

**JOINT SCHOOLS CONSTRUCTION BOARD
(A BLENDED COMPONENT UNIT OF THE
CITY SCHOOL DISTRICT OF SYRACUSE, NEW YORK)**

**Basic Financial Statements as of
June 30, 2015
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

**JOINT SCHOOLS CONSTRUCTION BOARD
(A BLENDED COMPONENT UNIT OF THE CITY SCHOOL DISTRICT OF
SYRACUSE, NEW YORK)**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	1-6
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position - June 30, 2015	7
Statement of Activities - For the Year Ended June 30, 2015	8
Fund Financial Statements:	
Balance Sheet - June 30, 2015	9
Reconciliation of the Balance Sheet to the Statement of Net Position - June 30, 2015	9
Statement of Revenues, Expenditures and Change in Fund Balance - For the Year Ended June 30, 2015	10
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance to the Statement of Activities - For the Year Ended June 30, 2015	11
Notes to Basic Financial Statements	12-19
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	20-21

INDEPENDENT AUDITOR'S REPORT

December 7, 2015

To the Board of Directors
Joint Schools Construction Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Joint Schools Construction Board (JSCB), a blended component unit of the City School District of Syracuse, New York, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise JSCB's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

(Continued)

INDEPENDENT AUDITOR'S REPORT

(Continued)

Corrections of Error

As described in Note 2 to the financial statements, there was a restatement to increase fund balance of the Joint Schools Construction Board governmental fund, as of July 1, 2014. In addition, there was a restatement to decrease capital assets and accrued liabilities in the governmental activities as of July 1, 2014. The error was the result of an overstatement of accrued liabilities relating to retainage payable. Our opinions are not modified with respect to this matter.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1-6 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 7, 2015 on our consideration of JSCB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 JSCB's internal control over financial reporting and compliance.

JOINT SCHOOLS CONSTRUCTION BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2015

Our discussion and analysis of the Joint Schools Construction Board's (JSCB), a blended component unit of the City School District of Syracuse, New York (the District or Primary Government), financial performance provides an overview of JSCB activities as of and for the year ended June 30, 2015. Please read it in conjunction with the JSCB's basic financial statements, including the notes to the financial statements, which begins on page 12.

The JSCB is a joint venture between the District and the City of Syracuse, New York (the City). The JSCB was created through the City and the Board of Education of the City School District of the City of Syracuse Cooperative School Reconstruction Act (the Act) authorized by New York State through Chapter 58 A-4 of the Laws of 2006 and created through an agreement dated April 1, 2004 by and between the City and the District to manage and administer the design, renovation and financing of existing public school buildings in the District. The JSCB is authorized to act as an agent to enter into contracts on behalf of the District and the Common Council of the City of Syracuse, New York (the Council) for the design, construction, reconstruction and financing of educational facilities in the City in accordance with applicable state and local laws. The JSCB approves all vendor payments related to JSCB projects at its regularly-scheduled meetings.

Legislation was introduced for the amendment of Chapter 58 A-4 of the Laws of 2006 (the Amended Act) to allow the City and the District, under the direction of the JSCB, to fund Phase II of the JSCB's District-wide Reconstruction Program. The Amended Act was adopted and signed by the Governor on October 25, 2013. Certain changes were provided for in the Amended Act to ensure a speedy and efficient transition from Phase I to Phase II.

Both the Act and the Amended Act authorize new and innovative ways to renovate school buildings, and authorize various financing techniques to accomplish the Financial Plan prepared for each separately authorized Phase of the JSCB's District-wide Reconstruction Program. The Financial Plan prepared for each phase must be submitted to the Office of the State Comptroller for review and approval. The Financial Plan prepared for Phase I was dated November 16, 2007, and updated on April 17, 2009. Phase I was sized to fit within the local share cost constraints of the Debt Affordability Model of the Financial Plan as well as address the needs of specifically defined school buildings. Three tranches of bonds were issued to provide project funds. EXCEL monies and grant monies were also available for use on the projects. Bonds were structured based on useful life of projects and expected pattern of state Building Aid reimbursement in order to minimize local share impact.

More detailed information about the JSCB structure and financing is presented in Note 1 to the financial statements.

FINANCIAL HIGHLIGHTS

Project Phase I Overview

Tranche I: During the year, project funds in the amount of \$1.0 million were expended as compared to \$2.4 million for the previous fiscal year.

Tranche II: In the prior year, Tranche II was completed and total project expenditures incurred were \$29.3 million.

Tranche III: During the year, project funds in the amount of \$1.1 million were expended as compared to \$7.5 million for the previous year.

Government-wide Financial Statement Overview

- At June 30, 2015, combined net position was \$10.3 million.
- At June 30, 2015, combined capital assets, net of depreciation were \$112.8 million.
- The total bonds payable, as of June 30, 2015, were \$109 million, a decrease of \$6.5 million from the prior year.

Fund Financial Statement Overview

- The total revenue for the major fund was \$12.7 million which was an increase of \$0.8 million or from the 2013-2014 year. The revenue is mostly comprised of funds passed-through the District from the New York State Education Department.
- The major fund's fund balance decreased by \$1.4 million from \$7.9 million to \$6.5 million due to an excess of expenditures over revenues.

USING THIS ANNUAL REPORT

This annual report consists of two components: MD&A (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of JSCB:

- Government-wide financial statements that include the Statement of Net Position and the Statement of Activities. These statements provide both short-term and long-term information about the activities of the JSCB as a whole.
- Fund financial statements focus on the major fund of JSCB, reporting JSCB's operations in more detail than the government-wide financial statements. The fund financial statements concentrate on the JSCB's major fund.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

USING THIS ANNUAL REPORT (Continued)

Table 1 below summarizes the major features of JSCB's financial statements, including the portion of the JSCB's activities covered and the types of information contained. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

Table 1 - Major Features of the Government-wide and Fund Financial Statements

	Government-wide	Governmental Funds
Scope	Entire JSCB	The major fund of JSCB
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and change in fund balance
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Type of asset/deferred outflows of resources/liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term liabilities included.
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues that are both measurable and available; expenditures when goods or services have been received and the related liability is due and payable

USING THIS ANNUAL REPORT (Continued)

Government-wide Financial Statements

One of the most fundamental and key questions relative to JSCB is *How did we do financially during the course of this past year?* To help answer this question, the Statement of Net Position and the Statement of Activities and Changes in Net Position provide information on JSCB as a whole using accounting methods similar to those used by private-sector companies. These statements present a summary of assets and liabilities, as well as revenues and expenses, using the accrual basis of accounting similar to those methods used by private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report JSCB's net position and how it has changed. Net position is the difference between JSCB's assets and liabilities.

In the Government-wide Statement of Net Position and the Statement of Activities, JSCB's activities are shown as Governmental Activities. The majority JSCB's programs and services are reported here.

Fund Financial Statements

The Fund Financial Statements provide more detailed information about JSCB's funds, focusing on the major fund, rather than JSCB as a whole. Funds are accounting devices JSCB uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- JSCB establishes funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as Federal or State monies).
- JSCB's services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF JSCB AS A WHOLE

Our analysis below focuses on the net position (Table 2) and the change in net position (Table 3) of JSCB's governmental activities.

In Table 2, total governmental assets increased by approximately .2%. Current and Other Assets decreased by approximately \$2.0 million mainly due to bond funded project revenues nearing the end of their funding. Capital Assets increased by approximately \$2.2 million due to capital asset additions of approximately \$2.4 million offset by depreciation expense of approximately \$200 thousand.

Total liabilities decreased by approximately 6.0 % as a result of the maturity and payments on debt.

FINANCIAL ANALYSIS OF JSCB AS A WHOLE (Continued)

JSCB's combined governmental net position increased approximately \$7.4 million.

**Table 2 - Condensed Statement of Net Position
(In Thousands of Dollars)**

	<u>2014 (as restated)</u>	<u>2015</u>	<u>Percentage Change</u>
Current and Other Assets	\$ 11,543	\$ 9,614	(16.7)%
Capital Assets	<u>110,623</u>	<u>112,831</u>	2.0%
Total Assets	<u>122,166</u>	<u>122,445</u>	.2%
Bonds Payable - Due in One Year	6,585	6,880	4.5%
Bonds Payable - Due in More Than One Year	108,997	102,117	(6.3)%
Other liabilities	<u>3,635</u>	<u>3,106</u>	(14.6)%
Total Liabilities	<u>119,217</u>	<u>112,103</u>	(6.0)%
Net Position:			
Net Investment in capital assets	1,744	8,694	
Unrestricted (deficit)	(6,703)	(4,861)	
Restricted	<u>7,908</u>	<u>6,508</u>	
Total net position	<u>\$ 2,949</u>	<u>\$ 10,341</u>	

As shown below in Table 3, the District's total revenues from governmental activities increased by 6.8% or \$800 thousand mostly attributed to the \$600 thousand increase in funding from the New York State Education Department and passed-through the District to JSCB.

Table 3 - Changes in Net Position from Operating Results

	<u>2014</u>	<u>2015</u>	<u>Percentage Change</u>
Revenues			
Capital Grants and Contributions	\$ 11,896,868	\$ 12,701,687	6.8%
Expenses			
General Support	<u>5,468,515</u>	<u>5,309,228</u>	(2.9)%
Change in Net Position	6,428,353	7,392,459	
Beginning Net Position	<u>(3,479,403)</u>	<u>2,948,950</u>	
Ending Net Position	<u>\$ 2,948,950</u>	<u>\$ 10,341,409</u>	

FINANCIAL ANALYSIS OF JSCB AS A WHOLE (Continued)

CAPITAL ASSETS

At June 30, 2015, JSCB had \$112.8 million, net of accumulated depreciation of approximately \$366,000, invested in capital assets, including building improvements and construction in progress. This amount represents a net decrease of \$189,000 related to current year depreciation expense offset by additions of approximately \$2.4 million.

**Table 4 - Capital Assets at Year End
(In Thousands of Dollars)**

	<u>2014 (as restated)</u>	<u>2015</u>	<u>Percentage Change</u>
Buildings and Improvements	\$ 6,985	\$ 6,985	0%
Construction in Progress	<u>103,815</u>	<u>106,211</u>	2.3%
Total Capital Assets	<u>\$ 110,800</u>	<u>\$ 113,196</u>	

More detailed information about JSCB's capital assets is presented in Note 3 to the financial statements.

At June 30, 2015, JSCB had \$109 million of bonds outstanding including bond premiums compared to \$115.6 million last year, an increase of \$6.6 million or 5.7% as a result of no new long-term debt but rather principal payments during the current year. As JSCB continues into Phase II, it is anticipated debt will increase in future years.

More detailed information about the JSCB's long-term liabilities is presented in Note 4 to the financial statements.

CONTACTING JSCB FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of JSCB's finances and to demonstrate the JSCB's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact:

The Commissioner of Finance
Joint Schools Construction Board
City Hall
Syracuse, New York 13202

JOINT SCHOOLS CONSTRUCTION BOARD

STATEMENT OF NET POSITION JUNE 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Restricted cash and cash equivalents	\$ 9,610,380
Other Receivables	3,891
Capital assets, net of accumulated depreciation	<u>112,830,549</u>
Total assets	<u>122,444,820</u>
LIABILITIES	
Payables:	
Accrued expenses	122,294
Due to the District	983,885
Bond anticipation note	2,000,000
Long-term liabilities:	
Due and payable within one year:	
Bonds Payable	6,565,000
Premium on bonds payable	315,041
Due and payable in more than one year:	
Bonds Payable	98,155,000
Premium on bonds payable	<u>3,962,191</u>
Total liabilities	<u>112,103,411</u>
NET POSITION	
Net investment in capital assets	8,694,271
Unrestricted	(4,860,954)
Restricted	<u>6,508,092</u>
Total net position	<u>\$ 10,341,409</u>

The accompanying notes are an integral part of these statements.

JOINT SCHOOLS CONSTRUCTION BOARD

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Expenses</u>	<u>Program Revenues Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Change In Net Position</u>
GOVERNMENTAL ACTIVITIES			
General support	\$ 5,309,228	\$ 12,701,687	\$ 7,392,459
Change in net position			7,392,459
Total net position - beginning of year			\$ 2,948,950
Total net position - end of year			\$ 10,341,409

The accompanying notes are an integral part of these statements.

JOINT SCHOOLS CONSTRUCTION BOARD

BALANCE SHEET JUNE 30, 2015

ASSETS

Cash:		
Restricted cash and cash equivalents	\$	9,610,380
Other Receivables		<u>3,891</u>
Total assets	\$	<u>9,614,271</u>

LIABILITIES

Payables:		
Accrued expenses		122,294
Due to the District		983,885
Bond anticipation note		<u>2,000,000</u>
Total liabilities		<u>3,106,179</u>

FUND BALANCE

Restricted		<u>6,508,092</u>
Total liabilities and fund balance	\$	<u>9,614,271</u>

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2015

Fund balance of the governmental fund	\$	6,508,092
---------------------------------------	----	-----------

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore not reported in the fund as capital assets, but rather as an expenditure as incurred.		112,830,549
--	--	-------------

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the fund.		<u>(108,997,232)</u>
---	--	----------------------

Net position of the governmental activities	\$	<u>10,341,409</u>
---	----	-------------------

The accompanying notes are an integral part of these statements.

JOINT SCHOOLS CONSTRUCTION BOARD

STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2015

REVENUES:

Pass-through New York State funding from the District	\$ 11,705,144
State and local sources	285,991
Federal sources	710,546
Use of money and property	<u>6</u>
Total revenues	<u>12,701,687</u>

EXPENDITURES:

Capital outlay	2,396,566
Debt service:	
Principal	6,270,000
Interest	<u>5,435,144</u>
Total expenditures	<u>14,101,710</u>

Expenditures in excess of revenues (1,400,023)

Net change in fund balance \$ (1,400,023)

FUND BALANCE - beginning of year, as previously reported \$ 5,733,230

Prior period adjustment 2,174,885

FUND BALANCE - beginning of year, as restated 7,908,115

Net change in fund balance (1,400,023)

FUND BALANCE - end of year \$ 6,508,092

The accompanying notes are an integral part of these statements.

JOINT SCHOOLS CONSTRUCTION BOARD

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Change in total fund balance \$ (1,400,023)

*Amounts reported for governmental activities in
the Statement of Activities are different because:*

This is the amount which is earned from the amortization
of the premium on the bond. Amortization is not reported in
the funds. 315,041

Governmental funds report capital asset additions as capital
outlay expenditures. However, in the Statement of
Activities, the cost of those outlays 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. 2,207,441

Payment of debt service principal is an expenditure in the
governmental funds, but repayment reduces
long-term liabilities in the Statement of Net Position. 6,270,000

Change in total net position of government activities \$ 7,392,459

JOINT SCHOOLS CONSTRUCTION BOARD

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Joint Schools Construction Board (JSCB) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Financial Reporting Entity

The City of Syracuse, New York (the City) and the City School District of Syracuse, New York (the District or Primary Government) entered into an agreement (the agreement) in April 2004 to create the joint venture, JSCB. JSCB manages and administers the design, renovation and financing for existing public schools in the District. Under the original agreement, JSCB would continue for five years and could be renewed for an additional five years. The agreement was renewed in April 2009 and April 2014, which included a clause to extend the agreement for the life of the project. In accordance with GASB Statements, JSCB will be reflected as a blended component unit of the District, based on the criteria JSCB almost exclusively benefits the District. The District is a blended component unit of the City.

In connection with the proposed school building improvement program, the Cooperative School Reconstruction Act was approved by the State Legislature and signed into law by the Governor in 2006. The Act authorizes the District to improve seven buildings named in the Act for a total cost of up to \$225 million. The Act authorizes new and innovative ways to renovate the buildings and authorizes financing techniques to accomplish the plan. The Act also allows JSCB to enter into contracts for school projects on behalf of the City and District. JSCB utilized the City of Syracuse Industrial Development Agency (SIDA) as the conduit issuer of financing for Phase I projects.

In May 2013, the Legislature approved an amended version of the Syracuse Cooperative School Reconstruction Act that authorizes a second phase of up to twenty school reconstruction projects for an amount not to exceed \$300 million. Specific schools to be renovated are named in an amendment to the legislation. Individual building projects are to be recommended as part of a comprehensive planning process to be undertaken by the District. The comprehensive plan would include information on financing, project selection, cost estimates, timeframe, and a diversity plan. The plan would consider public input and would be provided to JSCB and the State Comptroller for approval. The legislation also specifically authorizes the use of Bond Anticipation Notes (BANs) issued by the City to finance initial design and planning costs for JSCB projects. The JSCB Phase II bill was signed into law by the Governor in October 2013. Specific schools to be renovated are named in the legislation. Projects at these schools were to be recommended as part of a comprehensive planning process to be undertaken by the District. The planning process is complete and the JSCB approved the Comprehensive Plan in December 2014.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Financial Reporting Entity (Continued)

Financing of JSCB

In accordance with Chapter 58 Pt. A-4 of the Laws of 2006 of the State of New York pursuant to Indenture of Trusts (Series 2008 Project) between SIDA (the Issuer) and M&T Trust Company (the Trustee), School Facility Revenue Bonds, Series 2008A, dated March 12, 2008, totaling \$49,230,000 and Series 2010A, dated December 23, 2010, totaling \$31,470,000, Series 2011A dated July 12, 2011, totaling \$31,860,000 and series 2011B, dated July 12, 2011, totaling \$15,000,000, were issued by SIDA for the purpose of financing a portion of the cost of the project consisting of the design, reconstruction, rehabilitation, and preparing of certain existing school buildings for use by the District.

The series 2008A, 2010A, 2011A and 2011B Bonds are special limited obligations of the issuer payable solely from (i) the payment of installment purchase payments by the District and the City under the Installment Sale Agreement and (ii) the pledge of certain funds, including a bond fund and a debt service reserve fund, under the Indenture. In the event the District and the City fail to make an installment purchase payment under the Installment Sale Agreement, it is provided in the Syracuse Schools Act and the Indenture that, upon receipt by the New York State (the State) Comptroller (the State Comptroller) of a certificate from the Series 2008A, 2010A, 2011A and 2011B Trustee on behalf of the Issuer as to the amount of such failed payment, the State Comptroller shall withhold any state and/or school aid payable to the District or the City to the extent of the amount so stated in such certificate as not having been made, and shall immediately pay over to the Series 2008A, 2010A, 2011A and 2011B Trustee on behalf of the Issuer the amount withheld.

The obligation of the District and the City under the Installment Sale Agreement to pay installment purchase payments is not a general obligation of the District or the City and neither the faith and credit nor the taxing powers of the City is pledged to the payment of installment purchase payments under the Installment Sale Agreement. The obligation of the District and the City under the Installment Sale Agreement to pay installment purchase payments in any fiscal year of the District or the City constitutes a current expense of the District for such fiscal year and shall not constitute an indebtedness or moral obligation of the District, the City or the State within the meaning of any constitutional or statutory provision or other laws of the State. Except for the application of the debt service reserve fund, the only source of moneys available for the payment of the principal of and interest on the Series 2008A, 2010A, 2011A and 2011B Bonds is installment purchase payments made by the District and the City under the Installment Sale Agreement to the extent of State Aid to Education appropriated by the State and available to the District and/or the City and appropriated by the City and the District to make such payments, and the intercept by the State Comptroller of any other state and/or school aid payable to the City or the District to the extent of any installment purchase deficiency.

The Series 2008A, 2010A, 2011A and 2011B Bonds are neither a general obligation of the Issuer, nor a debt or indebtedness of the City or the State and neither the City nor the State shall be liable thereon. The District will be responsible for the maintenance and operation of the facilities constructed and/or repaired with the Series 2008A, 2010A, 2011A and 2011B proceeds.

In the year of issuance, the proceeds of the bonds were deposited in accordance with the respective Indenture Trust Agreement between the Issuer and M&T Bank and the bond proceeds were recorded as other financing sources within the fund financial statements. The related liabilities were recorded in the governmental activities.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities present financial information about the reporting government as a whole. These statements include the financial activities of the overall government in its entirety.

Fund Financial Statements:

The fund financial statements provide information about the major governmental fund, the JSCB Fund. The JSCB Fund is used to account for transactions associated with the design, construction, reconstruction, and financing of public educational facilities in the City. The fund financial statements include the Balance Sheet and the Statement of Revenues, Expenditures and Change in the Fund Balance.

C. Measurement Focus and Basis of Accounting

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 at the time liabilities are incurred, regardless of when the related cash transaction takes place.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. JSCB considers all revenues reported in the governmental funds to be available if the revenues are collected within ninety days after the end of the fiscal year.

Governmental fund expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

D. Restricted Cash and Cash Equivalents

JSCB's cash and cash equivalents consist of restricted cash held for project expenditures/expenses and debt service payments, and the proceeds from bond sales can only be used for the stated purpose of the borrowing. All funds are held in trust in accordance with an indenture trust agreement.

The State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit at commercial banks not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

E. Other Receivables

In both the government-wide financial statements and fund financial statements, receivables consist of all revenues earned at year-end but not yet received.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets, which include buildings and improvements, are reported in the government-wide financial statements. Capital assets are defined by JSCB as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Capital assets are reported at actual cost or estimated historical costs if purchased or constructed. Donated assets, when applicable, will be reported at estimated fair market value at the time received.

JSCB depreciates capital assets using the straight-line method over the estimated useful life of 39 years, beginning in the first month after completion or acquisition of the asset.

G. Accrued Expenses

Accrued liabilities include retainage on capital projects that have not been completed by year end. Five percent of each project's completed work is required to be accrued for until the project has been deemed complete. Accrued expenses in the fund financial statements includes \$16,000 in retainage due and payable on June 30, 2015.

H. Due to the District

A liability due to the District exists at June 30, 2015 as a result of timing differences in funding from the New York State Education Department passed-through the District and debt payments made by JSCB.

I. Pass-through New York State Funding from the District

Funding from the New York State Education Department is passed through the District and used by JSCB to make principal and interest payments on JSCB projects. Funding from the District is to the extent of appropriated funds received from New York State.

J. Equity Classifications

Government-wide Financial Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in capital assets - consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any debt attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net position - reports net position when constraints are placed on the assets either by (1) external groups such as creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position - reports the balance of net position that does not meet the definition of "net investment in capital assets" or "restricted" and is deemed to be available for general use by JSCB.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Equity Classifications (Continued)

Fund Financial Statements

Fund balance is broken down into one of five different classifications: non-spendable, restricted, committed, assigned and unassigned. The classifications serve to inform readers of the financial statements of the extent to which the government is bound to honor constraints on the specific purposes for which resources in a fund can be spent. JSCB has restricted fund balance which meets the same definition as restricted net position as previously described. Funds are restricted for the construction, rehabilitation or repair of public school facilities.

When funds from more than one classification may be used to satisfy an expense/expenditure, it is JSCB's policy to utilize funds with the most restrictive spending constraints first.

K. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of useful lives of capital assets.

L. New Accounting Standards

As of July 1, 2014, JSCB implemented the following new standards issued by GASB:

GASB Statement No. 68 - Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement 27, effective for the year ending June 30, 2015.

GASB Statement No. 69 - Government Combinations and Disposals of Government Operations, effective for the year ending June 30, 2015.

GASB Statement No. 70 - Accounting and Financial Reporting for Nonexchange Financial Guarantees, effective for the year ending June 30, 2015.

GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective for the year ending June 30, 2015.

The implementation of this guidance did not have a significant impact on JSCB's financial statements as of and for the year ended June 30, 2015.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Future Changes in Accounting Standards

GASB Statement No. 72 - *Fair Value Measurement and Application*, effective for the year ending June 30, 2016.

GASB Statement No. 73 - *Accounting and Financial Reporting for Pensions and Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*, effective for the year ending June 30, 2016.

GASB Statement No. 74 - *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, effective for the year ending June 30, 2017.

GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, effective for the year ending June 30, 2018.

GASB Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for the State and Local Governments*, effective for the year ending June 30, 2016.

JSCB will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

2. PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2015, JSCB determined that a financial reporting error was made related to retainage payable for work not completed as of July 1, 2014, in both its Balance Sheet and Statement of Net Position at June 30, 2014. In accordance with Generally Accepted Accounting Principles, corrections of financial reporting errors are made as an adjustment to the opening fund balance in the governmental fund, and the opening capital assets balances of the governmental activities, for the year in which the error is identified. Accordingly, JSCB made a prior period adjustment to decrease the retainage payable and increase fund balance at July 1, 2014 in the governmental fund in the amount of \$2,174,885. In addition, JSCB made a prior period adjustment to decrease the retainage payable and decrease capital assets at July 1, 2014 in the governmental activities, in the amount of \$2,174,885.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015:

	Beginning Balance (restated)	Additions	Disposals/ Transfers	Ending Balance
Buildings and improvements	\$ 6,985,478	\$ -	\$ -	\$ 6,985,478
Construction in progress (not depreciable)	<u>103,814,626</u>	<u>2,396,566</u>	<u>-</u>	<u>106,211,192</u>
Total capital assets	<u>110,800,104</u>	<u>2,396,566</u>	<u>-</u>	<u>113,196,670</u>
Less accumulated depreciation:				
Buildings and improvements	<u>(176,996)</u>	<u>(189,125)</u>	<u>-</u>	<u>(366,121)</u>
Capital assets, net	<u>\$ 110,623,108</u>	<u>\$ 2,207,441</u>	<u>\$ -</u>	<u>\$ 112,830,549</u>

Total depreciation expense of \$189,125 is charged to general support on the Statement of Activities.

4. CAPITAL INDEBTEDNESS

JSCB borrows money in order to meet current operating requirements and to acquire or construct buildings and improvements. For acquisition or construction of buildings and improvements this enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. The provision to be made in future budgets for capital indebtedness represents the amount authorized to be collected in future years from taxpayers and others for liquidation of both current and long-term liabilities.

Long-term Liabilities

Long-term liability activity for the year ended June 30, 2015:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount due in one year
Bonds payable	\$ 110,990,000	\$ -	\$ 6,270,000	\$ 104,720,000	\$ 6,565,000
Premium on bonds payable	<u>4,592,273</u>	<u>-</u>	<u>315,041</u>	<u>4,277,232</u>	<u>315,041</u>
Total	<u>\$ 115,582,273</u>	<u>\$ -</u>	<u>\$ 6,585,041</u>	<u>\$ 108,997,232</u>	<u>\$ 6,880,041</u>

Cash paid for interest on the bonds for the year ended June 30, 2015 was \$5,435,144. This is recorded as a direct expense of the general support expenses in the Statement of Activities.

The current year amortization of the bond premium in the amount of \$315,041 is recorded as a direct reduction of interest expense of the general support expenses in the Statement of Activities.

4. CAPITAL INDEBTEDNESS (Continued)

Bonds payable activity by issuance for the year ended June 30, 2015 is as follows:

<u>Issuance Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2008	2019	4-5%	\$ 39,280,000	\$ -	\$ 2,195,000	\$ 37,085,000
2010	2027	3-5%	28,325,000	-	1,645,000	26,680,000
2011	2020	5.428%	28,385,000	-	2,430,000	25,955,000
2011	2027	5.428%	<u>15,000,000</u>	<u>-</u>	<u>-</u>	<u>15,000,000</u>
			<u>\$110,990,000</u>	<u>\$ -</u>	<u>\$ 6,270,000</u>	<u>\$104,720,000</u>

As of June 30, 2015, amounts due to bonds payable principal and interest in future years are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,565,000	\$ 5,170,619	\$ 11,735,619
2017	6,865,000	4,859,469	11,724,469
2018	7,190,000	4,533,969	11,723,969
2019	7,565,000	4,168,131	11,733,131
2020	7,940,000	3,796,556	11,736,556
2021-2025	45,465,000	13,064,450	58,529,450
2026-2030	<u>23,130,000</u>	<u>3,198,388</u>	<u>26,328,388</u>
Total	<u>\$ 104,720,000</u>	<u>\$ 38,791,582</u>	<u>\$ 143,511,582</u>

Bond Anticipation Note Payable

JSCB may issue bond anticipation notes (BAN), in anticipation of the receipt of revenues. These notes are recorded as a liability of the governmental fund, the JSCB Fund. Bond anticipation notes represent a liability that will be extinguished by the use of bond proceeds when bonds are issued.

In June 2015, JSCB issued a BAN with a stated interest rate of 2.0% that will become due on June 24, 2016.

JSCB's short-term debt activity for the year ended June 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bond Anticipation Note	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ (2,000,000)</u>	<u>\$ 2,000,000</u>

5. CONTINGENCIES AND COMMITMENTS

JSCB is involved with possible legal proceedings arising from its normal course of operations. The likelihood of an unfavorable outcome or estimate of potential loss is indeterminable as of June 30, 2015.

**INDEPENDENT AUDITOR'S 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**

December 7, 2015

To the Board of Directors
Joint Schools Construction Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Joint Schools Construction Board (JSCB), a blended component unit of the City School District of Syracuse, New York, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the JSCB's basic financial statements and have issued our report thereon dated December 7, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered JSCB'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 JSCB's internal control. Accordingly, we do not express an opinion on the effectiveness of the JSCB's internal control.

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

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

432 North Franklin Street, Suite 60
Syracuse, New York 13204
p (315) 476-4004
f (315) 475-1513

www.bonadio.com

(Continued)

20

INDEPENDENT AUDITOR'S 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*

(Continued)

Compliance and Other Matters

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

Purpose of this Report

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