2,678,978.

For ERS, employer contributions are paid annually based on the System's fiscal year which ends of March 31st. Accrued retirement contributions as of June 30, 2015 represent the projected employer contribution for the period of April 1, 2015 through June 30, 2015 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2015 amounted to \$2,606,214.

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

Plan description - The District participates in a single-employer other post-employment benefit obligations (“OPEB”) plan which requires the District to pay a portion of eligible retirees’ health insurance, depending on the type of health plan provided. Separate financial statements are not issued or available for the OPEB plan. Eligibility for post employment 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.

The District’s annual OPEB cost is calculated based on the annual required contribution (“ARC”) of the employer, an amount actuarially determined in accordance with the parameters of GASB. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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

| | Year Ended June 30, | |
|---------------------------------------|----------------------|----------------------|
| | 2015 | 2014 |
| Annual required contribution ("ARC") | \$ 6,326,483 | \$ 6,716,344 |
| Interest on net OPEB obligation | 1,330,235 | 1,212,542 |
| Adjustment to ARC | <u>(1,377,574)</u> | <u>(1,255,693)</u> |
| Annual OPEB cost (expense) | 6,279,144 | 6,673,193 |
| Contributions made | <u>(3,692,434)</u> | <u>(3,730,863)</u> |
| Increase in net OPEB obligation | 2,586,710 | 2,942,330 |
| Net OPEB obligation—beginning of year | <u>33,255,879</u> | <u>30,313,549</u> |
| Net OPEB obligation—end of year | <u>\$ 35,842,589</u> | <u>\$ 33,255,879</u> |

Funding status and funding progress - As of June 30, 2015, the most recent actuarial valuation date, the plan was not funded. Since there were no assets, the unfunded actuarial accrued liability for benefits for governmental activities was \$110,303,493.

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 District’s schedule of contributions for the most recent three years is shown below:

| Year Ended June 30, | Annual Required Contribution | Contributions Made | Percentage Contributed |
|---------------------------|------------------------------------|-----------------------|---------------------------|
| 2015 | \$ 6,326,483 | \$ 3,692,434 | 58.4% |
| 2014 | 6,716,344 | 3,730,863 | 55.5% |
| 2013 | 7,269,454 | 5,200,000 | 71.5% |

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

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

In the June 30, 2015 actuarial valuation, the Entry Age Normal Actuarial Cost Method was used. Under this method, the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages. The actuarial assumptions included a valuation date and measurement date of June 30, 2015. The assumed inflation rate is 2.5% and the expected investment rate of return on employer’s assets is 4.0%. The 2012 New York State Teachers Retirement System rates; separate for active and retirees; separate for males and females were used for mortality rates. The initial and ultimate health care cost (medical) trend rates are 10.8% and 4.2%, respectively. The unfunded actuarial accrued liability is being amortized over 30 years, as of June 30, 2015 the amortization period was open and the remaining period is 22 years.

9. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets, vehicle liability, injuries to employees, health insurance, unemployment insurance, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The District purchases insurance for: general liability, as well as automobile, law enforcement professional, and school and educators’ legal liabilities. The general liability insurance is limited to \$12 million per occurrence and a \$12 million aggregate with no deductible. The automobile insurance is limited to \$1 million with no deductible. The law enforcement professional and school and educators’ legal liability insurances are limited to \$1 million each, with a \$5,000 and \$10,000 deductible, respectively. The District also carries a \$12 million umbrella policy with no deductible. There have not been any significant changes in any type of insurance coverage from the prior year, nor have there been any settlements which have exceeded insurance coverage in the past three fiscal years.

Workers' Compensation—The District has chosen to establish a self-insured plan for risks associated with employee workers' compensation claims. 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 District accounts for this activity in the General Fund.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated with consideration of the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other benefit costs. The District has an insurance policy for claims exceeding \$650,000 per occurrence to reduce its exposure to larger claims.

Claim activities for the current year and the prior year are:

| Fiscal Year Ended | Beginning Balance | Current Claims and Changes in Estimates | Claims Paid | Ending Balance |
|----------------------|----------------------|---|----------------|-------------------|
| June 30, 2015 | \$ 8,452,414 | \$ 2,499,798 | \$ 931,712 | \$ 10,020,500 |
| June 30, 2014 | 8,167,351 | 1,261,098 | 976,035 | 8,452,414 |

At June 30, 2015, the General Fund maintains a restricted fund balance in the amount of \$952,435 for the purpose of funding the District's future claim liabilities.

10. SHORT-TERM DEBT

Liabilities for bond anticipation notes ("BANs") are generally accounted for in the Capital Projects Fund. Principal payments on BANs must be made annually. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. A summary of the District's BAN activity for the fiscal year ended June 30, 2015 is presented below:

| Description | Interest Rate | Maturity Date | Balance 7/1/2014 | Issue | Redemptions | Balance 6/30/2015 |
|--------------------------|------------------|------------------|---------------------|----------------------|---------------|----------------------|
| Capital Projects Fund: | | | | | | |
| Various capital projects | 1.00% | 6/25/2015 | \$ 63,723,518 | \$ - | \$ 63,723,518 | \$ - |
| Various capital projects | 1.13% | 6/23/2016 | - | 25,000,000 | - | 25,000,000 |
| Various capital projects | 2.00% | 6/23/2016 | - | 34,109,094 | - | 34,109,094 |
| | | | <u>\$ -</u> | <u>\$ 59,109,094</u> | <u>\$ -</u> | <u>\$ 59,109,094</u> |

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

Transactions in RANs for the year ended June 30, 2015 are summarized below:

| Description | Interest Rate | Maturity Date | Balance 7/1/2014 | Issue | Redemptions | Balance 6/30/2015 |
|----------------------------|---------------|---------------|------------------|--------------|--------------|-------------------|
| General Fund: | | | | | | |
| Revenue anticipation notes | 0.60% | 12/10/2014 | \$ - | \$ 3,800,000 | \$ 3,800,000 | \$ - |
| | | | \$ - | \$ 3,800,000 | \$ 3,800,000 | \$ - |

11. LONG-TERM LIABILITIES

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

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

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

A summary of changes in the District’s long term debt at June 30, 2015 is presented below:

| | 7/1/2014 (as restated) | Additions | Reductions | Balance 6/30/2015 | Due Within One Year |
|-------------------------------|---------------------------|---------------|---------------|----------------------|------------------------|
| Serial bonds | \$ 43,765,000 | \$ 25,150,000 | \$ 28,520,000 | \$ 40,395,000 | \$ 3,130,000 |
| Premium on serial bonds | 817,858 | 4,581,922 | 196,565 | 5,203,215 | 403,567 |
| Bonds payable | 44,582,858 | 29,731,922 | 28,716,565 | 45,598,215 | 3,533,567 |
| Certificates of participation | 52,680,000 | 50,775,000 | 55,240,000 | 48,215,000 | 3,475,000 |
| Energy performance contracts | 3,987,443 | - | 505,876 | 3,481,567 | 525,773 |
| Due to retirement systems | 3,272,266 | 2,395,736 | 382,810 | 5,285,192 | 330,443 |
| Compensated absences | 9,036,503 | 1,145,848 | 800,348 | 9,382,003 | 469,100 |
| Workers' compensation | 8,452,414 | 2,499,798 | 931,712 | 10,020,500 | 501,025 |
| OPEB obligation | 33,255,879 | 6,279,144 | 3,692,434 | 35,842,589 | - |
| Net pension liability* | 1,740,494 | - | 439,322 | 1,301,172 | - |
| Total | \$ 157,007,857 | \$ 92,827,448 | \$ 90,709,067 | \$ 159,126,238 | \$ 8,834,908 |

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

Serial Bonds—The District issues general obligation bonds to provide funds for the acquisition, construction, and renovation of major capital facilities. Serial bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as serial bonds with equal amounts of principal maturing each year with maturities that range from 6 to 20 years.

Current Year Bond Refunding—In the current year, the District issued \$25,150,000 in Refunding Serial bonds, to partially refund \$25,160,000 of outstanding principal of the previously issued 2005 Issue bonds, originally issued for various purposes. The interest on the 2005 bonds ranged from 4.4% to 4.8%. The 2015 Refunding bonds carry an interest rate ranging from 2.0% to 5.0%. The District used the net proceeds of the bonds to purchase non-callable securities which are guaranteed by the United States of America. These securities were deposited into an irrevocable trust to provide for all future debt service of the refunded 2005 Issue bonds. As a result, \$25,160,000 of principal of the 2005 Issue serial bonds is considered defeased, and the District has removed the liability associated with that principal from its accounts. The outstanding principal of the defeased bonds is \$25,160,000 at June 30, 2015. The refund resulted in a net present value benefit to the District of \$1,943,495.

The activity on the District’s outstanding bond issues, for the year ended June 30, 2015 follows:

| Description | Original Issue | Interest Rate (%) | Year of Issue/ Maturity | Year | | | Balance 6/30/2015 |
|--------------------------|----------------|-------------------|----------------------------|------------------|------------|---------------|-------------------|
| | | | | Balance 7/1/2014 | Additions | Payments | |
| Serial bonds 2005 | \$ 30,000,000 | 4.25-4.75 | 2005/2036 | \$ 25,865,000 | \$ - | \$ 25,865,000 | \$ - |
| Serial bonds 2009 | 18,870,000 | 4.00-5.00 | 2009/2025 | 14,160,000 | - | 1,125,000 | 13,035,000 |
| Uninsured 2012 refunding | 3,850,000 | 2.00-4.00 | 2012/2015 | 1,165,000 | - | 1,165,000 | - |
| Insured 2012 refunding | 2,575,000 | 3.00-5.00 | 2012/2021 | 2,575,000 | - | - | 2,575,000 |
| 2015 Refunding bonds | 25,150,000 | 4.00-5.00 | 2015/2036 | - | 25,150,000 | 365,000 | 24,785,000 |
| Total | | | | \$ 43,765,000 | 25,150,000 | \$ 28,520,000 | \$ 40,395,000 |

Premium on Serial Bonds—The premiums on the 2009 serial bonds, 2012 refunding bonds and 2015 refunding bonds are being amortized on a straight-line basis over the life of the respective bonds.

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 through June 15, 2028 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.

In the current year, the District issued \$50,775,000 in Refunding Certificates of Participation, to refund \$52,680,000 of outstanding principal of the previously issued 2005 Refunding Certificates of Participation. The interest on the 2005 Refunding Certificates of Participation ranged from 4.0% to 5.0%. The 2015 Refunding Certificates of Participation carry an interest rate ranging from 1.0% to 5.0%. The District used the net proceeds of the Refunded Certificates of Participation to purchase non-callable securities which are guaranteed by the United States of America. 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. As a result, \$52,680,000 of principal of the 2005 Refunded Certificates of Participation is considered defeased, and the District has removed the liability associated with that principal from its accounts. The outstanding principal of the defeased bonds is \$49,945,000 at June 30, 2015. The refund resulted in a net present value benefit to the District of \$6,919,482.

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 a third party.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, are presented below:

| Year ending June 30, | Certificates of Participation | Energy Performance Contract | Total |
|---|-------------------------------------|-----------------------------------|----------------------|
| 2016 | \$ 5,303,675 | \$ 662,703 | \$ 5,966,378 |
| 2017 | 5,079,175 | 662,702 | 5,741,877 |
| 2018 | 5,079,575 | 662,702 | 5,742,277 |
| 2019 | 5,072,775 | 662,702 | 5,735,477 |
| 2020 | 5,075,275 | 662,703 | 5,737,978 |
| 2021-2025 | 23,830,950 | 662,702 | 24,493,652 |
| 2026-2028 | <u>12,264,000</u> | <u>-</u> | <u>12,264,000</u> |
| Total minimum lease payment | 61,705,425 | 3,976,215 | 65,681,640 |
| Less: amounts representing imputed interest costs | <u>13,490,425</u> | <u>494,648</u> | <u>13,985,073</u> |
| Present value of minimum lease payments | <u>\$ 48,215,000</u> | <u>\$ 3,481,567</u> | <u>\$ 51,696,567</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. In the current year the District deferred \$752,788 and \$1,642,948 relating the New York State Employees’ Retirement System and Teachers’ Retirement System, respectively. The long-term liability at June 30, 2015 is \$5,285,192.

Compensated Absences—As explained in Note 1, the District records the value of compensated absences. The annual budgets of the operating funds provide funding for these benefits as they become payable. The value recorded in the government-wide financial statements at June 30, 2015, for governmental activities is \$9,382,003. Management estimates that \$469,100 is due within one year. Since payment of compensated absences is dependent upon many factors, the timing of future payments is not readily determinable.

Workers’ Compensation—As explained in Note 9, the District is self-insured for risks associated with employee workers’ compensation claims. The District’s liability, as calculated by an independent third party administrator, is estimated to be \$10,020,500 as of June 30, 2015.

OPEB Obligation—As explained in Note 8, the District provides health insurance coverage for certain retirees. The District’s annual other post-employment benefit (“OPEB”) cost is calculated based on the annual required contributions of the employer, an amount actuarially determined in accordance with the parameters of GASB. The estimated long-term OPEB liability is estimated to be \$35,842,589 as of June 30, 2015.

Net Pension Liability—The District reported a liability for its proportionate share of the net pension liability for the Employee Retirement System. Refer to Note 7 for additional information related to the District’s net pension liability.

A maturity schedule of the District’s indebtedness is presented below:

| Year Ending June 30, | Serial Bonds | Premium | Certificates of Participation | Energy Performance Contract | Due to Retirement Systems | Compensated Absences | Workers' Compensation Liability | OPEB Obligation | Net Pension Liability | Total |
|----------------------|----------------------|---------------------|-------------------------------|-----------------------------|---------------------------|----------------------|---------------------------------|---------------------|-----------------------|----------------------|
| 2016 | \$ 3,130,000 | \$ 403,567 | \$ 3,475,000 | \$ 525,773 | \$ 330,443 | \$ 469,100 | \$ 501,025 | \$ - | \$ - | \$ 8,834,908 |
| 2017 | 2,220,000 | 425,712 | 3,320,000 | 546,451 | 199,097 | - | - | - | - | 6,711,260 |
| 2018 | 2,325,000 | 425,712 | 3,420,000 | 567,943 | 205,874 | - | - | - | - | 6,944,529 |
| 2019 | 2,445,000 | 425,711 | 3,550,000 | 590,280 | 212,883 | - | - | - | - | 7,223,874 |
| 2020 | 2,555,000 | 425,711 | 3,730,000 | 613,496 | 220,134 | - | - | - | - | 7,544,341 |
| 2021-2025 | 12,175,000 | 1,834,263 | 19,200,000 | 637,624 | 4,116,761 | - | - | - | - | 37,963,648 |
| 2026-2030 | 6,295,000 | 1,042,197 | 11,520,000 | - | - | - | - | - | - | 18,857,197 |
| 2031-2035 | 7,555,000 | 220,342 | - | - | - | - | - | - | - | 7,775,342 |
| 2036-2040 | 1,695,000 | - | - | - | - | 8,912,903 | 9,519,475 | 35,842,589 | 1,301,172 | 57,271,139 |
| Total | <u>\$ 40,395,000</u> | <u>\$ 5,203,215</u> | <u>\$ 48,215,000</u> | <u>\$ 3,481,567</u> | <u>\$ 5,285,192</u> | <u>\$ 9,382,003</u> | <u>\$ 10,020,500</u> | <u>\$35,842,589</u> | <u>\$1,301,172</u> | <u>\$159,126,238</u> |

Interest requirements on serial bonds payable are as follows:

| Year ending June 30, | Interest |
|-------------------------|----------------------|
| 2016 | \$ 1,710,831 |
| 2017 | 1,565,006 |
| 2018 | 1,461,106 |
| 2019 | 1,347,881 |
| 2020 | 1,229,056 |
| 2021-2025 | 4,205,355 |
| 2026-2030 | 2,290,291 |
| 2031-2035 | 1,074,600 |
| 2036-2040 | <u>33,900</u> |
| Total | <u>\$ 14,918,026</u> |

12. NET POSITION AND FUND BALANCE

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

- ***Net Investment in Capital Assets***—This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category. A reconciliation of the net investment in capital assets is presented as supplementary information in this report.
- ***Restricted Net Position***—This category presents external restriction imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- ***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, 2015 includes:

- ***Prepaid items***—Representing the portion of fund balance, \$31,584, composed of prepaid expenditures. This balance is nonspendable as the balance does not represent an available resource.
- ***Inventories***—Representing the portion of fund balance, \$48,760, composed of inventory. This balance is nonspendable as the inventory does not represent an available resource.

In the fund financial statements, restricted fund balances are amounts constrained to specific purposes (such as creditors, grantors, contributors, or laws and regulations of other governments) through constitutional provisions or enabling legislation. Restricted fund balance maintained by the District as June 30, 2015 includes:

| | General Fund | Debt Service | Total |
|--------------------------|---------------------|-------------------|---------------------|
| Workers' compensation | \$ 952,435 | \$ - | \$ 952,435 |
| Retirement contributions | 258,884 | - | 258,884 |
| Debt service | 94,491 | 733,714 | 828,205 |
| | <u>\$ 1,305,810</u> | <u>\$ 733,714</u> | <u>\$ 2,039,524</u> |

- ***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 Retirement Contributions***—Represented resources accumulated to fund employer retirement contributions to the NYS Local Employees' Retirement System.
- ***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, commitments are amounts that are subject to a purpose constraint imposed by a formal action of the District's highest level of decision-making authority. As of June 30, 2015, the District has no committed fund balance.

In the fund financial statements, assignments are not legally required segregations but are segregated for a specific purpose by the District at June 30, 2015 and include:

- ***Assigned to Encumbrances***—Representing amounts related to unperformed (executory) contracts for goods and services. The District has \$21,473 of fund balance within the General Fund, assigned to encumbrances at June 30, 2015.
- ***Assigned to Subsequent Year's Expenditures***—Representing available General Fund fund balance being appropriated to meet expenditure requirements in the 2015-16 fiscal year, \$2,100,000 at June 30, 2015.
- ***Assigned to School Lunch***—Representing remaining fund balance of \$153,262 within the special revenue fund used to maintain school lunch operations.

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

13. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables are short-term in nature and exist because of temporary advances or payments made on behalf of other funds. The composition of interfund balances as of June 30, 2015 is as presented below:

| Fund | Interfund | |
|--------------------------|--------------|--------------|
| | Receivable | Payable |
| Governmental Funds: | | |
| General Fund | \$ 2,766,713 | \$ 303,438 |
| Special Aid Fund | - | 2,909,510 |
| School Lunch Fund | 3,300 | 46,805 |
| Capital Projects Fund | 349,536 | 733,714 |
| Debt Service Fund | 733,714 | - |
| Total governmental funds | 3,853,263 | 3,993,467 |
| Fiduciary Funds: | | |
| Agency Fund | 153,905 | 13,698 |
| Total | \$ 4,007,168 | \$ 4,007,165 |

All of these balances are expected to be collected/paid within the subsequent year.

Transfers are used primarily to finance certain special aid programs. The District made the following transfers during the year ended June 30, 2015:

| Fund | Transfers Out |
|------------------|---------------|
| | General Fund |
| Transfers in: | |
| Special Aid Fund | \$ 181,415 |
| Total | \$ 181,415 |

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, 2015:

| | Balance 7/1/2014 | Increases | Decreases | Balance 6/30/2015 |
|-------------------------------|---------------------|---------------|---------------|----------------------|
| ASSETS | | | | |
| Restricted cash | \$ 117,524 | \$ 63,290,662 | \$ 63,281,069 | \$ 127,117 |
| Due from other funds | 154,498 | 13,698 | 14,294 | 153,902 |
| Total assets | \$ 272,022 | \$ 63,304,360 | \$ 63,295,363 | \$ 281,019 |
| LIABILITIES | | | | |
| Extraclassroom activity funds | \$ 91,980 | \$ 423,267 | \$ 428,637 | \$ 86,610 |
| Due to other funds | - | 45,865 | 32,167 | 13,698 |
| Other liabilities | \$ 180,042 | \$ 62,806,567 | \$ 62,805,898 | \$ 180,711 |
| Total liabilities | \$ 272,022 | \$ 63,275,699 | \$ 63,266,702 | \$ 281,019 |

15. LABOR RELATIONS

District employees are represented by four bargaining units and Board of Education rules and regulations. Negotiated contracts are in place through June 30, 2015 for the Civil Service Employees Association and the Teachers Associates Unit and through June 30 2019 for the Niagara Falls Teachers, the Substitute Teachers United, the Classified Administrators and Supervisors, and the Administrative and Supervisory Council.

16. COMMITMENTS

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

The District considers encumbrances to be significant for amounts that are encumbered in excess of \$20,000. As of June 30, 2015, the District did not report and encumbrances that are considered significant.

17. CONTINGENCIES

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

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

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

18. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 5, 2015, which is the date the financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of Funding Progress—Other Post-Employment Benefits Plan
For the Year Ended June 30, 2015

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability ("AAL") (b) | Unfunded AAL ("UAAL") (b-a) | Funded Ratio (a-b) | Covered Payroll (c) | UAAL as Percentage of Covered Payroll ((b-a)/c) |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| June 30, 2015 | \$ - | \$ 110,303,493 | \$ 110,303,493 | 0.00% | \$ 53,029,722 | 208.00% |
| June 30, 2014 | - | 115,092,129 | 115,092,129 | 0.00% | 51,485,167 | 223.54% |
| June 30, 2013 | - | 119,024,924 | 119,024,924 | 0.00% | 51,642,884 | 230.48% |

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of the District's Proportionate Share of the
Net Pension Liability (Asset)—Teachers' Retirement System
Last Two Fiscal Years

| | <u>Year Ended June 30,</u> | |
|---|----------------------------|-----------------------|
| | <u>2015</u> | <u>2014</u> |
| Measurement date | June 30, 2014 | June 30, 2013 |
| District's proportion of the net pension liability (asset) | 0.314369% | 0.307988% |
| District's proportionate share of the net pension liability (asset) | <u>\$ (35,018,757)</u> | <u>\$ (2,027,343)</u> |
| District's covered-employee payroll | \$ 47,945,029 | \$ 46,411,743 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | (73.0%) | (4.3%) |
| Plan fiduciary net position as a percentage of the total pension liability | 111.5% | 100.7% |

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of the District's Contributions—
Teachers' Retirement System
Last Two Fiscal Years

| | <u>Year Ended June 30,</u> | |
|---|----------------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| Contractually required contribution | \$ 7,546,047 | \$ 5,341,449 |
| Contributions in relation to the contractually required contribution | <u>(6,561,578)</u> | <u>(5,341,449)</u> |
| Contribution deficiency (excess) | <u>\$ 984,469</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 47,945,029 | \$ 46,411,743 |
| Contributions as a percentage of covered-employee payroll | 15.7% | 11.5% |

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of the District's Proportionate Share of the
Net Pension Liability (Asset)—Employees' Retirement System
Last Two Fiscal Years

| | <u>Year Ended June 30,</u> | |
|---|----------------------------|---------------------|
| | <u>2015</u> | <u>2014</u> |
| Measurement date | March 31, 2015 | March 31, 2014 |
| District's proportion of the net pension liability (asset) | 0.0385162% | 0.0385162% |
| District's proportionate share of the net pension liability (asset) | <u>\$ 1,301,172</u> | <u>\$ 1,740,494</u> |
| District's covered-employee payroll | \$ 12,090,805 | \$ 11,716,685 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 10.7% | 14.8% |
| Plan fiduciary net position as a percentage of the total pension liability | 97.9% | 97.2% |

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of the District's Contributions—
Employees' Retirement System
Last Two Fiscal Years

| | <u>Year Ended June 30,</u> | |
|---|----------------------------|--------------------|
| | <u>2015</u> | <u>2014</u> |
| Contractually required contribution | \$ 2,355,201 | \$ 2,203,296 |
| Contributions in relation to the contractually required contribution | <u>(1,602,413)</u> | <u>(1,456,600)</u> |
| Contribution deficiency (excess) | <u>\$ 752,788</u> | <u>\$ 746,696</u> |
| District's covered-employee payroll | \$ 12,090,805 | \$ 11,716,685 |
| Contributions as a percentage of covered-employee payroll | 19.5% | 18.8% |

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual—General Fund
For the Year Ended June 30, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual</u> <u>Amounts</u> | <u>Variance with</u> <u>Final Budget</u> |
|--|-------------------------|-----------------------|---------------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local sources: | | | | |
| Real property taxes and other tax items | \$ 26,718,369 | \$ 26,469,233 | \$ 27,319,848 | \$ 850,615 |
| Non-property tax items | 1,900,000 | 1,900,000 | 2,015,657 | 115,657 |
| Charges for services | 85,300 | 146,907 | 63,139 | (83,768) |
| Use of money and property | 144,280 | 144,280 | 110,246 | (34,034) |
| Sale of property and compensation for loss | 4,750 | 4,750 | 14,994 | 10,244 |
| Miscellaneous | 2,192,250 | 2,414,971 | 2,808,851 | 393,880 |
| State sources: | | | | |
| Basic formula | 74,133,198 | 74,133,198 | 75,280,912 | 1,147,714 |
| Lottery | 13,082,329 | 13,082,329 | 14,043,811 | 961,482 |
| BOCES | 5,055,368 | 5,055,368 | 4,983,633 | (71,735) |
| Textbooks | 449,931 | 449,931 | 451,030 | 1,099 |
| Computer software | 107,860 | 255,297 | 228,316 | (26,981) |
| Library loan program | 42,072 | 35,631 | 44,906 | 9,275 |
| Other State aid | 147,437 | 6,441 | 6,441 | - |
| Federal sources | <u>300,000</u> | <u>300,000</u> | <u>301,185</u> | <u>1,185</u> |
| Total revenues | 124,363,144 | 124,398,336 | 127,672,969 | 3,274,633 |
| OTHER FINANCING SOURCES | | | | |
| Transfers in | <u>-</u> | <u>2</u> | <u>-</u> | <u>(2)</u> |
| Total revenue and other financing sources | <u>\$ 124,363,144</u> | <u>\$ 124,398,338</u> | <u>\$ 127,672,969</u> | <u>\$ 3,274,631</u> |

(Continued)

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual—General Fund
For the Year Ended June 30, 2015

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Encumbrances</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|--------------|---------------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | | |
| EXPENDITURES | | | | | |
| General support: | | | | | |
| Board of Education | \$ 191,336 | \$ 277,490 | \$ 243,763 | \$ - | \$ 33,727 |
| Central administration | 255,112 | 252,633 | 252,571 | - | 62 |
| Finance | 1,398,508 | 1,113,062 | 1,086,808 | 1,406 | 24,848 |
| Staff | 977,407 | 980,192 | 953,374 | - | 26,818 |
| Central services | 9,701,615 | 9,479,087 | 8,943,437 | 18,575 | 517,075 |
| Special items | 1,330,126 | 1,346,474 | 1,331,382 | - | 15,092 |
| Instruction: | | | | | |
| Instruction, administration and improvement | 12,696,770 | 13,119,200 | 13,020,969 | - | 98,231 |
| Teaching—regular school | 35,784,399 | 36,029,144 | 35,885,148 | 612 | 143,384 |
| Programs for pupils with handicapping conditions | 6,957,333 | 7,047,902 | 6,997,012 | - | 50,890 |
| Occupational education | 2,068,788 | 2,056,806 | 2,053,771 | - | 3,035 |
| Teaching—special schools | 870,148 | 864,373 | 861,479 | - | 2,894 |
| Instructional media | 1,570,914 | 1,607,335 | 1,592,021 | 880 | 14,434 |
| Pupil services | 4,076,897 | 4,246,577 | 4,190,942 | - | 55,635 |
| Pupil transportation | 7,271,542 | 7,031,036 | 6,997,171 | - | 33,865 |
| Community services | 159,450 | 132,864 | 131,864 | - | 1,000 |
| Employee benefits | 30,160,742 | 30,448,825 | 30,400,535 | - | 48,290 |
| Debt service: | | | | | |
| Principal | 6,235,877 | 6,425,876 | 6,425,876 | - | - |
| Interest | 4,648,021 | 3,772,531 | 3,772,531 | - | - |
| Total expenditures/encumbrances | 126,354,985 | 126,231,407 | 125,140,654 | 21,473 | 1,069,280 |
| OTHER FINANCING USES | | | | | |
| Transfers out | 65,000 | 223,772 | 181,415 | - | 42,357 |
| Total expenditures/encumbrances and other financing uses | 126,419,985 | 126,455,179 | 125,322,069 | \$ 21,473 | \$ 1,111,637 |
| Net change in fund balance* | (2,056,841) | (2,056,841) | 2,350,900 | | |
| Fund balance—beginning | 6,452,191 | 6,452,191 | 6,452,191 | | |
| Fund balance—ending | \$ 4,395,350 | \$ 4,395,350 | \$ 8,803,091 | | |

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

(Concluded)

The note to the required supplementary information is an integral part of this schedule.

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Note to the Required Supplementary Information
Year Ended June 30, 2015

1. BUDGETARY INFORMATION

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

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

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

SUPPLEMENTARY INFORMATION

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of Change from Adopted Budget to Final Budget
And the Real Property Tax Limit—General Fund
For the Year Ended June 30, 2015

Change from Adopted Budget to Final Budget

| | |
|--------------------------------|-----------------------|
| Adopted budget, 2014-2015 | \$ 126,363,144 |
| Add: Prior year's encumbrances | <u>56,841</u> |
| Original budget 2014-2015 | 126,419,985 |
| Budget revisions: | |
| Gifts and donations | <u>35,194</u> |
| Final budget 2014-2015 | <u>\$ 126,455,179</u> |

Section 1318 of Real Property Tax Law Limit Calculation

| | | |
|--|-----------------------|---------------------|
| 2015-2016 Voter-approved Budget | <u>\$ 133,605,602</u> | |
| Maximum allowed (4% of 2015-2016 budget) | | \$ 5,344,224 |
| General Fund Fund Balance subject to Section 1318 of Real Property Tax Law*: | | |
| Unrestricted fund balance: | | |
| Assigned fund balance | \$ 2,121,473 | |
| Unassigned fund balance | <u>5,344,224</u> | |
| Total unrestricted fund balance | | 7,465,697 |
| Less: | | |
| Appropriated fund balance | \$ 2,100,000 | |
| Encumbrances included in assigned fund balance | <u>21,473</u> | |
| Total adjustments | | <u>2,121,473</u> |
| General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law | | <u>\$ 5,344,224</u> |
| Actual percentage | | 4.00% |

* 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 classification), 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, NEW YORK
Schedule of Capital Project Expenditures
Year Ended June 30, 2015

| Project title | Expenditures | | | | | |
|---|---------------------------|--------------------------|------------------------------|--------------------------------|-----------------------|-----------------------|
| | Original Appropriation | Revised Appropriation | Prior Years' Expenditures | Current Year's Expenditures | Total Expenditures | Unexpended Balance |
| Inventing Tomorrow Phases 1, 2, and 3: | | | | | | |
| LPS Press box | \$ - | \$ 84,802 | \$ 15,881 | \$ 64,174 | \$ 80,055 | \$ 4,747 |
| LPS Concessions | - | 865,467 | 223,886.00 | 638,950 | 862,836 | 2,631 |
| Maintenace Barn | 133,278 | 111,056 | 108,275 | 852 | 109,127 | 1,929 |
| NFHS Field House | 4,639,878 | 5,664,527 | 5,360,990 | 301,680 | 5,662,670 | 1,857 |
| Main Stadium Press Box | 112,036 | 217,176 | 105,631 | 5,076 | 110,707 | 106,469 |
| Varsity Baseball Press Box | 100,655 | 35,039 | 31,380 | 3,370 | 34,750 | 289 |
| Varsity Softball Press Box | 100,722 | 160,964 | 64,904 | 95,767 | 160,671 | 293 |
| NFHS | 13,934,754 | 15,060,935 | 11,625,598 | 3,421,061 | 15,046,659 | 14,276 |
| GPS | 626,750 | 3,410,629 | 825,553 | 2,559,019 | 3,384,572 | 26,057 |
| LPS | 1,093,534 | 5,677,642 | 1,468,571 | 4,153,737 | 5,622,308 | 55,334 |
| Abate | 9,407,059 | 10,692,252 | 7,605,089 | 3,085,476 | 10,690,565 | 1,687 |
| Cataract | - | 1,660,844 | 87,113 | 1,024,937 | 1,112,050 | 548,794 |
| HP | - | 1,271,730 | 88,808 | 1,180,167 | 1,268,975 | 2,755 |
| Kalfas | 11,144,099 | 13,102,595 | 9,365,588 | 3,075,711 | 12,441,299 | 661,296 |
| Maple Avenue | 2,217,712 | 2,280,120 | 2,042,472 | 237,648 | 2,280,120 | - |
| Niagara Street | - | 589,577 | 29,768 | 558,334 | 588,102 | 1,475 |
| 79th Street | - | 2,470,468 | 93,291 | 1,909,186 | 2,002,477 | 467,991 |
| GJ Mann | 1,844,180 | 3,085,641 | 1,775,349 | 1,056,753 | 2,832,102 | 253,539 |
| Nicoletti Press Box | 117,849 | 123,372 | 93,306 | 22,428 | 115,734 | 7,638 |
| Nicoletti Lighting Hut | 40,055 | 60,135 | 41,338 | 13,794 | 55,132 | 5,003 |
| District Wide | 4,153,764 | 38,519 | - | 6,210 | - | 38,519 |
| | <u>\$ 49,666,325</u> | <u>\$ 66,663,490</u> | <u>\$ 41,052,791</u> | <u>\$ 23,414,330</u> | <u>\$ 64,460,911</u> | <u>\$ 2,202,579</u> |

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Net Investment in Capital Assets
June 30, 2015

| | | |
|---|---------------------|-----------------------|
| Capital assets, net of accumulated depreciation | | \$ 146,885,215 |
| Add: | | |
| Unspent debt proceeds | | 2,219,737 |
| Deduct: | | |
| Serial bonds | (40,395,000) | |
| Premium on bonds payable | (5,203,215) | |
| Certificates of participation | (48,215,000) | |
| Energy performance contracts | (3,481,567) | |
| Deferred loss on refunding | 1,799,805 | |
| Bond anticipation notes | <u>(59,109,094)</u> | <u>(154,604,071)</u> |
| Net investment in capital assets | | <u>\$ (5,499,119)</u> |

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FEDERAL AWARDS INFORMATION

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

| Federal Grantor /Pass-through Grantor Program or Cluster Title (1) | Federal CFDA Number (2) | Pass-through Identifying Number | Federal Expenditures (3) |
|---|--|--|-------------------------------------|
| U.S. DEPARTMENT OF AGRICULTURE: | | | |
| <i>Passed through New York State Department of Agriculture:</i> | | | |
| Child Nutrition Cluster: | | | |
| School Breakfast Program | 10.553 | 006325 | \$ 573,365 |
| National School Lunch Program | 10.555 | 006325 | 2,390,532 |
| Commodity Supplemental Food Program | 10.565 | 006325 | 201,730 |
| Child Nutrition Discretionary Grants | 10.579 | 0005-15-0077 | <u>16,443</u> |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | <u>\$ 3,182,070</u> |
| U.S. DEPARTMENT OF LABOR: | | | |
| <i>Passed through Niagara County:</i> | | | |
| WIA/WIOA Youth Activities | 17.259 | PY 2014-Y-01 | <u>48,396</u> |
| TOTAL U.S. DEPARTMENT OF LABOR | | | <u>48,396</u> |
| U.S. DEPARTMENT OF EDUCATION: | | | |
| <i>Direct Programs:</i> | | | |
| Indian Education-Grants to Local Education Agencies | 84.060 | S060A140290 | <u>129,494</u> |
| Total Direct Programs | | | <u>129,494</u> |
| <i>Passed through New York State Department of Education:</i> | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 0021-15-1965 | 3,003,035 |
| Title I Grants to Local Educational Agencies | 84.010 | 0021-14-1965 | <u>144,015</u> |
| Total Title I | | | <u>3,147,050</u> |
| Special Education Cluster: | | | |
| Special Education - Grants to States | 84.027 | 0032-15-0608 | 1,910,254 |
| Special Education - Preschool Grants | 84.173 | 0033-15-0608 | <u>102,098</u> |
| Total Special Education Cluster | | | <u>2,012,352</u> |
| English Language Acquisition State Grants | 84.365 | 0293-15-1965 | 12,990 |
| Mathematics and Science Partnerships | 84.366 | 0294-15-0219 | 375,322 |
| Improving Teacher Quality State Grants | 84.367 | 0147-15-1965 | 633,843 |
| Improving Teacher Quality State Grants | 84.367 | 0147-14-1965 | <u>10,253</u> |
| Total Title IIA | | | <u>1,032,408</u> |

(Continued)

| Federal Grantor /Pass-through Grantor Program or Cluster Title (1) | Federal CFDA Number (2) | Pass-through Identifying Number | Federal Expenditures (3) |
|---|--|--|-------------------------------------|
| Race to the Top, Recovery Act | 84.395 | 5500-15-1965 | 127,087 |
| Race to the Top, Recovery Act | 84.395 | 5580-15-0007 | 72,477 |
| Race to the Top, Recovery Act | 84.395 | 5500-14-1965 | 36,892 |
| Race to the Top, Recovery Act | 84.395 | 5580-14-0007 | 18,940 |
| | | | <u>255,396</u> |
| <i>Passed Through Orleans-Niagara Board of Cooperative Educational Services</i> | | | |
| Race to the Top, Recovery Act | 84.395 | n/a | 36,891 |
| Total Race to the Top, Recovery Act | | | <u>292,287</u> |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | <u>6,613,591</u> |
| TOTAL FEDERAL AWARDS EXPENDED | | | <u>\$ 9,844,057</u> |

(Concluded)

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

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Niagara Falls City School District, New York ("the District") under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a select portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3. NON-MONETARY FEDERAL PROGRAM

The District is the recipient of a federal award program that does not result in cash receipts or disbursements termed a "non-monetary program." During the year ended June 30, 2015, the District used \$201,730 worth of commodities.

4. RECONCILIATION OF FEDERAL AID

Total federal expenditures for the District's 2014-2015 fiscal year is reconciled to Federal Sources as reported in the basic financial statements as follows:

| | |
|--|----------------------|
| Balance per schedule of expenditures of federal awards | \$ 9,844,057 |
| Medicaid reimbursement | <u>301,185</u> |
| Total Federal Sources per financial statements | <u>\$ 10,145,242</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, 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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 5, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies 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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency 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*.

District's Response to Findings

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

Purpose of this Report

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

Drescher & Malecki LLP

November 5, 2015

Certified Public Accountants

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

The Board of Education
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 U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. 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, 2015.

Report on Internal Control Over Compliance

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

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

Drescher & Malecki LLP

November 5, 2015

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

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 the financial statements noted? | ___ Yes | ___ <input checked="" type="checkbox"/> No |

Federal Awards:

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

Internal control over major programs:

- | | | |
|---|---------|---|
| 4. Material weakness(es) identified? | ___ Yes | ___ <input checked="" type="checkbox"/> No |
| 5. Significant deficiency(ies) identified not considered to be material weakness(es)? | ___ Yes | ___ <input checked="" type="checkbox"/> None reported |
| 6. Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))? | ___ Yes | ___ <input checked="" type="checkbox"/> 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 |
| Mathematics and Science Partnerships | 84.366 |

- | | | |
|---|---|-------------------|
| 8. Dollar threshold used to distinguish between Type A and Type B programs? | | \$ <u>300,000</u> |
| 9. Auditee qualified as low-risk auditee? | ___ <input checked="" type="checkbox"/> Yes | ___ No |

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Part II. Financial Statement Findings Section

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

2015-001 – Extraclassroom Activities

- **Receipts and Deposits**

Criteria—All extraclassroom deposit transactions should be supported with complete documentation, including a completed deposit slip signed by 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 and the tax treatment of funds. Additionally, receipts should be deposited in a timely manner and pre-numbered with the number appearing in the corresponding records kept by the Central Treasurer for each school.

Condition and Context—Results of Extraclassroom receipt testing indicated that four deposits out of a sample of twenty-five were not deposited in a timely manner; one school lacked the information as to when the cash receipt was received. Furthermore, cash receipts within one school lacked the source of funds or what purpose for which the cash was collected and one school did not properly complete the sales tax form to determine tax treatment of receipts. Lastly, pre-numbered receipts were not utilized by the elementary schools or middle schools.

Effect or Potential Effect—Risk of misappropriation of extraclassroom assets and errors in financial reporting and noncompliance will sales tax regulations.

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

Recommendation—We recommend that treasurers utilize pre-numbered receipts, ensure that receipts are properly filled out completely and properly, deposits are made in a timely manner and sales tax forms are completed appropriately.

Management's Response—The District provides the treasurers “The Safeguarding, Accounting, and Auditing of Extraclassroom” pamphlets to assist the treasurers in better understanding and implementing extraclassroom internal control procedures. The District will remind all treasurers that deposits should be made at least weekly when receipts exceed \$50 on hand. If receipts on hand are less than \$50 the treasurers can hold the cash in the office safe until they exceed \$50, but must make a deposit at least within two weeks.

- **Cash Management and Student Treasurers**

Criteria—According to the “Safeguarding, Accounting and Auditing of Extraclassroom Activity Funds – Pamphlet 2” issued by the New York State Department of Education, to ensure proper cash management of extraclassroom funds, each activity should have a student treasurer and a faculty advisor and/or central treasurer who keep two independent sets of records.

Condition and Context—Extraclassroom activities should have two independent sets of records maintained for each of the activities to (1) act as a learning tool for the students and (2) provide a system to ensure that the cash raised by students is used to support activities controlled for and by students. We noted that the elementary schools and the middle schools did not have student treasurers maintaining a separate set of records for each activity. Upon further testing it was noted that two schools had errors in their ledgers, including beginning balances which did not agree to prior year's ending balance.

Effect or Potential Effect—Lack of a dual recording system and improper cash management of funds increases the risk of the misappropriation of assets.

Cause—The District is not in compliance with the regulations of extraclassroom activities as set forth by the New York State Department of Education.

Recommendation—We recommend that the District provide extra guidance and oversight to all the schools within the District to ensure that two independent sets of records are being maintained and that proper cash management is occurring.

Management's Response—All treasurers will be reminded of the type of record keeping required by the State and all treasurers will be sent a copy of the extraclassroom handbook for review. Management will also be communicating to central treasurers the proper procedures to be followed when handling disbursements within the schools. Management will also be communicating to central treasurers the proper procedures to be followed surrounding general ledger utilization.

Part III. Federal award findings and questioned costs section

No findings noted.

NIAGARA FALLS CITY SCHOOL DISTRICT, NEW YORK
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

Finding 2014-002 – Time and effort certifications

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 or Context—We reviewed the time and effort certifications of twenty-eight employees paid by this program, noting one employee who lacked a second semi-annual certification.

Cause: The District failed to obtain the necessary time and effort certification.

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

Recommendation—We recommend that the District develop controls to ensure all employees complete the required time and effort certifications in accordance with the OMB guidelines, including multiple reminders of the importance of returning certifications to the District's payroll department.

Management's Corrective Action Plan—The District will mail a notification letter with an unsigned copy of the semi-annual certification document to any employee who has failed to sign and turn in their original copy. Follow up reminders will continue to be sent until a signed copy is returned.

Current Status—Based on review of time and effort certificates, no findings noted as of June 30, 2015.

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