

**AUDITED
BASIC FINANCIAL STATEMENTS**

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD

JUNE 30, 2016

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD

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SECTION A
FINANCIAL SECTION



Independent Auditor's Report

Members of the Board of the
Rochester Joint Schools Construction Board
Rochester, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Rochester Joint Schools Construction Board (RJSCB), a component unit of Rochester City School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise RJSCB'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 major fund of RJSCB, as of June 30, 2016 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.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement basic financial statements. Such missing 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 appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Accounting Standards Board

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016 on our consideration of RJSCB'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 RJSCB's internal control over financial reporting and compliance.

Freed Maxick CPAs, P.C.

Rochester, New York
November 28, 2016

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2016

	RJSCB Fund	Adjustments	Statement of Net Position
ASSETS			
Cash and cash equivalents	\$ 30,079	\$ -	\$ 30,079
Restricted cash and cash equivalents	23,724,497	-	23,724,497
Federal aid receivable	2,263	-	2,263
Prepaid items	10,123	-	10,123
Total assets	<u>23,766,962</u>	<u>-</u>	<u>23,766,962</u>
LIABILITIES			
Accounts payable	7,897,650	-	7,897,650
Retainage payable	-	1,925,050	1,925,050
Due to Rochester City School District	2,781,326	-	2,781,326
Total liabilities	<u>10,678,976</u>	<u>1,925,050</u>	<u>12,604,026</u>
FUND BALANCE/NET POSITION			
Fund Balances:			
Nonspendable	10,123	(10,123)	-
Restricted for capital expenditures	13,069,586	(13,069,586)	-
Assigned	8,277	(8,277)	-
Total fund balances	<u>13,087,986</u>	<u>(13,087,986)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 23,766,962</u>		
Net position:			
Unrestricted		11,162,936	11,162,936
Total net position		<u>\$ 11,162,936</u>	<u>\$ 11,162,936</u>

See notes to basic financial statements.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>RJSCB</u> <u>Fund</u>	<u>Adjustments</u>	<u>Statement of</u> <u>Activities</u>
EXPENDITURES/EXPENSES			
Administration:			
Salaries and benefits	\$ 180,342	\$ -	\$ 180,342
Professional fees	187,976	-	187,976
Insurance	11,436	-	11,436
Miscellaneous office expenses	912	-	912
Total administration	<u>380,666</u>	<u>-</u>	<u>380,666</u>
Capital outlay	<u>44,890,553</u>	<u>1,925,050</u>	<u>46,815,603</u>
Total expenditures	45,271,219	1,925,050	47,196,269
OTHER FINANCING SOURCES (USES)			
Interest	13,491	-	13,491
Transfer from Rochester City School District	350,000	-	350,000
Transfer to Rochester City School District	<u>(2,313,125)</u>	<u>-</u>	<u>(2,313,125)</u>
Total other financing sources (uses)	<u>(1,949,634)</u>	<u>-</u>	<u>(1,949,634)</u>
Excess of revenues over expenditures/ change in net position	(47,220,853)	(1,925,050)	(49,145,903)
Fund balance/net position - beginning of year	<u>60,308,839</u>	<u>-</u>	<u>60,308,839</u>
Fund balance/net position - end of year	<u>\$ 13,087,986</u>	<u>\$ (1,925,050)</u>	<u>\$ 11,162,936</u>

See notes to basic financial statements.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Rochester Joint Schools Construction Board (RJSCB) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 RJSCB's accounting policies are described below.

A. REPORTING ENTITY

The State Legislature enacted the School Facilities Modernization Program (FMP) Act, Chapter 416 of the Laws of 2007 of the State of New York (the Act) in order to provide the City of Rochester (COR) and the Rochester City School District (RCSD) with increased flexibility to meet the needs of its school children by providing alternative financial mechanisms for the School District (as defined in the Act). The Act designates RJSCB to act as an agent for the City, the School District, or both to undertake such facility modernization projects on behalf of the City and the School District.

The governing board is made up of seven voting members and one nonvoting member. Three of the voting members are appointed by the Mayor of the City of Rochester, three of the voting members are appointed by the Superintendent of the Board of Education of the Rochester City School District, and one of the voting members is independent of both the City and the School District. The nonvoting member acts as the independent compliance officer.

RJSCB is considered a blended component unit of the Rochester City School District and is included as such within the Rochester City School District's financial statements.

B. BASIS OF PRESENTATION

RJSCB uses fund accounting to report on the financial position and the results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts that constitute its assets, liabilities, fund equity, revenues and expenditures.

RJSCB records its transactions in the fund type described below.

Governmental Funds - Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is based upon determination of financial position and changes in financial position.

C. 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 Statement of Net Position and Statement of Activities 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 the timing of related cash flows.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Fund Balance Sheet and Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances 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. Retainages payable do not meet the definition of a liability under the modified accrual basis of accounting and are therefore only included as a liability in the Statement of Net Position.

D. BUDGET

RJSCB has developed a budget for each project under the facilities modernization plan. These budgets have been submitted and approved by the New York State Education Department.

RJSCB has also established an administrative budget that has been approved by its Board and the Board of Education of Rochester City School District.

E. ASSETS, LIABILITIES AND NET POSITION/FUND BALANCE

1. CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

2. RESTRICTED CASH AND CASH EQUIVALENTS

Certain assets are classified on the balance sheet as restricted because their use is limited. Proceeds from serial bonds and bond anticipation notes, as well as resources set aside for their repayment, are classified as restricted assets and their use is limited by applicable bond covenants.

3. INSURANCE

RJSCB insures against liability for most risks including, but not limited to, property damage and personal injury liability. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated.

4. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items are recorded as expenditures/expenses when consumed rather than when purchased.

These assets are classified as nonspendable to signify that portion of fund balance that is not in a spendable form.

5. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. The separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The RJSCB has no items that qualified for reporting in this category.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The RJSCB has no items that qualified for reporting in this category.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

In the governmental fund, payables and accrued liabilities are paid in full from current financial resources. Refer to Note 2.B., for a detailed disclosure of accounts payable.

7. NET POSITION FLOW ASSUMPTION

Sometimes the RJSCB 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 Statement of Activities, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the RJSCB's policy that all administrative expenditures are applied to unrestricted-net position and all eligible project expenditures are applied to restricted-net position.

8. FUND BALANCE FLOW ASSUMPTIONS

Sometimes the RJSCB 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 Balance Sheet a flow assumption must be made about the order in which the resources are considered to be applied.

It is the RJSCB's policy that all project related expenditures are applied to restricted fund balance and all administrative expenditures are applied to unrestricted fund balance, and specifically assigned fund balance as a component unit of Rochester City School District.

9. FUND BALANCE POLICIES

Fund balance is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. RJSCB itself can establish limitations on the use of resources through a commitment (committed 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 RJSCB's Board by adoption of a resolution prior to the end of the fiscal year. 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.

The assigned fund balance classification is to be used by RJSCB for all other purposes that do not meet the criteria to be classified as committed or restricted fund balance.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. USE OF ESTIMATES IN PREPARATION OF FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

G. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 28, 2016 which is the date these financial statements are available for issuance, and have determined there are no subsequent events that require disclosure under generally accepted accounting principles other than the issuance of debt referred to in Note 6.

NOTE 2. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. DEPOSITS AND INVESTMENTS

As a component unit of the Rochester City School District and thus a component unit of the City of Rochester, the RJSCB follows investment and deposit policies of the City as governed by General Municipal Law with the exception of deposits held by U.S. Bank National Trust Association. Although, RJSCB has not adopted a formal investment policy, its monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Treasurer of RJSCB is authorized to use interest bearing demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and obligations of the State of New York or its localities.

Collateral is required for demand deposits, time deposits and certificates of deposit not covered by Federal Deposit 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.

RJSCB's aggregate bank balances were fully collateralized at June 30, 2016.

Deposits held by the U.S. Bank National Trust Association are subject to the terms of an Indenture of Trust (Indenture) relating to the School Facility Revenue Bonds, series 2012A, Series 2012B, Series 2013A and Series 2015 issued by the County of Monroe Industrial Development Agency (the Series 2012, 2013 and 2015 Bonds). As such, they are not subject to the City's investment policies or General Municipal Law. These are separate trust assets that provide collateral to bondholders and are invested in government securities.

Investment and Deposit Policy

As a component unit of the Rochester City School District and thus a component unit of the City of Rochester, the RJSCB follows investment and deposit policies of the City as governed by General Municipal Law, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; conformance with federal, state and other legal requirements; and provide sufficient liquidity of invested funds in order to meet obligations as they become due. Oversight of investment activity is the responsibility of the Treasurer of RJSCB.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS (Continued)

Credit Risk

The practices followed are to minimize the risk of loss due to failure of an issuer or other counterparty to an investment to fulfill its obligations. RJSCB's investment and deposit practice authorizes the reporting entity to purchase the following types of investments:

- Interest bearing demand accounts.
- Certificates of deposit.
- Obligations of the United States Treasury and United States agencies.
- Obligations of the New York State and its localities.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the reporting entity may not recover its deposits. In accordance with RJSCB's investment and deposit practices, all deposits of RJSCB including interest bearing demand accounts and certificates of deposit in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) shall be secured by a pledge of securities with an aggregate value equal to 100% of the aggregate amount of deposits. RJSCB restricts the securities to the following eligible items:

- Obligations issued, fully insured or guaranteed as to the payment of principal and interest, by the United States Treasury and United States agencies.
- Obligations issued or fully insured or guaranteed by New York State and its localities.

B. ACCOUNTS PAYABLE

Major accounts payable accrued by RJSCB include the following:

Architects Services	\$ 916,959
Program Manager	875,846
Consulting Services	212,240
Construction Manager	1,758,134
General Contractors	3,835,191
Miscellaneous	<u>299,280</u>
Total	<u>\$ 7,897,650</u>

NOTE 3. RELATED PARTIES

During the year ended June 30, 2016, RJSCB received \$350,000 in operating transfers from the School District, of which RJSCB is a blended component unit. Operating transfers from the School District are used to fund administrative expenditures of the RJSCB.

During the year ended June 30, 2016, RJSCB transferred \$2,313,125 to the School District for interest due on debt service obligations.

At June 30, 2016, RJSCB had outstanding invoices payable to RCSD in the amount of \$81,326 which were included in the amount due to Rochester City School District. These amounts are a result of utilities, custodian fees, moving expenses incurred by the School District related to facilities under construction.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4. COMMITMENTS

RJSCB is empowered with governance of Phase I and II of the FMP. Phase I will include up to 13 projects financed through the issuance of a maximum of \$325 million in bonds and is in the final stages. Phase II began in 2016 and is expected to be completed in 2021. Plan II currently includes 13 projects financed through the issuance of a maximum of \$435 million in bonds. With Phases II and III, the Rochester Schools FMP projects are expected to span nearly two decades, with total costs of approximately \$1.2 billion.

NOTE 5. RETIREMENT PLAN

The RJSCB adopted a deferred compensation plan described in Section 457 of the Internal Revenue Code applicable to governmental employers. Eligible employees who participate in the plan are 100% vested in the plan in accordance with the terms of the plan document. RJSCB has no intentions to contribute any amounts to the plan.

NOTE 6. SUBSEQUENT EVENT

A bond anticipation note (BAN) was issued in August 2016 in the amount of \$32 million by the City of Rochester on behalf of the RJSCB. These funds will be used to provide interim financing for certain costs of design and improvements to the Rochester City School District that are related to Phase II of the Rochester Joint School Construction Board Facilities Modernization Program.

SECTION B
COMPLIANCE AND INTERNAL CONTROLS

**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**

INDEPENDENT AUDITOR'S REPORT

To the Board Members of
Rochester 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 major fund of the Rochester Joint Schools Construction Board (RJSCB), a component unit of Rochester City School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise RJSCB's basic financial statements, and have issued our report thereon dated November 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RJSCB's internal control over 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 of the effectiveness of RJSCB's internal control. Accordingly, we do not express an opinion on the effectiveness of RJSCB'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 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 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RJSCB'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 RJSCB's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering RJSCB's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Freed Maxick CPAs, P.C.

Rochester, New York
November 28, 2016