

FINANCIAL STATEMENTS
ROCHESTER JOINT SCHOOLS
CONSTRUCTION BOARD

JUNE 30, 2011
with
INDEPENDENT AUDITOR'S REPORT

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD

TABLE OF CONTENTS

Page

SECTION A
FINANCIAL SECTION

Independent Auditor's Report

Basic Financial Statements:

| | |
|--|-------|
| Balance Sheet - Governmental Fund | A1 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Fund | A2 |
| Notes to Basic Financial Statements | A3-A8 |

SECTION B
COMPLIANCE AND INTERNAL CONTROLS

| | |
|--|-------|
| 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> | B1-B2 |
| Schedule of Findings and Responses | B3-B4 |

SECTION A
FINANCIAL SECTION



Independent Auditor's Report

The Chairman and Members of the
Board of the Rochester Joint Schools Construction Board
Rochester, New York

We have audited the accompanying financial statements of the governmental fund of Rochester Joint Schools Construction Board (RJSCB), a component unit of Rochester City School District, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of RJSCB's management. Our responsibility is to express opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental fund of RJSCB as of June 30, 2011, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As stated in Note 2, RJSCB adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 61, *The Reporting Entity; Omnibus* in the current year.

RJSCB has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Freed Maxick & Battaglia, CPAs, PC

Rochester, New York
November 14, 2011



ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
(A COMPONENT UNIT OF ROCHESTER CITY SCHOOL DISTRICT)
GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
JUNE 30, 2011

| | <u>General Fund</u> | <u>Adjustments</u> | <u>Statement of Net Assets</u> |
|--|-------------------------|---------------------------|------------------------------------|
| ASSETS: | | | |
| Cash and cash equivalents | \$ 18,831 | \$ - | \$ 18,831 |
| Accounts receivable | <u>30</u> | <u>-</u> | <u>30</u> |
| Total assets | <u>\$ 18,861</u> | <u>\$ -</u> | <u>\$ 18,861</u> |
| LIABILITIES AND FUND BALANCE: | | | |
| LIABILITIES: | | | |
| Accounts payable | \$ 2,683,094 | \$ - | \$ 2,683,094 |
| Accrued liabilities | <u>19,102</u> | <u>-</u> | <u>19,102</u> |
| Total liabilities | <u>2,702,196</u> | <u>-</u> | <u>2,702,196</u> |
| FUND BALANCE: | | | |
| Unassigned (deficit) | <u>(2,683,335)</u> | <u>2,683,335</u> | <u>-</u> |
| Total fund balance (deficit) | <u>(2,683,335)</u> | <u>2,683,335</u> | <u>-</u> |
| Total liabilities and fund balance (deficit) | <u>\$ 18,861</u> | | |
| NET ASSETS: | | | |
| Unrestricted (deficit) | | <u>(2,683,335)</u> | <u>(2,683,335)</u> |
| Total net assets (deficit) | | <u>\$ (2,683,335)</u> | <u>\$ (2,683,335)</u> |

See notes to basic financial statements.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
(A COMPONENT UNIT OF ROCHESTER CITY SCHOOL DISTRICT)
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

| | <u>General</u> <u>Fund</u> | <u>Adjustments</u> | <u>Statement of</u> <u>Activities</u> |
|--|-------------------------------|--------------------|--|
| EXPENDITURES: | | | |
| Salaries | \$ 49,812 | \$ - | \$ 49,812 |
| Insurance | 5,223 | - | 5,223 |
| Legal services | 143,919 | - | 143,919 |
| Miscellaneous | 17,765 | - | 17,765 |
| Total administration | <u>216,719</u> | - | <u>216,719</u> |
| Capital outlay | <u>2,683,094</u> | - | <u>2,683,094</u> |
| Total expenditures | <u>2,899,813</u> | - | <u>2,899,813</u> |
| Deficit of revenues over expenditures | (2,899,813) | - | (2,899,813) |
| OTHER FINANCING SOURCE: | | | |
| Transfer from Rochester City School District | <u>216,478</u> | - | <u>216,478</u> |
| Net change in fund balance/net assets | (2,683,335) | - | (2,683,335) |
| Fund balance/net assets: | | | |
| Beginning of year | - | - | - |
| End of year | <u>\$ (2,683,335)</u> | <u>\$ -</u> | <u>\$ (2,683,335)</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. FINANCIAL REPORTING ENTITY

The State Legislature enacted the School Facilities Modernization Program Act, Chapter 416 of the Laws of 2007 of the State of New York (the Act) in order to provide the City and the School District with increased flexibility to meet the needs of its school children by providing alternative financial mechanisms for up to thirteen "projects" (as defined in the Act) in the School District. 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 to be 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.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The basis of accounting determines when revenues and expenditures are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. Measurement focus is the determination of what is measured. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are included in the fund types on the balance sheet. Operating statements of these fund types present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in fund balance.

The governmental fund 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. RJSCB considers all revenues reported in the governmental fund to be available if the revenues are collected within sixty days after the end of the fiscal year. Transfers into RJSCB are reported as other financing sources. Expenditures are recorded when the related fund liability is incurred.

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. 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.

F. ACCRUED LIABILITIES

In the governmental fund, payables and accrued liabilities are paid in full from current financial resources. Refer to Note 3., B., 1., for a detailed disclosure of accounts payable.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. FUND EQUITY

Unassigned - Includes all net assets that do not meet the definition of non-spendable, restricted, committed or assigned and are deemed to be available for general use by RJSCB. At June 30, 2011 all of RJSCB's net assets were unassigned.

- Non-spendable fund balance - Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.
- Restricted - Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- Committed - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of RJSCB's highest level of decision making authority.
- Assigned - Includes amounts that are constrained by RJSCB's intent to be used for specific purposes, but are neither restricted nor committed.

H. 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.

NOTE 2 - ACCOUNTING PRINCIPLES ADOPTED

For the year ended June 30, 2011, RJSCB implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 requires RJSCB to report fund balances as non-spendable, restricted, committed, assigned and unassigned. Details relating to RJSCB's fund balance classifications are provided at Note 1, I. RJSCB also implemented GASB Statement No. 61, *The Reporting Entity; Omnibus* during the current year. Upon implementation, it was determined RJSCB is to be reported as a blended component unit of the Rochester City School District. There are no component units that are required to be included in the financial statements of RJSCB.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

A. ASSETS

1. 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. 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 Executive Director 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 boards.

RJSCB's aggregate bank balances were fully covered by Federal Deposit Insurance at June 30, 2011.

Investment and Deposit Policy

RJSCB implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

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 Executive Director of RJSCB.

Interest Rate Risk

Interest rate risk is the risk that the fair value of investments will be affected by changing interest rates.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3 - DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (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 practices 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 the New York State and its localities.

B. LIABILITIES

1. ACCOUNTS PAYABLE

Major accounts payable accrued by RJSCB include the following:

| | |
|---------------------|---------------------|
| Architects Services | \$ 788,746 |
| Program Manager | 1,611,648 |
| Consulting Services | 110,119 |
| Miscellaneous | <u>172,581</u> |
| Total | \$ <u>2,683,094</u> |

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 4 - RELATED PARTIES

During the year ended June 30, 2011, RJSCB received \$216,478 in operating transfers from the Rochester City School District, of which RJSCB is a blended component unit. Operating transfers from Rochester City School District are used to fund administrative expenditures of the RJSCB.

NOTE 5 - STEWARDSHIP, COMPLIANCE, ACCOUNTABILITY

DEFICIT FUND BALANCE

RJSCB reported a deficit fund balance of \$2,683,335 at June 30, 2011. Subsequent to year end the City of Rochester issued bond anticipation notes totaling \$28,770,000, the proceeds of which will be transferred to RJSCB to finance costs of preliminary engineering and design work on various projects and to eliminate the deficit fund balance.

NOTE 6 - COMMITMENTS

RJSCB is empowered with governance of Phase I of the Rochester City School District's Schools Modernization Program (RSMP). Phase I will include up to 13 projects financed through the issuance of a maximum of \$325 million in bonds. With Phases II and III, the Rochester Schools Modernization Program is expected to span nearly two decades, totaling approximately \$1.2 billion.

NOTE 7 - SUBSEQUENT EVENT

Subsequent to June 30, 2011, RJSCB adopted a deferred compensation plan for the Executive Director.

SECTION B
COMPLIANCE AND INTERNAL CONTROLS



**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**

To the Board Members of
Rochester Joint Schools Construction Board:

We have audited the financial statements of Rochester Joint Schools Construction Board (RJSCB), a component unit of Rochester City School District, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 14, 2011. 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.

Internal Control Over Financial Reporting

Management of RJSCB is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the RJSCB's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RJSCB's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the RJSCB's internal control over financial reporting.

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.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying Schedule of Findings and Responses as item 11-1 that we consider to be a significant deficiency in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RJSCB's financial statements are free of 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 is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the RJSCB, management of RJSCB and the New York State Office of the State Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

Freed Maxick & Battaglia, CPAs, PC

Rochester, NY
November 14, 2011

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

I. SUMMARY OF AUDIT RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes No

Noncompliance material to financial statements noted? Yes No

II. FINDINGS - FINANCIAL STATEMENT AUDIT

11-1. Financial Accounting and Reporting

Criteria: Although the RJSCB had minimal financial activity during the current fiscal year, the lack of a formal accounting system and lack of timely bank reconciliations results in a significant deficiency in RJSCB's internal control over financial reporting.

Condition: During our audit, we noted the RJSCB did not have an accounting system in place throughout the year to record and reconcile accounting transactions. During the year the RJSCB recorded its financial transactions using an Excel spreadsheet based on information provided by the Project Manager. The lack of an accounting system stemmed from the fact that the RJSCB was just becoming financially active with a nominal number of financial transactions occurring during the current fiscal year.

This weakness subjects RJSCB to the risk that a material misstatement in the accounting records and financial statements could go undetected. In addition, due to the structure and process flow of information and financial documents, there is a reasonable possibility that an error could occur and go undetected by the individuals responsible for financial reporting. During our testing, we also noted that timely bank reconciliations were not prepared.

Cause: A formal accounting system was not developed when RJSCB was first organized and operations first began.

Effect: Material misstatements could exist in RJSCB's internal accounting records as well as their financial statements.

ROCHESTER JOINT SCHOOLS CONSTRUCTION BOARD
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

II. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Recommendation: We recommend that the RJSCB implement a formal accounting system and effectively communicate financial transactions to Rochester City School District who is responsible for maintaining the accounting records on behalf of the RJSCB. We further recommend that the RJSCB implement procedures to ensure accounting information is accurately communicated to the School District.

Management Response: Although this was not a significant issue during the current fiscal year, we recognize this could be a significant problem in future years if not addressed. Accordingly, we will implement the above recommendation.