

INTERNAL CONTROL MATTERS

October 21, 2013

To the Board of Education of
Eastern Suffolk BOCES

Dear Board Members:

We have completed our audit of the financial statements of the Eastern Suffolk BOCES (BOCES) as of June 30, 2013, and have issued our report thereon, dated October 21, 2013.

In planning and performing our audit of the financial statements of the BOCES for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the BOCES's internal control over financial reporting (internal control) 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 the BOCES's internal control. Accordingly, we do not express an opinion on the effectiveness of the BOCES's internal control.

The financial statements include all required communications regarding internal control. During our audit, we became aware of other matters that are not necessary to be reported in the required reports, however, we are presenting them here for your consideration.

Current Year Comments

Encumbrance accounting

Observation: We noted that the BOCES does not review each transaction individually to determine if it should be an encumbrance or a payable. As a result, audit adjustments were recorded to accrue for expenditures of the fiscal year.

Suggestion: We recommend that the BOCES review their procedures for recording encumbrances and review all significant outstanding encumbrances at year end to determine that proper treatment.

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Extraclassroom Receipts

Observation: We noted that certain extraclassroom receipts were not supported by adequate documentation.

Suggestion: The students and advisors should provide a reconciliation of actual and expected receipts from fundraisers. The following are some suggestions of how this can be accomplished:

- For events, pre-numbered tickets should be used and then reconciled to total sales.
- For the sale of items, an inventory should be kept of the items for sale and reconciled to receipts.
- For the sale of items where money is collected before the items are delivered, a list of all money collected and from whom, should be submitted with the receipt. That will make it clearer how much money was paid in the event of a refund.

Extraclassroom Disbursements and Receipts recording

Observation: During our testing of disbursement for the extraclassroom programs, it was noticed that certain receipts and disbursements that needed to be approved and paid for in the 2011-2012 year had not made it to the Central Treasurer for payment or deposit until the 2012-2013 year.

Suggestion: In order to ensure timely recording and processing of payments, all checks requested and deposits to be made should be sent to the Central Treasurer as soon as they are approved by the Faculty Advisor and the Student Treasurer.

Very truly yours,

BONADIO & CO., LLP

October 21, 2013

To the Board of Education of
Eastern Suffolk BOCES

REQUIRED COMMUNICATIONS

Dear Board Members:

We have audited the financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of Eastern Suffolk BOCES for the year ended June 30, 2013, and have issued our report on the date of this letter. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 29, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As discussed in Note 1 to the financial statements, the District adopted GASB Statement No. 63, *Financial Reporting of Deferred Inflows of Resources, Deferred Outflows of Resources, and Net Position*. The primary impact on the financial statements was to change the terminology previously used of "net assets" to "net position" throughout the financial statements and related footnotes. As described in Note 17 to the financial statements, the BOCES changed accounting policy as it related to Compensated Absence reporting restating the amount recorded in short term liabilities to the employee benefit liability reserve, in 2012. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. We noted no transactions entered into by the district during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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Significant Audit Findings (Continued)

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of accrued compensated absences is based on estimated hours and pay rates as of June 30, 2013. We evaluated the key factors and assumptions to develop the accrual in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net book value of fixed assets is based on estimated historical cost for assets and historical cost for assets. We evaluated the key factors and assumptions to develop the net book value of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the other postemployment benefits is based on an actuarial calculation from a third party actuary.

We evaluated the key factors and assumptions used to develop each estimate described above in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of capital assets in Note 6 to the financial statements describes the historical cost of the buildings, furniture and equipment, and improvements. Note 6 also discloses the current year activity for these classifications.

The disclosure of other postemployment benefits in Note 11 to the financial statements describes the assumptions used and the components of the actuarial determined obligation.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representations letter dated October 21, 2013.

Management Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Eastern Suffolk BOCES' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Education and management of Eastern Suffolk BOCES and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Bonadio & Co., LLP

BONADIO & CO., LLP

**Eastern Suffolk Board of
Cooperative Educational Services**

**Financial Statements and Required Reports
Under OMB Circular A-133 as of
June 30, 2013**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

October 21, 2013

To the Board of Education of
Eastern Suffolk Board of
Cooperative Educational Services:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Suffolk Board of Cooperative Educational Services (the "BOCES") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the BOCES' 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.

(Continued)

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INDEPENDENT AUDITOR'S REPORT (Continued)

Opinions

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

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 40 through 41 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the BOCES' financial statements as a whole. The supplemental information on pages 42 through 44, as required by the New York State Education Department, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole. The supplementary information included on pages 42 through 44 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2013 on our consideration of the BOCES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BOCES' internal control over financial reporting and compliance.

**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

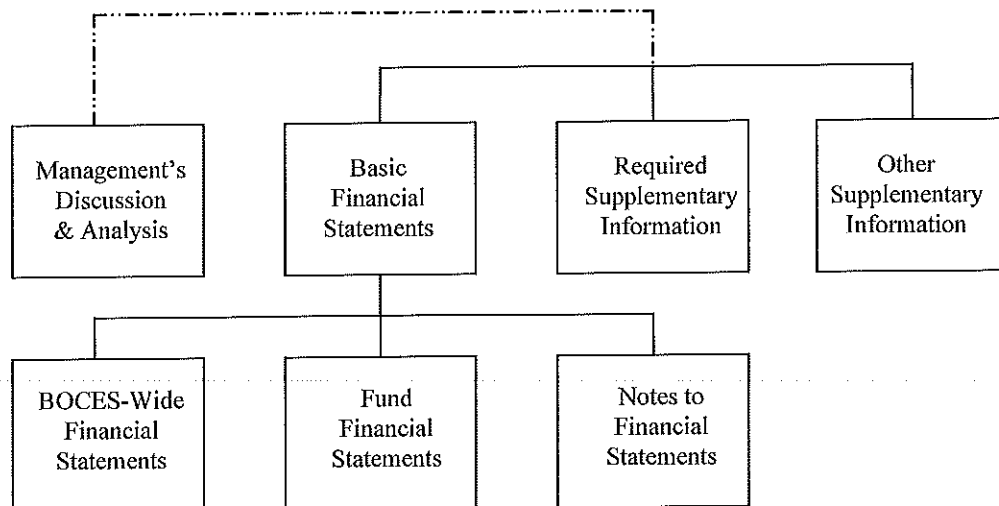
The following is a discussion and analysis of the BOCES' financial performance for the year ended June 30, 2013. This section is a summary of the BOCES' financial activities based on currently known facts, decisions and conditions. It is also based on both the BOCES-wide and fund-based financial statements. This section is only an introduction and should be read in conjunction with the BOCES' financial statements, which immediately follow this section.

1. FINANCIAL HIGHLIGHTS

- The BOCES' total net position, as reflected in the BOCES-wide financial statements, decreased by \$21,395,923. The primary factor contributing to this decrease was due to the increase in the Other Postemployment Liabilities by \$22,821,134.
- During the year, the BOCES had expenses in excess of program revenues of \$22,568,097 which was partially offset by \$1,172,174 generated in interest, Sale of Property and Compensation for Loss and State and Local Sources.
- Program revenues included \$301,743,914 in Charges for Services and \$15,665,343 in Operating Grants and Contributions, which together comprise approximately 99.6% of total revenues.
- BOCES total General Fund revenue for 2013 was \$299,420,165. Approximately \$277,072,067 of these revenues are from the billings for administration and other services to the component districts of the BOCES.
- The BOCES is required to return surplus billings in the subsequent year. During 2013-2014, \$5,444,313 of the surplus from the prior year will be returned. During 2012-2013, \$5,831,518 of the surplus from the prior year was returned.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts: MD&A (this section), the financial statements, required supplementary information, and other supplementary information. The basic financial statements consist of BOCES-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationship of these statements is as follows:



**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

2. OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

- The first two statements are BOCES-wide financial statements that provide both short-term and long-term information about the BOCES' overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the BOCES, reporting the BOCES' operations in more detail than the BOCES-wide statements. The fund financial statements concentrate on the BOCES' most significant funds.
- The governmental funds statements disclose how basic services such as regular and special education were financed in the short term, as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the BOCES acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the BOCES' budget for the year.

BOCES-Wide Statements

The BOCES-wide statements report information about the BOCES as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the BOCES' assets and liabilities. 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 BOCES-wide statements report the BOCES' net position and how they have changed. Net Position – the difference between the BOCES' assets and liabilities – is one way to measure the BOCES' financial health or position.

- Over time, increases or decreases in the BOCES' net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the BOCES' overall health, consider additional nonfinancial factors such as changes in the BOCES' contracts with component school districts and the condition of BOCES' buildings and other facilities.

In the BOCES-wide financial statements, the BOCES' activities are shown as Governmental activities. Most of the BOCES' basic services are included here, such as regular and special education, instructional support, and administration. Charges for Services finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the BOCES' funds, focusing on its most significant or "major" funds – not the BOCES as a whole. Funds are accounting devices the BOCES use to keep track of specific sources of funding and spending on particular programs:

- Certain funds are required by State law and by bond covenants.
- The BOCES establishes other 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 grants).

The BOCES has two types of funds:

- **Governmental Funds:** All of the BOCES' basic 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 allows the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the BOCES' programs.

**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

2. OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Because this information does not encompass the additional long-term focus of the BOCES-wide statements, additional information can be found on pages 14 and 16 which reconciles the BOCES-wide financial statements to the fund financial statements.

- **Fiduciary Funds:** The BOCES is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The BOCES is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The BOCES excludes these activities from the BOCES-wide financial statements because it cannot use these assets to finance its operations.

3. FINANCIAL ANALYSIS OF THE BOCES AS A WHOLE

B. Net Position

The BOCES total net position decreased \$21,395,923 between fiscal year 2012 and 2013. A summary of the BOCES Statement of Net Position for the June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Current and Other Assets	\$ 100,207,464	\$ 92,469,190	\$ 7,738,274	8.4%
Capital Assets, (Net of Accumulated Depreciation)	<u>57,099,457</u>	<u>57,050,747</u>	<u>48,710</u>	0.1%
Total Assets	<u>\$ 157,306,921</u>	<u>\$ 149,519,937</u>	<u>\$ 7,786,984</u>	5.2%
Non-Current Liabilities	\$ 209,706,021	\$ 188,311,352	\$ 21,394,669	11.4%
Other Liabilities	<u>50,462,039</u>	<u>42,673,801</u>	<u>7,788,238</u>	18.3%
Total Liabilities	<u>\$ 260,168,060</u>	<u>\$ 230,985,153</u>	<u>\$ 29,182,907</u>	12.6%
Investment in Capital Assets	\$ 47,098,382	\$ 46,213,439	\$ 884,943	1.9%
Restricted	34,816,523	4,212,050	30,604,473	726.6%
Unrestricted	<u>(184,776,044)</u>	<u>(131,890,705)</u>	<u>(52,885,339)</u>	-40.1%
Total Net Position	<u>\$ (102,861,139)</u>	<u>\$ (81,465,216)</u>	<u>\$ (21,395,923)</u>	-26.3%

Current and other assets increased by \$7,738,274, as compared to the prior year. The increase is primarily due to an increase in the BOCES' amounts due from component districts.

Capital assets increased by \$48,710, as compared to the prior year. This increase is primarily due to capital additions exceeding depreciation expense for the year. Note 6 to the Financial Statements provides additional information.

Non-current liabilities increased by \$21,394,669, as compared to the prior year. This increase is primarily the result of the increase in the Other Postemployment Benefits by \$22,821,134.

Other liabilities increased by \$7,788,238 as compared to the prior year. This increase is primarily a result of an increase in accounts payable and an increase in amounts due to the Teachers' Retirement System.

The net assets invested in capital assets is calculated by subtracting the amount of outstanding debt used for construction from the total cost of all asset acquisitions, net of accumulated depreciation. The total cost of these acquisitions includes expenditures to purchase land, construct and improve buildings and purchase vehicles, equipment and furniture to support BOCES' operations.

**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

3. FINANCIAL ANALYSIS OF THE BOCES AS A WHOLE (Continued)

B. Net Position

The unrestricted net assets at June 30, 2013, is a deficit \$184,776,044, which represents the amount by which the BOCES' assets other than capital assets exceeded the BOCES' liabilities, excluding debt related to capital construction and capital assets and restricted assets. The main contributor to this deficit is the accrued Other Postemployment Benefit Liabilities for \$155,526,831 at June 30, 2013.

C. Changes in Net Assets

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format in the accompanying financial statements. A summary of this statement for the years ended June 30, 2013 and 2012 is as follows:

	2013	(Restated) 2012	Increase (Decrease)	Percentage Change
Revenues				
Program Revenues				
Charges for Services	\$ 301,743,914	\$ 297,683,075	\$ 4,060,839	1.4%
Operating Grants	15,665,343	18,243,683	(2,578,340)	-14.1%
General Revenues				
State and Federal Sources	1,199,438	1,401,361	(201,923)	-14.4%
Interest and Earnings	46,519	68,124	(21,605)	-31.7%
Sales of Property and Compensation for Loss	<u>(73,783)</u>	<u>130,317</u>	<u>(204,100)</u>	156.6%
Total Revenues	<u>318,581,431</u>	<u>317,526,560</u>	<u>1,054,871</u>	0.3%
Expenses				
Administration	36,259,121	34,758,592	1,500,529	4.3%
Occupation Instruction	32,601,133	35,085,426	(2,484,293)	-7.1%
Instruction for Special Needs	171,487,654	170,340,747	1,146,907	0.7%
Itinerant Services	6,993,422	6,954,750	38,672	0.6%
General Instruction	11,855,257	11,921,429	(66,172)	-0.6%
Instructional Support	23,020,889	22,483,069	537,820	2.4%
Other Services	56,654,254	61,225,516	(4,571,262)	-7.5%
Internal Services	346,889	220,924	125,965	57.0%
School Lunch Program	<u>758,735</u>	<u>767,936</u>	<u>(9,201)</u>	-1.2%
Total Expenses	<u>339,977,354</u>	<u>343,758,389</u>	<u>(3,781,035)</u>	-1.1%
Total Change in Net Assets	<u>\$ (21,395,923)</u>	<u>\$ (26,231,829)</u>	<u>\$ 4,835,906</u>	

The BOCES' revenues increased by \$1,054,871 in 2013 or 0.3%. The major factors that contributed to the increase were:

- Charges for Services increased by \$4,060,839.
- Decrease to the operating grants by \$2,578,340.

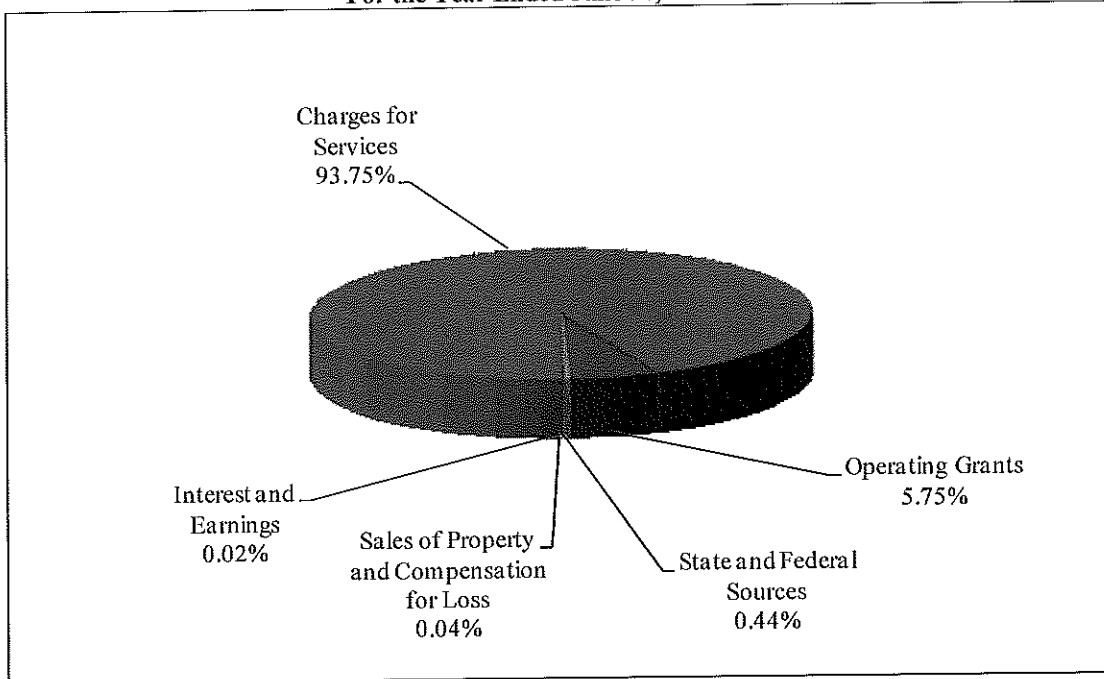
The BOCES' expenditures for the year decreased by \$3,781,035 or 1.1%.

**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

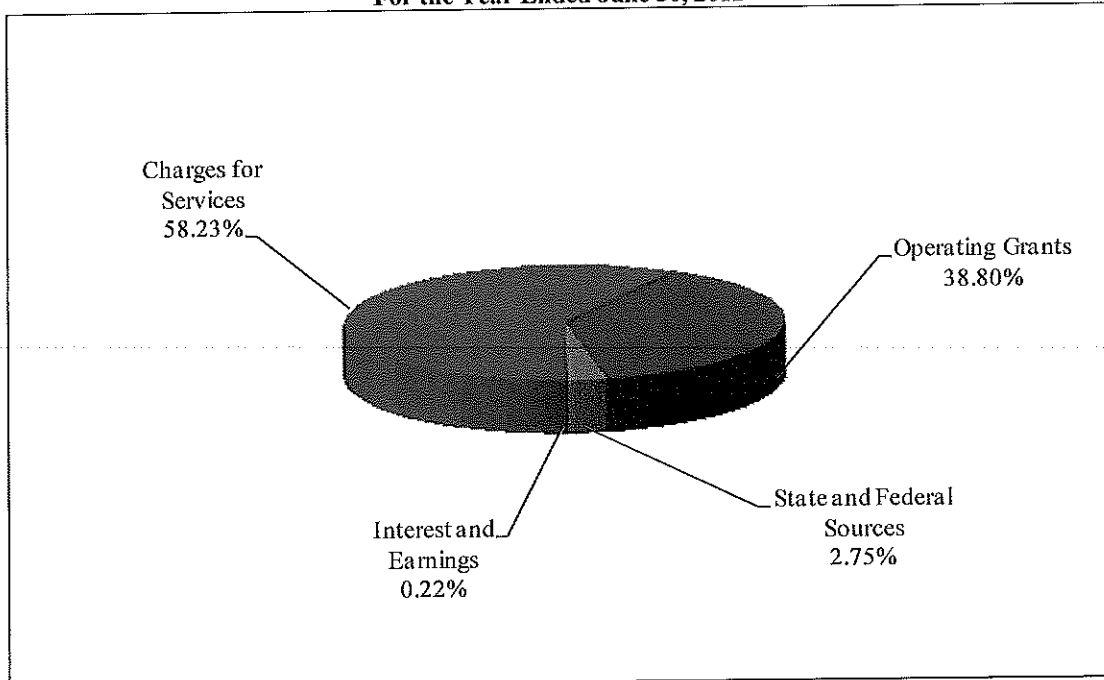
3. FINANCIAL ANALYSIS OF THE BOCES AS A WHOLE (Continued)

A graphic display of the distribution of revenues for the two years follows:

For the Year Ended June 30, 2013



For the Year Ended June 30, 2012

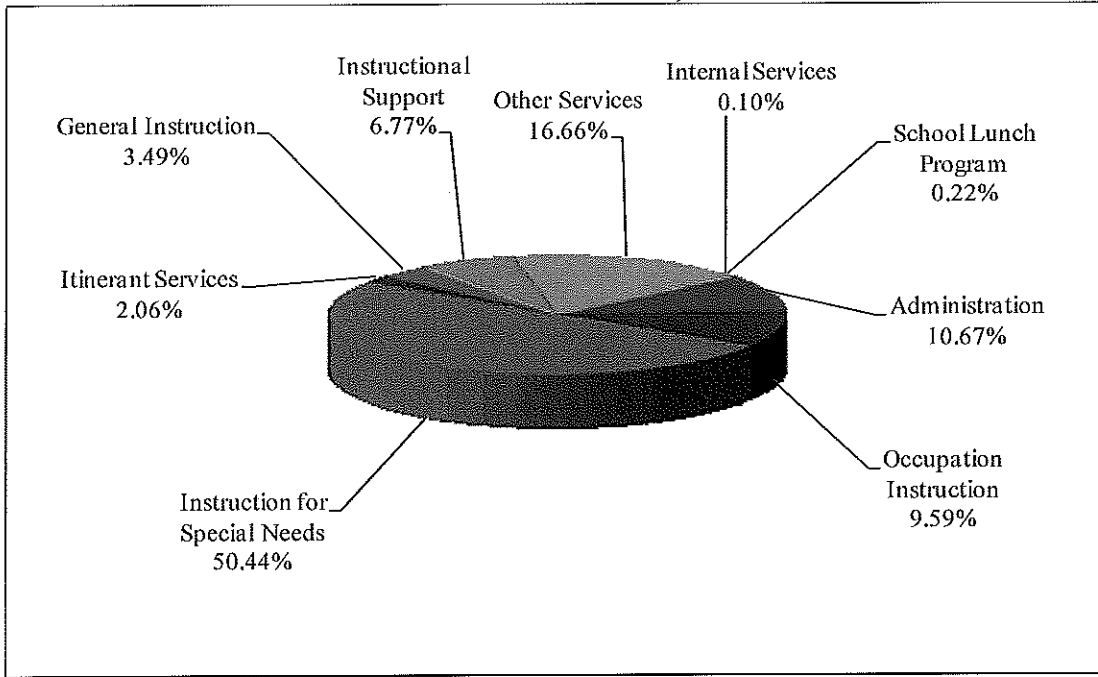


**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

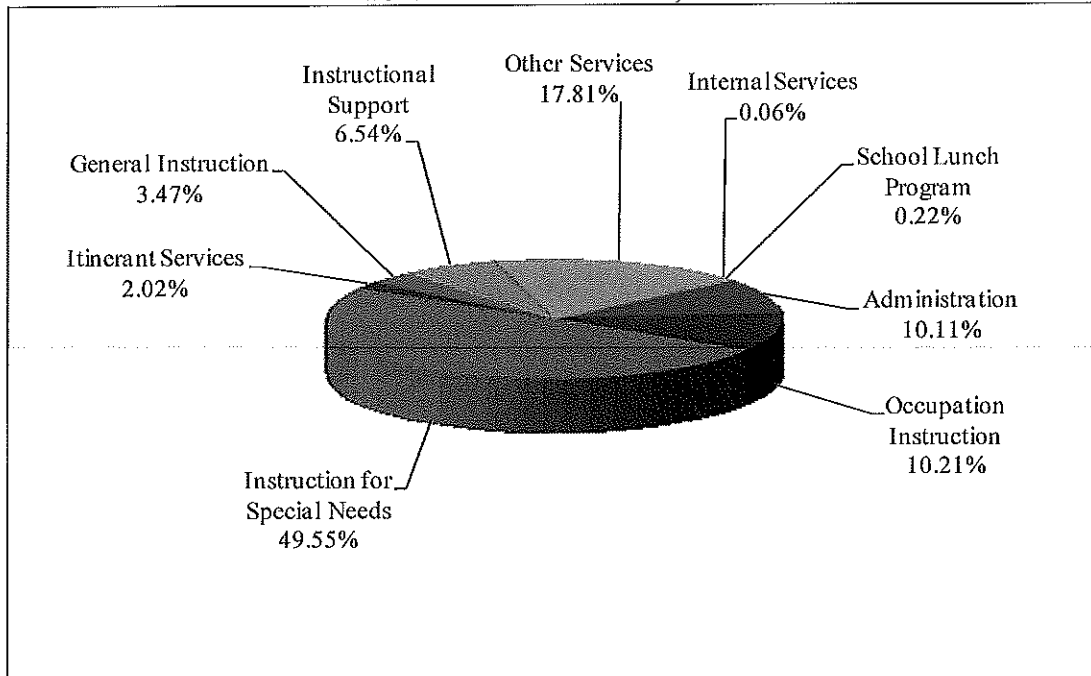
3. FINANCIAL ANALYSIS OF THE BOCES AS A WHOLE (Continued)

A graphic display of the distribution of expenses for the two years follows:

For the Year Ended June 30, 2013



For the Year Ended June 30, 2012



**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

4. FINANCIAL ANALYSIS OF THE BOCES' FUND BALANCES

At June 30, 2013, the BOCES' governmental funds reported combined fund balance of \$47,951,954 which is an increase of \$4,394,722 over the prior year. This is due to an excess of revenues over expenditures for the year. A summary of the change in fund balance by fund is as follows:

	2013	(Restated) 2012	Increase (Decrease)
General Fund			
Restricted			
Reserve for Liability	\$ 121,234	\$ 121,234	\$
Unemployment Insurance Reserve	96,981	94,232	2,749
Reserve for Property Loss	28,126	28,126	
Employee Benefit Accued Liability Reserve	29,476,677	29,297,406	179,271
Workers' Compensation Reserve	<u>5,054,081</u>	<u>3,929,034</u>	<u>1,125,047</u>
Total Restricted	<u>34,777,099</u>	<u>33,470,032</u>	<u>1,307,067</u>
Assigned			
Administration	491,660	362,252	129,408
Occupational Instruction	1,869,865	957,792	912,073
Instruction for Special Needs	2,568,965	1,438,947	1,130,018
Itinerant Services	18,313	28,975	(10,662)
General Instruction	86,541	53,714	32,827
Instructional Support	394,678	594,489	(199,811)
Other Services	<u>1,959,973</u>	<u>779,985</u>	<u>1,179,988</u>
Total Assigned	<u>7,389,995</u>	<u>4,216,154</u>	<u>3,173,841</u>
Total General Fund	<u>42,167,094</u>	<u>37,686,186</u>	<u>4,480,908</u>
School Lunch Fund			
Nonspendable	143		143
Assigned	<u>139,197</u>	<u>156,402</u>	<u>(17,205)</u>
Total School Lunch Fund	<u>139,340</u>	<u>156,402</u>	<u>(17,062)</u>
Special Aid Fund			
Restricted	39,424	39,424	
Assigned	<u>489,163</u>	<u>335,800</u>	<u>153,363</u>
Total Special Aid Fund	<u>528,587</u>	<u>375,224</u>	<u>153,363</u>
Capital Fund			
Committed	<u>5,116,933</u>	<u>5,339,420</u>	<u>(222,487)</u>
Total Capital Fund	<u>5,116,933</u>	<u>5,339,420</u>	<u>(222,487)</u>
Total	<u>\$ 47,951,954</u>	<u>\$ 43,557,232</u>	<u>\$ 4,394,722</u>

**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

5. GENERAL FUND BUDGETARY HIGHLIGHTS

- The difference between the original approved budget of \$295,777,172 and prior year encumbrances of \$4,216,154 and the amended budget of \$319,066,677 is \$19,073,351 or 6.4%. The increase is due to the request for additional services from component school districts. The budgetary comparison information can be found on Page 40 which presents both original and amended budget totals compared with actual results for the General Fund for the year ended June 30, 2013.
- Actual expenditures, before encumbrances, were under the amended budget by \$24,127,420 or 7.6%, and actual revenues were below the amended budget by \$19,646,512 or 6.2%.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2013 and 2012, the BOCES had \$57,099,457 and \$57,050,747, respectively, invested in a broad range of capital assets including buildings, transportation equipment, computer equipment, and furniture and fixtures. A summary of the BOCES' capital assets, net of accumulated depreciation at June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>	Increase (Decrease)
Land	\$ 6,306,650	\$ 6,306,650	\$
Technology in Process	227,745	319,340	(91,595)
Construction in Process	934,913	2,511,384	(1,576,471)
Buildings	28,713,189	27,419,823	1,293,366
Furniture and Equipment	<u>20,916,960</u>	<u>20,493,550</u>	<u>423,410</u>
Capital Assets, Net	<u>\$ 57,099,457</u>	<u>\$ 57,050,747</u>	<u>\$ 48,710</u>

The BOCES' Capital Assets, Net of Accumulated Depreciation, is for the purpose of this report, the assets owned and purchased by the BOCES less the accumulated depreciated value over the useful life of the item.

Depreciation expense for the BOCES totaled \$8,508,330 and \$8,926,176 for the years ended June 30, 2013 and 2012, respectively.

B. Long-Term Debt

At June 30, 2013 and 2012, the BOCES had total long-term debt of \$209,706,021 and \$188,311,352, respectively. A summary of the long-term debt at June 30, 2013 and 2012, is as followed:

	<u>2013</u>	<u>2012</u>	Increase (Decrease)
Installment Purchase Debt	\$ 4,359,621	\$ 4,331,014	\$ 28,607
Compensated Absences	38,600,363	40,097,606	(1,497,243)
OPEB liability	155,526,831	132,705,697	22,821,134
Deferred Payment Plan Debt	3,971,484	4,663,093	(691,609)
Workers' Compensation	5,577,752	4,670,741	907,011
Energy Performance Contract	<u>1,669,970</u>	<u>1,843,201</u>	<u>(173,231)</u>
Total Long-Term Debt	<u>\$ 209,706,021</u>	<u>\$ 188,311,352</u>	<u>\$ 21,394,669</u>

**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013**

7. FACTORS BEARING ON THE BOCES FUTURE

The state of the economy continues to weigh heavy on both school districts and BOCES. Over the next year school districts and BOCES will once again experience an extremely difficult budget year. Next year, school districts will once again be developing budgets under the 2% tax cap legislation. Negotiated union contracts for salary increases as well as the ever rising cost of employee benefits for health insurance and retirement continues to make budgeting challenging.

In recent years Eastern Suffolk BOCES has been experiencing declining enrollment in the Career and Technical Education (CTE) programs. A task force consisting of school districts, community members and local businesses has been established to help find ways to economically provide the availability of a comprehensive, rigorous CTE Programs within our region with the goal of assuring that all of our graduates are "college or career ready".

An ongoing challenge BOCES faces is developing new programs that will be appropriate for our future student population. Monies for the funding of research and development of new programs are always necessary but difficult to find. Eastern Suffolk BOCES typically relies upon grants to fund research however; there are always concerns that these grants will not be funded in the future.

8. CONTACTING THE BOCES' FINANCIAL MANAGEMENT

This financial report is designed to provide the BOCES' citizens, taxpayers, customers, investors, and creditors with a general overview of the BOCES' finances and to demonstrate the BOCES' accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Eastern Suffolk BOCES, 201 Sunrise Highway, Patchogue, New York 11772-1868.

EASTERN SUFFOLK BOCES
STATEMENT OF NET POSITION
June 30, 2013

Assets	
Cash and Cash Equivalents	\$ 9,452,922
Restricted Cash and Cash Equivalents	3,713,815
Receivables	
Due from Other Governments	22,071,439
Due from Components, Net of Allowance of \$599,354	64,679,212
Accounts Receivable	288,958
Inventory	143
Prepaid Expenditures	975
Capital Assets, Net of Accumulated Depreciation	<u>57,099,457</u>
Total Assets	<u>\$ 157,306,921</u>
Liabilities	
Due to Components - Refund of Surplus	\$ 5,444,313
Due to Components - State Aid	17,782,530
Due to	
Other Governments	329
Fiduciary Funds	2,465,622
Teachers' Retirement System	9,872,988
Employees' Retirement System	2,192,396
Accounts Payable	10,298,724
Accrued Liabilities	2,103,342
Accrued Interest	22,767
Overpayments and Collections in Advance	143,806
Unearned Revenue	135,222
Noncurrent Liabilities	
Due Within One Year	6,314,839
Due in More Than One Year	<u>203,391,182</u>
Total Liabilities	<u>260,168,060</u>
Net Position	
Net Investment in Capital Assets	47,098,382
Restricted	34,816,523
Unrestricted (Deficit)	<u>(184,776,044)</u>
Total Net Position (Deficit)	<u>(102,861,139)</u>
Total Liabilities and Net Position (Deficit)	<u>\$ 157,306,921</u>

The accompanying notes are an integral part of these statements.

EASTERN SUFFOLK BOCES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Administration	\$ 36,259,121	\$ 33,845,902	\$	\$ (2,413,219)
Occupational Instruction	32,601,133	29,670,475		(2,930,658)
Instruction for Special Needs	171,487,654	141,125,004	15,217,998	(15,144,652)
Itinerant Services	6,993,422	6,372,824		(620,598)
General Instruction	11,855,257	10,791,463		(1,063,794)
Instruction Support	23,020,889	19,801,906		(3,218,983)
Other Services	56,654,254	59,821,852		3,167,598
Internal Services	346,889	199,753		(147,136)
Food Service Program	758,735	114,735	447,345	(196,655)
Total Functions/Programs	\$ 339,977,354	\$ 301,743,914	\$ 15,665,343	(22,568,097)
 General Revenues				
State and Local Sources				1,199,438
Interest and Earnings				46,519
Sales of Property and Compensation for Loss				(73,783)
Total General Revenues				1,172,174
Change in Net Position				(21,395,923)
Net Position (Deficit), Beginning of Year				(81,465,216)
Net Position (Deficit), End of Year				\$ (102,861,139)

The accompanying notes are an integral part of these statements.

EASTERN SUFFOLK BOCES
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2013

	General	School Lunch	Special Aid	Capital	Total
Assets					
Unrestricted Cash and Cash Equivalents	\$ 9,451,618	\$ 226	\$ 1,078	\$	\$ 9,452,922
Restricted Cash and Cash Equivalents	3,713,815				3,713,815
Receivables					
Due from Other Governments	17,782,533	32,828	4,256,078		22,071,439
Due from Components, Net of Allowance of \$599,354	56,723,777		7,955,435		64,679,212
Due from Other Funds	10,789,744	240,774		5,744,562	16,775,080
Accounts Receivable	287,341	1,325	292		288,958
Inventory		143			143
Prepaid Expenditures	975				975
Total Assets	<u>\$ 98,749,803</u>	<u>\$ 275,296</u>	<u>\$ 12,212,883</u>	<u>\$ 5,744,562</u>	<u>\$ 116,982,544</u>
Liabilities					
Due to Components - Refund of Surplus	\$ 5,444,313	\$	\$	\$	\$ 5,444,313
Due to Components - State Aid	17,782,530				17,782,530
Due To					
Other Governments	253	76			329
Other Funds	8,451,754		10,788,948		19,240,702
Teachers' Retirement System	9,872,988				9,872,988
Employees' Retirement System	2,192,396				2,192,396
Accounts Payable	9,278,296	132,967	259,832	627,629	10,298,724
Accrued Liabilities	1,729,184		374,158		2,103,342
Postemployment Benefit Accrued Liability	1,816,238				1,816,238
Overpayments and Collections in Advance	11,310		132,496		143,806
Unearned Revenue	3,447	2,913	128,862		135,222
Total Liabilities	<u>56,582,709</u>	<u>135,956</u>	<u>11,684,296</u>	<u>627,629</u>	<u>69,030,590</u>
Fund Balances					
Nonspendable		143			143
Restricted	34,777,099		39,424		34,816,523
Committed				5,116,933	5,116,933
Assigned	7,389,995	139,197	489,163		8,018,355
Unassigned					
Total Fund Balances	<u>42,167,094</u>	<u>139,340</u>	<u>528,587</u>	<u>5,116,933</u>	<u>47,951,954</u>
Total Liabilities and Fund Balances	<u>\$ 98,749,803</u>	<u>\$ 275,296</u>	<u>\$ 12,212,883</u>	<u>\$ 5,744,562</u>	<u>\$ 116,982,544</u>

The accompanying notes are an integral part of these statements.

EASTERN SUFFOLK BOCES
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCES
TO THE BOCES-WIDE NET POSITION

June 30, 2013

Total Governmental Fund Balances	<u>\$ 47,951,954</u>
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Amounts reported for governmental activities in the Statement of Net Position are different because:

The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the Statement of Net Position includes those capital assets among the assets of the BOCES as a whole, and their original costs are expensed annually over their useful lives.

Original Cost of Capital Assets	128,538,076
Accumulated Depreciation	<u>(71,438,619)</u>
	<u>57,099,457</u>

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Deferred Payment Plan Debt	(3,971,484)
Installment Purchase Debt	(4,359,621)
Accrued Interest on Energy Performance Contract	(22,767)
Other Postemployment Benefit Liabilities	(153,710,593)
Energy Performance Contract	(1,669,970)
Workers' Compensation Claims	(5,577,752)
Compensated Absences Payable	<u>(38,600,363)</u>
	<u>(207,912,550)</u>

Total Net Position (Deficit)	<u>\$ (102,861,139)</u>
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The accompanying notes are an integral part of these statements.

EASTERN SUFFOLK BOCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	General	School Lunch	Special Aid	Capital	Total
Revenues					
Charges for Services	\$	\$	\$ 8,495,960	\$	\$ 8,495,960
Charges to Components - Service Programs	253,679,907				253,679,907
Charges to Non-Components and Other BOCES	23,392,160				23,392,160
Interest and Earnings	46,517	2			46,519
Sale of Property and Compensation for Loss	299,202	4,230	7,883		311,315
Miscellaneous	20,231,628	295	704,312		20,936,235
Refund of Prior Year's Expenditures	88,096		(1,788)		86,308
Interfund Revenues	483,217				483,217
State and Local Sources	1,199,438	16,082	7,744,502		8,960,022
Federal Sources		431,263	7,473,496		7,904,759
School Lunch Sales		114,440			114,440
Total Revenues	<u>299,420,165</u>	<u>566,312</u>	<u>24,424,365</u>		<u>324,410,842</u>
Expenditures					
Administration	32,926,578				32,926,578
Occupational Instruction	29,470,333				29,470,333
Instruction for Special Needs	132,001,669		24,271,002		156,272,671
Itinerant Services	6,372,824				6,372,824
General Instruction	10,791,463				10,791,463
Instruction Support	21,014,643				21,014,643
Other Services	55,196,010				55,196,010
Internal Services	349,854				349,854
Capital Outlay				5,182,682	5,182,682
School Lunch Program		738,624			738,624
Total Expenditures	<u>288,123,374</u>	<u>738,624</u>	<u>24,271,002</u>	<u>5,182,682</u>	<u>318,315,682</u>
Excess (Deficit) Revenues Over Expenditures	<u>11,296,791</u>	<u>(172,312)</u>	<u>153,363</u>	<u>(5,182,682)</u>	<u>6,095,160</u>
Other Financing Sources (Uses)					
Proceeds of Debt				3,743,875	3,743,875
Return of Surplus	(5,444,313)				(5,444,313)
Transfers from Other Funds		155,250		1,216,320	1,371,570
Transfers to Other Funds	(1,371,570)				(1,371,570)
Total Other Financing Sources (Uses)	<u>(6,815,883)</u>	<u>155,250</u>		<u>4,960,195</u>	<u>(1,700,438)</u>
Excess (Deficit) Revenues Over Expenditures and Other Financing Sources	<u>4,480,908</u>	<u>(17,062)</u>	<u>153,363</u>	<u>(222,487)</u>	<u>4,394,722</u>
Fund Balances, Beginning of Year	8,388,780	156,402	375,224	5,339,420	14,259,826
Prior Period Adjustment	<u>29,297,406</u>				<u>29,297,406</u>
Fund Balances, Beginning of Year (Restated)	<u>37,686,186</u>	<u>156,402</u>	<u>375,224</u>	<u>5,339,420</u>	<u>43,557,232</u>
Fund Balances, End of Year	<u>\$ 42,167,094</u>	<u>\$ 139,340</u>	<u>\$ 528,587</u>	<u>\$ 5,116,933</u>	<u>\$ 47,951,954</u>

The accompanying notes are an integral part of these statements.

EASTERN SUFFOLK BOCES
RECONCILIATION OF THE STATEMENT OF REVENUES AND
EXPENDITURES OF THE GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

Net Changes in Fund Balance - Total Governmental Funds \$ 4,394,722

Capital Related Differences

Capital Outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are capitalized and shown in the Statement of Net Position and allocated over their useful lives as annual depreciation expenses in the Statement of Activities. This is the amount by which capital outlays exceeded depreciation expense in the period.

Depreciation Expense	(8,508,330)	
Loss on Disposal	(385,098)	
Capital Outlays	<u>8,942,138</u>	48,710

Long-Term Debt Transaction Differences

Long-term liabilities are not due and payable in the current period and, therefore are not reported as liabilities in the funds. Long-term liabilities at year end consists of:

Installment Purchase Debt	(28,607)	
Deferred Payment Plan Debt	691,608	
Energy Performance Contract	173,231	
Other Post Employment Liabilities	(27,268,181)	
Accrued Interest on Energy Performance Contract	2,362	
Compensated Absences	1,497,243	
Workers' Compensation Claims	<u>(907,011)</u>	<u>(25,839,355)</u>

Change in Net Position Governmental Activities \$ (21,395,923)

EASTERN SUFFOLK BOCES
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2013

	Private Purpose	
	Trusts	Agency
Assets		
Cash and Cash Equivalents	\$	\$ 39,626
Cash and Cash Equivalents - Restricted	39,619	
Receivables		10,630
Due from Other Funds		2,466,418
Total Assets	\$ 39,619	\$ 2,516,674
Liabilities		
Accrued Liabilities	\$	\$ 2,479,901
Due to Other Funds	796	
Extraclassroom Activity Balances		36,773
Total Liabilities	796	\$ 2,516,674
Net Position		
Restricted For Other Purposes		
Total Net Position	38,823	
Total Liabilities and Net Position	\$ 39,619	

The accompanying notes are an integral part of these statements.

EASTERN SUFFOLK BOCES
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2013

	Private Purpose Trusts
Additions	
Investment Income	\$ 100
Gifts and Contributions	<u>8,594</u>
Total Additions	<u>8,694</u>
Deductions	
Cost of Special Events	4,620
Scholarships and Awards	<u>8,200</u>
Total Deductions	<u>12,820</u>
Change in Net Position	(4,126)
Net Position, Beginning of Year	<u>42,949</u>
Net Position, End of Year	<u>\$ 38,823</u>

The accompanying notes are an integral part of these statements.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Eastern Suffolk BOCES (BOCES) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting principles and policies used by the BOCES are as follows:

Reporting Entity

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

Boards of Cooperative Educational Services (BOCES) were established by New York State legislation in 1948 to enable smaller school districts to offer more breadth in their educational programs by sharing teachers. In 1955, legislation was passed allowing BOCES to provide vocational and special education. A BOCES is a voluntary, cooperative association of school districts in a geographic area that share planning, services and programs to provide educational and support activities more economically, efficiently and equitably than could be provided locally. The BOCES provides instructional and support programs and services to all 51 school districts located in eastern Suffolk, New York.

The Board is comprised of 15 representatives elected by the 51 component school boards.

The BOCES' programs and services include special education, vocational education, academic and alternative programs, summer schools, staff development, instructional computer services, educational communication and cooperative purchasing.

The financial statements include all funds of the BOCES as well as the component units and other organizational entities determined to be includable in the BOCES' financial reporting entity.

The decision to include a potential component unit in the BOCES' reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the extraclassroom activity funds are included in the reporting entity.

(a) Extraclassroom Activity Funds

The extraclassroom activity funds of the BOCES represent funds of the students of the BOCES. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the BOCES with respect to its financial transactions and the designation of student management. The BOCES reports these assets held by it as agent for the extraclassroom organizations in the Statement of Fiduciary Net Position - Fiduciary Fund. Separate audited financial statements of the extraclassroom activity funds can be found at the BOCES' business office.

Basis of Presentation

(a) BOCES-Wide Financial Statements

The Statement of Net Position and the Statement of Activities present information about the overall financial activities of the BOCES, except for fiduciary activities. Eliminations have been made to minimize the double counting of interfund transactions. Governmental activities generally are financed through state aid, intergovernmental revenues, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The Statement of Net Position presents the financial position of the BOCES at fiscal year end. The Statement of Activities presents a comparison between program expenses and revenues for each function of the BOCES' governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants, contributions, and other revenues that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, primarily state aid, are presented as general revenues.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) *Fund Financial Statements*

The fund financial statements provide information about the BOCES' funds, including fiduciary funds. Separate statements for each fund category, governmental and fiduciary, are presented. The emphasis of fund financial statements is on major governmental funds as defined by GASB, each displayed in a separate column. All funds of the BOCES are displayed as major funds. The BOCES' financial statements reflect the following major fund categories:

General Fund – This is the BOCES' primary operating fund used to account for and report all financial resources not accounted for in another fund.

Special Revenue Funds:

Special Aid Fund - is used to account for and report on the proceeds of specific revenue sources such as federal and state grants that are legally restricted to expenditures for specified purposes. These legal restrictions may be imposed by either governments that provide the funds or outside parties.

School Lunch Fund - is used to account for and report on the activities of the school lunch operations.

Capital Projects Fund – is used to account for and report on the financial resources used for acquisition, construction, or major repair of capital facilities.

(c) *Fiduciary Funds* – are used to account for and report on activities in which the BOCES acts as trustee or agent for resources that belong to others. These activities are not included in the BOCES-wide financial statements, because their resources do not belong to the BOCES, and are not available to be used. There are two classes of fiduciary funds:

Private Purpose Trust Funds - These funds are used to account for and report on trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the BOCES or representatives of the donors may serve on committees to determine who benefits.

Agency Funds - These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the BOCES as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

Basis of Accounting and Measurement Focus

The BOCES-wide and fiduciary fund financial statements are reported on the accrual basis of accounting using the economic resources measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Non-exchange transactions, in which the BOCES gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the related expenditures are incurred.

The fund statements are reported on the modified accrual basis of accounting using the current financial resources measurement focus. Revenues are recognized when measurable and available. The BOCES considers all revenues reported in the governmental funds to be available if the revenues are collected within 180 days after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, 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 and acquisitions under capital leases are reported as other financing sources.

Interfund Transactions

The operations of the BOCES include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The BOCES typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditure and revenues to provide financing or other services.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the BOCES-wide statements, the amounts reported on the Statement of Net Position for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds, with the exception of those due from or to the fiduciary funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables are netted on the accompanying governmental funds balance sheet when it is the BOCES' practice to settle these amounts at a net balance based upon the right of legal offset.

A detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity is provided subsequently in these Notes to Financial Statements.

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 expenses during the reporting period. Accordingly, actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, postemployment benefits, potential contingent liabilities and useful lives of long-lived assets.

Cash and Cash Equivalents/Investments

The BOCES' cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the BOCES' investment policies. Resources must be deposited in Federal Deposit Insurance Corporation (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 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 BOCES.

Receivables

Receivables and due from school districts are shown net of an allowance for uncollectibles. The allowance for uncollectibles was \$599,354 at June 30, 2013.

Inventories

Inventories of food in the school lunch fund are recorded at cost on a first-in, first-out basis or in the case of surplus food donated by the U.S. Department of Agriculture, at the Government's assigned value, which approximates market.

Purchases of inventory items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

Capital Assets

Capital assets are reflected in the BOCES-wide financial statements. Capital assets are reported at actual cost, when the information is available, or estimated historical cost based on professional third-party information. Donated assets are reported at estimated fair market value at the date of donation.

**EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

All capital assets, except land and construction in progress, are depreciated on a straight line basis over their estimated useful lives. Capitalization thresholds, the dollar value above which asset acquisitions are added to the capital asset accounts, and estimated useful lives of capital assets as reported in the BOCES-wide statements are as follows:

	Capitalization Threshold	Estimated Useful Life
Buildings and Improvements	\$ 10,000	30-50 Years
Furniture and Equipment	\$ 5,000	5-20 Years

Unearned Revenue

Unearned revenue arises when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Unearned revenues also arise when resources are received by the BOCES before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when the BOCES has legal claim to the resources, the liability for unearned revenues is removed and revenues are recognized.

Vested Employee Benefits – Compensated Absences

Compensated absences consist of unpaid accumulated sick leave and vacation time.

Sick leave eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Upon retirement, resignation or death, employees may be eligible to receive a portion of the value of unused accumulated sick leave.

Vacation eligibility and accumulation is specified in collective bargaining agreements and in individual employment contracts. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB, the liability has been calculated using the vesting method and an accrual for that liability is included in the BOCES-wide financial statements. The compensated absences liability is calculated based on the terms of the collective bargaining agreements and individual employment contracts in effect at year-end.

In the fund financial statements only the amount of matured liabilities is accrued within the general fund based upon expendable and available financial resources.

Other Benefits

Eligible BOCES employees participate in the New York State Teachers' Retirement System or the New York State Employees' Retirement System.

In addition to providing pension benefits, the BOCES provides post-employment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if BOCES' employees are eligible for these benefits if they reach normal retirement age while working for the BOCES. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing postemployment benefits is shared between the BOCES and the retired employee. Other postemployment benefit costs are measured and disclosed using the accrual basis of accounting (see Note 11).

Short-Term Debt

The BOCES may issue revenue anticipation notes (RAN) in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RAN's represent a liability that will be extinguished by the use of expendable, available resources of the fund.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities and long-term obligations are reported in the BOCES-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Long-term obligations represent the BOCES' future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the Statement of Net Position.

Equity Classifications

(a) BOCES-Wide Statements

In the BOCES-wide statements, there are three classes of net position:

Net invested in capital assets – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets.

Restricted net position – reports net position when constraints placed on the assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – reports all other net position that do not meet the definition of the above classification and are deemed to be available for general use by the BOCES.

(b) Fund Statements

The BOCES implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

The following classifications describe the relative strength of the spending constraints:

Nonspendable

This category includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. This category consists of the inventories in the School Lunch Fund.

Restricted Resources

This category 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. Generally, the BOCES' policy is to use restricted resources only when appropriated by the Board of Education. When an expenditure is incurred for purposes for which both restricted and unrestricted net position are available, the BOCES' policy concerning which to apply first varies with the intended use, and with associated legal requirements.

• *Property Loss Reserve and Liability Reserve*

Property loss reserve and liability reserve (Education Law §1709(8) (c)) are used to pay for property loss and liability claims incurred. Separate funds for property loss and liability claims are required, and these reserves may not in total exceed 3% of the annual budget or \$15,000, whichever is greater. This type of reserve fund may be utilized only by BOCES, except city school districts with a population greater than 125,000. These reserves are accounted for in the general fund.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

• *Unemployment Insurance Reserve*

Unemployment insurance reserve (GML §6-m) is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the BOCES elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. The reserve is accounted for in the general fund.

• *Workers' Compensation Reserve*

Workers' compensation reserve (GML §6-j) is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. The reserve is accounted for in the general fund.

• *Employee Benefit Accrued Liability*

According to General Municipal Law §6-p, this reserve must be used for the payment of accrued employee benefit due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. This reserve is accounted for in the General Fund.

• *Special Aid Fund*

This fund includes amounts for which constraints have been placed on the use of the resources grantors, contributors, or laws or regulations of other governments.

• *Restricted for Scholarships*

Reserve for scholarships is used to account for monies donated for scholarship purposes, net of earnings and awards. The reserve is accounted for in the private purpose trust fund.

Unrestricted Resources

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, BOCES considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless BOCES has provided otherwise in its commitment or assignment actions.

- *Committed* - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the BOCES highest level of decision making authority, i.e., the Board of Education. The BOCES committed fund balances as of June 30, 2013 consists of the capital projects fund balances.
- *Assigned* - Includes amounts that are constrained by the BOCES' intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Board of Education or (b) the designated official, such as the BOCES Purchasing Agent, to which the Board has delegated the authority to assign amounts to be used for specific purposes.
- *Unassigned* - Includes all other fund net positions that do not meet the definition of the above classifications and are deemed to be available for general use by the BOCES. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in the respective fund.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Procedures and Budgetary Accounting

The BOCES administration prepares a proposed administrative, capital and program budget, as applicable, for approval by the members of the Board of Education for the General Fund, the only fund with a legally adopted budget. The budget is adopted annually on a basis consistent with accounting principles generally accepted in the United States of America. A tentative administrative budget is provided to the component districts for adoption by resolution. Approval of the tentative administrative budget requires the approval of a majority of the component school boards actually voting. During the current year, the administrative budget was approved by a majority of its voting component school boards. Appropriations are adopted at the program line item level. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year and any appropriated reserve funds. Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations lapse at the fiscal year end.

Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

The following supplemental appropriation occurred during the year:

Adopted Budget		\$	295,777,172
Encumbrances from Prior Year			4,216,154
Original Budget			299,993,326
Shared Services Budget Revisions:			
Administration	(362,252)		
Occupational Instruction	(108,177)		
Instruction for Special Needs	6,842,809		
Itinerant Services	583,465		
General Instruction	2,457,505		
Instructional Support	2,901,796		
Other Services	5,315,873		
Internal Services	1,442,332		19,073,351
Revised Budget		<u>\$</u>	<u>319,066,677</u>

Encumbrances

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year end are presented as reservations of fund balance and do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid.

New Accounting Standard

The BOCES changed accounting policies related to the financial statement presentation of net position and deferred inflows and outflows of resources by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in 2012-2013. The new pronouncements provide for the separate classification for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting provisions of GASB Statement No. 34 by incorporating deferred inflows and outflows into the definitions of the residual measure and by renaming that measure as net position, rather than net assets.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENTS AND THE BOCES-WIDE STATEMENTS

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the BOCES-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic resource management focus of the Statement of Activities, compared with the current financial resource management focus of the governmental funds.

Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities

Total fund balances of the BOCES' governmental funds differ from net position of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Position versus the solely current financial resources focus of the governmental fund Balance Sheet.

Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities

Differences between the Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories.

(a) Long-Term Revenue and Expense Differences

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available", whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

(b) Capital Related Differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the fund statements and depreciation expense on those items as recorded in the Statement of Activities.

(c) Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

3. CUSTODIAL AND CONCENTRATION OF CREDIT RISK

The BOCES' investment policies are governed by state statutes and BOCES policy. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements and obligations of New York State or its localities. Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its Agencies and obligations of New York State and its municipalities. Investments are stated at fair value.

Custodial credit risk is the risk that in the event of a bank failure, the BOCES' deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either:

- A. Uncollateralized,
- B. Collateralized by securities held by the pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the BOCES' name.

None of the BOCES' aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

4. RESTRICTED CASH

Restricted cash and cash equivalents of \$1,906,761 in the General Fund represent funds held for the Reserve for Workers' Compensation, Reserve for Unemployment, Reserve for Liability and Reserve for Property Loss.

Restricted cash and cash equivalents of \$1,807,054 in the General Fund represents funds held for future Occupational Education Equipment expenditures.

Restricted cash and cash equivalents of \$39,619 in the fiduciary fund represents various expendable trust funds held by the BOCES.

5. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2013, consisted of:

General Fund		
New York State	\$	17,782,533
Special Aid Fund		
New York State Education Department		4,020,834
VESID/ACCES		124,080
Suffolk County		14,241
US Department of Education		82,058
Special Legislation		14,865
School Lunch Fund		
Federal and State School Lunch Reimbursements		32,828
Total	<u>\$</u>	<u>22,071,439</u>

6. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2013, were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 6,306,650	\$	\$	\$ 6,306,650
Technology in Progress	319,340	227,745	319,340	227,745
Construction in Progress	<u>2,511,384</u>	<u>637,724</u>	<u>2,214,195</u>	<u>934,913</u>
Total	<u>9,137,374</u>	<u>865,469</u>	<u>2,533,535</u>	<u>7,469,308</u>
Capital Assets Being Depreciated				
Buildings and Improvements	58,949,147	2,785,896		61,735,043
Furniture and Equipment	<u>54,139,315</u>	<u>7,824,308</u>	<u>2,629,898</u>	<u>59,333,725</u>
Total	<u>113,088,462</u>	<u>10,610,204</u>	<u>2,629,898</u>	<u>121,068,768</u>
Accumulated Depreciation				
Buildings and Improvements	31,529,324	1,492,530		33,021,854
Furniture and Equipment	<u>33,645,765</u>	<u>7,015,800</u>	<u>2,244,800</u>	<u>38,416,765</u>
Total	<u>65,175,089</u>	<u>8,508,330</u>	<u>2,244,800</u>	<u>71,438,619</u>
Net Capital Assets Being Depreciated	<u>47,913,373</u>	<u>2,101,874</u>	<u>385,098</u>	<u>49,630,149</u>
Net Capital Assets	<u>\$ 57,050,747</u>	<u>\$ 2,967,343</u>	<u>\$ 2,918,633</u>	<u>\$ 57,099,457</u>

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

6. CAPITAL ASSETS (Continued)

Depreciation expense has been allocated to functional units as follows:

Administration	\$	846,775
Occupational Education		857,895
Instruction for Special Needs		4,165,104
Itinerant Services		170,055
General Instruction		291,498
Instructional Support		549,747
Other Services		1,607,145
Food Services		20,111
Total	\$	<u>8,508,330</u>

7. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2013, are as follows:

Fund	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General	\$ 10,789,744	\$ 8,451,754	\$	\$ 1,371,570
Special Aid		10,788,948		
School Lunch	240,774		155,250	
Capital Projects	5,744,562		1,216,320	
Fiduciary	2,466,418	796		
Total Government Activities	<u>\$ 19,241,498</u>	<u>\$ 19,241,498</u>	<u>\$ 1,371,570</u>	<u>\$ 1,371,570</u>

- The BOCES typically transfers from the General Fund to the School Lunch Fund and the Capital Fund in accordance with the administrative budget.
- The BOCES transferred \$1,216,320 from the General Fund to the Capital Fund to fund the local portion of capital projects.
- The Interfund receivables and payables exist for cash flow purposes. The balances are expected to be repaid during the next fiscal year.

8. SHORT-TERM DEBT

Transactions in short-term debt used to provide working capital for the year are summarized below:

	Maturity	Interest Rate	Balance June 30, 2012	Issued	Redeemed	Balance June 30, 2013
RAN	6/26/2013	0.85%	<u>\$</u>	<u>\$ 7,500,000</u>	<u>\$ 7,500,000</u>	<u>\$</u>

Interest expense on short-term debt for the year was \$61,270.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

9. LONG-TERM LIABILITIES

Long-term liability balances and activity for the year are summarized below:

Description	Beginning Balance	Issued	Paid	Ending Balance	Due Within One Year
Governmental Activities					
Installment Purchase Debt	\$ 4,331,014	\$ 2,196,423	\$ 2,167,816	\$ 4,359,621	\$ 1,520,527
Deferred Payment Plan Debt	4,663,092	1,547,453	2,239,061	3,971,484	1,502,575
Energy Performance Contract	1,843,201		173,231	1,669,970	180,389
Other Liabilities					
Compensated Absences	40,097,606	3,129,779	4,627,022	38,600,363	3,111,348
Workers' Compensation	4,670,741	3,596,881	2,689,870	5,577,752	
OPEB Liability	<u>132,705,697</u>	<u>37,799,057</u>	<u>14,977,923</u>	<u>155,526,831</u>	<u>-</u>
Total Governmental Activities	<u>\$ 188,311,351</u>	<u>\$ 48,269,593</u>	<u>\$ 26,874,923</u>	<u>\$ 209,706,021</u>	<u>\$ 6,314,839</u>

The general fund has typically been used to liquidate long-term liabilities.

The BOCES has entered into various municipal lease and option agreements for the purpose of acquiring computer equipment necessary to provide instructional computer services. The BOCES is obligated under certain installment purchase agreements at various incremental interest rates as listed below. Assets purchased under the agreements totaled \$37,139,244 at June 30, 2013 and total accumulated depreciation for these assets was \$26,684,637 at year-end.

The BOCES' installment purchase debt agreements are payable in 60 monthly installments or less and bear interest as stated below.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

9. LONG-TERM LIABILITIES (Continued)

The following is a summary of debt service requirements for borrowings on the purchase of equipment used within the technology cooperative services:

<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2013</u>
Bayport-Blue Point	10/08	11/13	4.60%	\$ 37,864
West Babylon	11/08	11/13	4.09%	34,331
East-South Manor	09/09	05/14	4.24%	66,227
West Babylon	09/09	05/14	4.24%	61,107
Connetquot	09/09	05/14	4.24%	13,326
Connetquot	09/09	05/14	4.24%	118,658
Sayville	09/09	05/14	4.24%	20,574
William Floyd	09/09	05/14	4.24%	37,123
William Floyd	09/09	05/14	4.24%	64,350
Riverhead	04/10	04/15	4.25%	273,255
Sayville	11/10	11/15	3.73%	27,195
Bayport-Blue Point	11/11	11/15	3.73%	107,999
Port Jefferson	06/11	05/16	3.73%	81,441
Bridgehampton	11/11	05/16	3.73%	66,048
Sayville	11/11	05/16	3.73%	210,190
Hampton Bays	11/11	05/16	3.73%	90,508
Bridgehampton	2/12	11/16	3.73%	38,763
Sachem	2/12	11/16	3.73%	740,495
Center Moriches	3/12	11/15	3.73%	171,846
Bayport-Blue Point	5/12	11/16	3.73%	145,957
Hampton Bays	7/12	05/17	3.73%	129,014
Copaigue	8/12	05/17	3.73%	127,572
East Islip	11/12	11/17	3.73%	310,127
Sayville	11/12	11/17	3.73%	563,275
William Floyd	01/13	11/17	1.33%	618,029
Bayport-Blue Point	06/13	12/17	1.43%	204,347
				<u>\$ 4,359,621</u>

The following is a summary of debt service requirements of installment purchase debt (technology equipment leases):

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,520,527	\$ 132,345	\$ 1,652,872
2015	1,103,551	82,107	1,185,658
2016	931,109	45,611	976,720
2017	606,201	17,398	623,599
2018	198,233	2,510	200,743
Total	<u>\$ 4,359,621</u>	<u>\$ 279,971</u>	<u>\$ 4,639,592</u>

The BOCES' deferred payment plan agreements are payable in 60 monthly installments or less and bear no interest.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

9. LONG-TERM LIABILITIES (Continued)

The following is a summary of debt service requirements for borrowings on the purchase of equipment used within the technology cooperative services and by BOCES:

<u>Description</u>	<u>Issued Date</u>	<u>Final Maturity</u>	<u>Oustinging at June 30, 2013</u>
East Islip	09/08	08/13	\$ 4,771
Sacham	09/08	08/13	1,893
Patchogue-Medford	10/08	09/13	26,751
William Floyd	10/08	09/13	6,867
South Country	11/08	10/13	12,407
William Floyd	12/08	11/13	735
Eastport-S. Manor	05/09	04/14	45,533
East Islip	07/09	06/14	6,092
Brentwood	10/09	09/14	22,872
South Country	10/09	09/14	66,547
Central Islip	10/10	09/15	101,220
Southampton	1/11	12/15	30,269
Sayville	2/11	1/16	8,455
Shoreham-Wading River	2/11	1/16	105,678
South Country	2/11	1/16	25,686
Sayville	8/10	7/15	36,617
West Babylon	8/10	7/15	176,515
South Country	8/10	7/15	6,211
Three Village	9/10	8/15	5,970
Three Village	7/10	6/15	38,694
Southampton	10/10	9/14	939
East Islip	1/11	12/15	33,239
North Babylon	1/11	12/15	4,494
Port Jefferson	4/11	3/15	35,998
Sachem	3/11	2/16	379,292
West Babylon	8/11	7/16	261,243
South Country	8/11	7/16	9,192
Connetquot	8/11	7/15	125,628
Connetquot	8/11	7/16	48,644
North Babylon	7/11	6/16	17,021
Connetquot	1/11	12/15	14,972
Three Village	1/11	12/15	835,916
Eastport-South Manor	8/12	7/17	297,213
Miller Place	9/12	8/17	45,146
East Islip	12/12	11/17	41,977
Connetquot	1/13	12/17	526,410
Patchogue	4/13	3/18	87,925
BOCES	7/12	1/18	476,452
			<u>\$ 3,971,484</u>

**EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

9. LONG-TERM LIABILITIES (Continued)

The following is a summary of maturing debt service requirements of deferred payment debt which bear no interest:

Fiscal Year Ending June 30,	<u>Principal</u>
2014	\$ 1,502,574
2015	1,199,778
2016	785,858
2017	395,938
2018	87,336
Total	<u>\$ 3,971,484</u>

On February 28, 2006, the BOCES entered into an energy performance contract in the amount of \$2,747,418. The lease is payable in 30 semi-annual payments of \$123,432, including interest at 4.09% beginning August 31, 2006.

The following is a summary maturing debt service requirements of other liabilities (energy performance contract):

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 180,389	\$ 66,476	\$ 246,865
2015	187,842	59,023	246,865
2016	195,603	51,261	246,864
2017	203,685	43,179	246,864
2018	212,101	34,763	246,864
2019-2021	690,350	50,245	740,595
Total	<u>\$ 1,669,970</u>	<u>\$ 304,947</u>	<u>\$ 1,974,917</u>

Interest on debt for the year was comprised of:

Interest Paid	\$ 308,399
Less: Interest Accrued in the Prior Year	(25,129)
Plus: Interest Accrued in the Current Year	<u>22,767</u>
Total Interest Expense on Long-Term Debt	<u>\$ 306,037</u>

The maturity of compensated absences is not determinable.

10. PENSION PLANS

General Information

The BOCES participates in the New York State Teachers' Retirement System (NYSTRS) and the New York State and Local Employees' Retirement System (NYSERS). These are cost-sharing multiple employer, public employee retirement systems. The Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death, and disability.

Provisions and Administration

(a) Teachers' Retirement System

The NYSTRS is administered by the New York State Teachers' Retirement Board. The System provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the state of New York. The NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

**EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

10. PENSION PLANS (Continued)

(b) Employees' Retirement System

The NYSERS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Employees' Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York 12244.

Funding Policies

The Systems are noncontributory for employees who joined prior to July 27, 1976. For employees who joined after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the Systems more than ten years are no longer required to contribute. For NYSTRS, employees who joined on or after January 1, 2010 and before April 1, 2012 are required to contribute 3.5% of their annual salary for their entire working career. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. For employees in NYSERS who joined after January 1, 2010 but prior to March 31, 2013, they must contribute 3% of their salary throughout their active membership. Those joining after April 1, 2013 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. For NYSERS, the Comptroller certifies the rates expressed as proportions of members' payroll annually which are used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

The BOCES is required to contribute at an actuarially determined rate. The BOCES contributions made to the Systems were equal to 100% of the contributions required for each year. The required contributions for the current year and two preceding years were:

<u>Systems Fiscal</u> <u>Year</u>	<u>Rate</u>	<u>NYSTRS</u>	<u>Rate</u>	<u>NYSERS</u>
2012-2013	11.84%	\$ 9,448,994	17.93%	\$ 8,394,593
2011-2012	11.11%	\$ 9,160,858	15.40%	\$ 7,324,752
2010-2011	8.62%	\$ 7,474,541	11.4%	\$ 4,940,485

11. OTHER POSTEMPLOYMENT BENEFITS

(a) Plan Description

The BOCES provides postemployment health insurance coverage to retired employees in accordance with the provisions of various employment contracts. The BOCES provides medical, medigap, and Medicare part B reimbursement (the healthcare plan) coverage to retired employees in accordance with employment contracts.

(b) Funding Policy

The BOCES assumes 90% to 95% of the cost of the premiums and recognizes the cost of the healthcare plan annually as expenditures in the General Fund of the fund financial statements as payments are made. The obligations of the Plan members, employers, and other entities are established by action of the BOCES pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement, as stated above. The employer currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you go basis. The costs of administering the Plan are paid by the BOCES.

**EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

11. OTHER POSTEMPLOYMENT BENEFITS (Continued)

(c) Annual OPEB Cost

	Total
Normal Cost	\$ 18,474,335
Amortization of UAL	19,729,609
ARC	38,203,944
Interest on Net OPEB Obligation	6,635,285
Adjustment to ARC	(4,970,438)
OPEB Expense	\$ 39,868,791

(d) Reconciliation of Net OPEB Obligation

	Total
Net OPEB Obligation at the Beginning of the Year	\$ 132,705,697
Annual Required Contribution	39,868,791
Net OPEB Contributions Made During the Fiscal Year	(17,047,657)
Net OPEB Obligation at the End of the Year	\$ 155,526,831
Percentage of Expense Contributed	43%

(e) Trend Information

Fiscal Year Ending	Annual Net OPEB Expense	OPEB Expense Contributed	% of Expense Contributed	Net OPEB Obligation
June 30, 2011	\$ 38,372,954	\$ 12,107,079	31.6%	\$ 109,749,071
June 30, 2012	\$ 37,555,339	\$ 14,598,713	38.9%	\$ 132,705,697
June 30, 2013	\$ 39,868,791	\$ 17,047,657	42.8%	\$ 155,526,831

(f) Funding Status

	Total
Actuarial Accrued Liability	\$ 526,760,740
Actuarial Value of Assets	0
Unfunded Actuarial Accrued Liability (UAAL)	\$ 526,760,740
Funded Ratio	0%
Annual Covered Payroll	\$ 115,494,147
UAAL as a Percentage of Covered Payroll	456%

(g) Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. For this reason, the results in this report should be viewed as estimates. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013**

11. OTHER POSTEMPLOYMENT BENEFITS (Continued)

The projections of benefits are based on the types of benefits provided under the substantive plan at the time of the valuation date and on the pattern of cost-sharing between the employer and Plan members. In addition, the projections do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and Plan members in the future. The actuarial calculations reflect a long-term perspective; actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial measurement date was dated July 1, 2012.

The BOCES other postemployment benefit (OPEB) cost for all employee health insurance benefits is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The previous table shows the components of the BOCES' annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the BOCES' net OPEB obligation.

In the July 1, 2012, actuarial valuation the projected unit credit cost method was used. The actuarial assumptions included a 5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and the medical/drug trend rates of 3.10% - 10% initially, reduced by decrements to an ultimate rate of 5% after 10 years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization periods of the original 30 years at June 30, 2013 was 25 years.

12. RISK MANAGEMENT

The BOCES is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; errors and omissions; and natural disasters. These risks are covered by a combination of self-insurance reserves and commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded available reserves and commercial insurance coverage for the past three years.

Workers Compensation Liability

The BOCES has established a self-insured plan for risks associated with workers' compensation claims. Liabilities of the plan are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for reported and unreported claims which were incurred on or before year end but not reported (IBNR). Claims activity is summarized below:

	2013	2012
Unpaid Claims at Beginning of Year	\$ 4,670,741	\$ 4,653,914
Incurred Claims and Claim Adjustment Expenses	3,596,881	2,273,722
Claim Payments	<u>(2,689,870)</u>	<u>(2,256,895)</u>
Unpaid Claims at Year End	<u>\$ 5,577,752</u>	<u>\$ 4,670,741</u>

Health Benefit Program

The BOCES participates in a health benefit program for selected employees through the East End Health Plan, a consortium of school districts from the east end of Long Island. The benefit program's administrator is responsible for the approval, processing and payment of claims. This is billed to the BOCES at an established rate based on the number of participants. The BOCES is responsible for contributions to cover their share of the benefits and administrative costs. The trust for the plan reports on a calendar year end. In the event the plan experiences a shortfall, a special assessment against participating districts may be imposed. The BOCES is not aware of any additional assessments related to claims incurred through June 30, 2013.

13. OPERATING LEASES

Short-term operating leases, predominantly of a one to five year duration, have been negotiated for the use of certain classrooms and facilities. All lease payments are expensed when paid and totaled \$6,785,126 for the year.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

13. OPERATING LEASES (Continued)

Future minimum rental payments under the terms of the renewal lease are payable as follows:

Year Ending June 30,	Amount
2014	\$ 5,908,972
2015	\$ 4,231,492
2016	\$ 3,626,586
2017	\$ 3,536,836
2018	\$ 2,375,675
Thereafter	\$ 4,929,540

14. FUND BALANCE

(a) The following is a summary of the change in General fund restricted reserve funds during the year ended June 30, 2013:

	(Restated) Beginning Balance	Increases/ Decreases	Ending Balance
Restricted			
General Fund			
Employee Benefit Accrued Liability	\$ 29,297,406	\$ 179,271	\$ 29,476,677
Reserve for Liability	121,234		121,234
Unemployment Insurance	94,232	2,749	96,981
Reserve for Property Loss	28,126		28,126
Workers' Compensation	3,929,034	1,125,047	5,054,081
Total General Fund Restricted	<u>\$ 33,470,032</u>	<u>\$ 1,307,067</u>	<u>\$ 34,777,099</u>

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

14. FUND BALANCE (Continued)

(b) The following is the disaggregation of the fund balance that is reported in summary on the Governmental Fund's Balance Sheet at June 30, 2013:

	<u>General</u>	<u>School Lunch</u>	<u>Special Aid</u>	<u>Capital</u>	<u>Total</u>
Nonspendable	\$	\$ 143	\$	\$	\$ 143
Restricted					
Employee Benefit Accrued Liability	29,476,677				29,476,677
Reserve for Liability	121,234				121,234
Unemployment Insurance Reserve	96,981				96,981
Reserve for Property Loss	28,126				28,126
Workers' Compensation Reserve	5,054,081				5,054,081
Special Aid Fund			39,424		39,424
Total Restricted	<u>34,777,099</u>		<u>39,424</u>		<u>34,816,523</u>
Committed					
Capital Projects				5,116,933	5,116,933
Assigned					
Administration	491,660				491,660
Occupational Instruction	1,869,865				1,869,865
Instruction for Special Needs	2,568,965		489,163		3,058,128
Itinerant Services	18,313				18,313
General Instruction	86,541				86,541
Instruction Support	394,678				394,678
Other Services	1,959,973				1,959,973
School Lunch		139,197			139,197
Total Assigned	<u>7,389,995</u>	<u>139,197</u>	<u>489,163</u>		<u>8,018,355</u>
Total Fund Equity	<u>\$ 42,167,094</u>	<u>\$ 139,340</u>	<u>\$ 528,587</u>	<u>\$ 5,116,933</u>	<u>\$ 47,951,954</u>

15. COMMITMENTS AND CONTINGENCIES

Grants

The BOCES has received grants, which are subject to audit by agencies of the state and federal governments. Such audits may result in disallowances and a request for a return of funds. Based on prior audits, the BOCES' administration believes disallowances, if any, will be immaterial.

Litigation

The BOCES is involved in lawsuits arising from the normal conduct of its affairs. Some of these lawsuits seek damages which may be in excess of the BOCES' insurance coverage. However, it is not possible to determine the BOCES' potential exposure, if any, at this time.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2013

15. COMMITMENTS AND CONTINGENCIES (Continued)

Encumbrances

Encumbrance accounting is employed as an extension of formal budgetary integration for the General Fund, special revenue funds, and capital projects funds. At June 30, 2013, certain amounts which were previously restricted, committed, or assigned for specific purposes have been encumbered in the governmental funds. Significant encumbrances included in governmental fund balances are as follows:

	Assigned		Committed	
	General	Special Aid	Capital	Total
Administration	\$ 491,660	\$	\$	\$ 491,660
Occupational Instruction	1,869,865			1,869,865
Instruction for Special Needs	2,568,965	243,232		2,812,197
Itinerant Services	18,313			18,313
General Instruction	86,541			86,541
Instruction Support	394,678			394,678
Other Services	1,959,973			1,959,973
Capital Outlay			561,711	561,711
School Lunch				
Total Encumbrances	\$ 7,389,995	\$ 243,232	\$ 561,711	\$ 8,194,938

16. FUND DEFICITS

Net Position Deficit – BOCES-Wide

The BOCES-wide net position had a deficit at June 30, 2013 of \$102,861,139. The deficit is the result of the implementation of GASB Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," which required the recognition of an unfunded liability of \$155,526,837 at June 30, 2013. Since New York State Laws provide no mechanism for funding the liability, the subsequent accruals are expected to increase the deficit.

17. PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2013, the BOCES changed the way in which they recorded compensated absences. The change is being applied prospectively, beginning July 1, 2013. The effect of this change in the current period is a decrease of short term liabilities of \$29,297,406 in the general fund, and an increase in the long term liability on the governmental statement of financial position of \$29,297,406. There is no effect on the current surplus of the BOCES.

EASTERN SUFFOLK BOCES
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual		Final Budget Variance With Actual
Revenues					
Administration	\$ 37,128,106	\$ 36,765,854	\$ 34,291,627		\$ (2,474,227)
Occupational Instruction	32,541,437	32,433,260	31,127,512		(1,305,748)
Instruction for Special Needs	129,541,785	136,384,594	133,624,996		(2,759,598)
Itinerant Services	6,771,226	7,354,691	6,336,034		(1,018,657)
General Instruction	9,735,250	12,192,755	10,410,208		(1,782,547)
Instruction Support	21,273,622	24,175,418	21,376,436		(2,798,982)
Other Services and Internal Services	63,001,900	68,317,773	61,903,498		(6,414,275)
Internal Services		<u>1,442,332</u>	<u>349,854</u>		<u>(1,092,478)</u>
Total Revenues	<u>\$ 299,993,326</u>	<u>\$ 319,066,677</u>	<u>299,420,165</u>		<u>\$ (19,646,512)</u>
Expenditures					
Administration	\$ 36,628,106	\$ 35,765,854	32,926,578	\$ 491,660	\$ 2,347,616
Occupational Instruction	32,541,437	32,433,260	29,470,333	1,869,865	1,093,062
Instruction for Special Needs	129,541,785	136,384,594	132,001,669	2,568,965	1,813,960
Itinerant Services	6,771,226	7,354,691	6,372,824	18,313	963,554
General Instruction	9,735,250	12,192,755	10,791,463	86,541	1,314,751
Instruction Support	21,273,622	24,175,418	21,014,643	394,678	2,766,097
Other Services	62,851,900	68,127,773	55,196,010	1,959,973	10,971,790
Internal Services		<u>1,442,332</u>	<u>349,854</u>		<u>1,092,478</u>
Total Expenditures	<u>299,343,326</u>	<u>317,876,677</u>	<u>288,123,374</u>	<u>7,389,995</u>	<u>22,363,308</u>
Other Financing Uses					
Transfer to Other Funds	650,000	1,190,000	1,371,570		(181,570)
Return of Surplus			<u>5,444,313</u>		<u>(5,444,313)</u>
Total Expenditures and Other Financing Uses	<u>\$ 299,993,326</u>	<u>\$ 319,066,677</u>	<u>294,939,257</u>	<u>\$ 7,389,995</u>	<u>\$ 16,737,425</u>
Net Change in Fund Balances			<u>4,480,908</u>		
Fund Balance - Beginning of Year			8,388,780		
Prior Period Adjustment			<u>29,297,406</u>		
Fund Balance - Beginning of Year (Restated)			<u>37,686,186</u>		
Fund Balance - End of Year			<u>\$ 42,167,094</u>		

Notes to Required Supplementary Information:

The BOCES administration prepares a proposed budget for approval by the Board of Education for the General Fund, the only fund with a legally adopted budget.

The budget is adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

EASTERN SUFFOLK BOCES
SCHEDULE OF FUNDING PROGRESS OF OTHER POSTEMPLOYMENT BENEFITS
For the Year Ended June 30, 2013

Fiscal Year Ending	Actuarial Value of Assets	Actuarial Liability-Projected Unit Credit	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
	(a)	(b)	(b)-(a)	(a)/(b)	(c)	[(b)-(a)]/(c)
June 30, 2013	\$ 0	\$ 526,760,740	\$ 526,760,740	0%	\$ 115,494,147	456%
June 30, 2012	\$ 0	\$ 498,397,459	\$ 498,397,459	0%	\$ 119,599,229	417%
June 30, 2011	\$ 0	\$ 461,095,437	\$ 461,095,437	0%	\$ 124,695,842	370%

The accompanying notes are an integral part of these schedules.

EASTERN SUFFOLK BOCES
SCHEDULES OF A431 SCHOOL DISTRICT ACCOUNT
For the Year Ended June 30, 2013

Balance, Beginning of Year	<u>\$ 45,181,388</u>
Debits	
Billings to Components	277,072,067
Refund Balances Due School Districts - June 30, 2012	6,390,245
Encumbrances - June 30, 2013	7,389,995
Other Adjustment - Allowance for Receivable - June 30, 2012	<u>747,733</u>
Total Debits	<u>291,600,040</u>
 Subtotal	 <u>336,781,428</u>
Credits	
Collections from Components	275,086,784
Refund Balances Due School Districts - June 30, 2013	5,444,313
Encumbrances - June 30, 2012	4,216,154
Other Adjustments - Refunds from other BOCES	155,359
Other Adjustments - Allowance for Receivable - June 30, 2013	<u>599,354</u>
Total Credits	<u>285,501,964</u>
 Balance, End of Year	 <u>\$ 51,279,464</u>
 <u>Summary:</u>	
A380 Accounts Receivable Components	\$ 56,723,777
A431 School District Accounts	<u>(5,444,313)</u>
Balance, End of Year	<u>\$ 51,279,464</u>

The accompanying notes are an integral part of these schedules.

EASTERN SUFFOLK BOCES
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
For the Year Ended June 30, 2013

	Budget		Expenditures		Unexpended		Methods of Financing		Fund Balance June 30, 2013
	6/30/2012	6/30/2013	Prior Years	Current Year	Total	Balance	Proceeds of Obligations	Local Sources	
New Fire Supp System - Sherwood	\$ 304,680	\$ 186,769	\$ 12,670	\$ 174,099	\$ 186,769	\$	\$	\$ 186,769	\$
HVAC Projects	2,155,227	2,044,425	1,838,155	206,271	2,044,426	(1)	(1)	2,044,426	2,044,425
Plumbing Shop Ventilation Upgrade	176,310	118,218	118,218		118,218			118,218	118,218
Exterior Doors and Windows Replacement	819,505	819,505	299,382	303,965	603,347	216,158	216,158	819,505	819,505
Jefferson Kitchen Upgrade	194,956	194,015	14,515	179,500	194,015			194,015	194,015
Fire Protection System (BTC)	195,362	195,230	167,823	27,407	195,230			195,230	195,230
Phase I MTC Infra-Red Heating		30,000		10,807	10,807	19,193	19,193	30,000	30,000
St. Joseph Renovations		698,464		320,758	320,758	377,706	377,706	698,464	698,464
Capital Projects-Unallocated	1,946,142	2,503,556				2,503,556	2,503,556	2,503,556	2,503,556
Career Education	2,000,000	2,000,000		215,999	215,999	216,320	216,320	216,320	216,320
Technology CoSers		3,743,876		3,743,876	3,743,876	1,784,001	1,784,001	2,000,000	2,000,000
Totals	\$ 7,790,182	\$ 12,730,378	\$ 2,450,763	\$ 5,182,682	\$ 7,633,445	\$ 5,116,933	\$ 3,743,875	\$ 9,006,503	\$ 12,730,378

The accompanying notes are an integral part of these schedules.
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EASTERN SUFFOLK BOCES
SCHEDULE OF INVESTMENT IN CAPITAL ASSETS
For the Year Ended June 30, 2013

Capital Assets, Net of Accumulated Depreciation	\$ 57,099,457
Deduct:	
Installment Purchase Debt	(4,359,621)
Deferred Payment Plan Debt	(3,971,484)
Energy Performance Contract	<u>(1,669,970)</u>
Total Deductions	<u>(10,001,075)</u>
 Net Investment in Capital Assets	 <u>\$ 47,098,382</u>

The accompanying notes are an integral part of these schedules.

EASTERN SUFFOLK BOCES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>2013 Expenditures</u>
<u>U.S. Department of Agriculture</u> Food Distribution	10.555	*	\$ 30,245
<u>U.S. Department of Agriculture</u> <u>Pass-Through New York State Dept. of Education</u>			
School Breakfast program	10.553	*	153,568
National School Lunch Program	10.555	*	<u>263,532</u>
Total U.S Department of Agriculture			<u>447,345</u>
<u>U.S. Department of Education</u>			
Student Financial Aid Cluster: Federal Family Education Loans Pell Grants	84.032 84.063	+ +	1,453,032 <u>589,792</u> 2,042,824
FEMA	97.067	103-19EA6-00	20,337
Early Reading First	84.359	S359B090083	205,025
US DoE AEMDP	84.351	U351D100124	<u>255,379</u>
Total Direct U.S Department of Education			<u>2,523,565</u>
<u>U.S. Department of Education</u> <u>Pass-Through New York State Dept. of Education</u>			
Adult Education - State Grant Program	84.002	2338-12-1018	415,165
Adult Education - State Grant Program	84.002	0040-12-1010	<u>42,352</u>
			457,517
Migrant Education - State Grant Program	84.011	0035-11-0009	439,829
Migrant Education - State Grant Program	84.011	0035-12-0009	<u>136,725</u>
			576,554
Career and Technical Education - Basic Grants to States	84.048	8000-12-0014	673,049
Career and Technical Education - Basic Grants to States	84.048	8000-12-9025	125,863
Career and Technical Education - Basic Grants to States	84.048	8000-12-0008	<u>33,776</u>
			832,688
Education for Homeless Children and Youth	84.196	0212-12-4005	99,517
Tech-Prep Education	84.243	8080-12-0012	116
Education Technology State Grants	84.318	0291-12-2015	<u>279,978</u>
			279,978
Special Education - State Personnel Development	84.323	C009009	5,852
Reading First State Grants	84.357	C009986	-
English Language Acquisition Grants	84.365	0293-11-3285	123,651
English Language Acquisition Grants	84.365	0293-12-3285	60,065
English Language Acquisition Grants	84.365	0293-12-1724	32,084
	85.365	0293-13-1724	<u>55,039</u>
			<u>270,819</u>
Total Direct U.S Department of Education Pass-Through New York State Dept. of Education			<u>2,523,041</u>
<u>U.S. Department of Education</u> <u>Pass-Through Riverhead Central School District</u>			
Title I Program for neglected and Delinquent Children	84.013	NA	<u>76,314</u>
Total U.S. Department of Education			<u>5,122,920</u>
Total Expenditures of Federal Awards			<u>\$ 5,570,265</u>
* Part of National School Lunch Program Cluster			
^ Part of Special Education Cluster (IDEA)			
+ Part of Student Financial Aid Cluster			

EASTERN SUFFOLK BOCES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2013

1. GENERAL

The schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the BOCES. The BOCES' reporting entity is defined in the basic financial statements. All federal financial assistance received directly from federal agencies, as well as federal assistance passed through from other governments, is included in the schedule.

2. BASIS OF ACCOUNTING

The schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, as described in the BOCES's basic financial statements. The information is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in the preparation of the financial statements.

3. OTHER DISCLOSURES

No insurance is carried specifically to cover equipment purchased with federal awards. Any equipment purchased with federal funds has only a nominal value and is covered by the BOCES's insurance policies.

There were no loans or loan guarantees outstanding at year-end.

4. SUBRECIPIENTS

No amounts were paid to sub-recipients during the year ended June 30, 2013.

5. LOAN PROGRAMS

Students attending the BOCES received the following new loans during the year ended June 30, 2013. These loans are made by an organization separate from the BOCES. The value of the loans made during the year is included as federal expenditures presented in the schedule of federal awards.

Federal Family Education Loans	CFDA 84.032	\$1,453,032
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**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**

October 21, 2013

To the Board of Education of the
Eastern Suffolk Board of
Cooperative Educational Services:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eastern Suffolk Board of Cooperative Educational Services (the "BOCES") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the BOCES' basic financial statements and have issued our report thereon dated October 21, 2013.

Internal Control Over Financial Reporting

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

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(Continued)

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 BOCES' 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

October 21, 2013

To the Board of Education of the
Eastern Suffolk Board of
Cooperative Educational Services:

Report on Compliance for Each Major Federal Program

We have audited the Eastern Suffolk Board of Cooperative Educational Services (the BOCES) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the BOCES' major federal programs for the year ended June 30, 2013. The BOCES' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

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(Continued)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE (Continued)

Report on Internal Control Over Compliance

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

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

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

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

EASTERN SUFFOLK BOCES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013**

Section I—Summary of Auditor’s Results

Financial Statements

Type of independent auditor’s report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified not considered to be material weaknesses? Yes No

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.048

Career and Technical Education – Basic grants to States

84.002

Adult Education – Basic Grants to States

84.365

English Language Acquisition Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

EASTERN SUFFOLK BOCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013 (Continued)

Section II—Financial Statement Findings

There were no instances of significant deficiencies, material weaknesses, or noncompliance that are required to be reported under Government Auditing Standards.

Section III—Federal Award Findings and Questioned Costs

There were no instances of significant deficiencies, material weaknesses, or noncompliance, including questioned costs that are required to be reported under OMB Circular A-133.

Section IV - Status of Prior Year Comments

There were no prior year comments.

EASTERN SUFFOLK BOCES

**CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2013**

For the year ended June 30, 2013, there were no findings required to be reported under *Government Auditing Standards* or OMB Circular A-133. Accordingly, a corrective action plan is unnecessary.

**EASTERN SUFFOLK BOCES
EXTRACLASSROOM ACTIVITY FUNDS**

**For the Year Ended June 30, 2013
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

October 21, 2013

To the Board of Education of
Eastern Suffolk Board of
Cooperative Education Services:

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Suffolk BOCES's Extraclassroom Activity Funds which comprise the cash and fund balances resulting from cash transactions – cash basis, and the related statement of cash receipts and cash disbursements-cash basis as of June 30, 2013 for the year then ended June 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting as described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express an 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. 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 opinion.

(Continued)

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the cash and fund balances resulting from cash transactions of the Extraclassroom Activity Funds of the Eastern Suffolk BOCES as of June 30, 2013, and the cash receipts and cash disbursements for the year then ended, in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

**Eastern Suffolk BOCES
EXTRACLASSROOM ACTIVITY FUND**

**STATEMENT OF CASH AND FUND BALANCES RESULTING FROM CASH TRANSACTIONS –
CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2013**

ASSETS

CASH \$36,773

TOTAL ASSETS \$36,773

FUND BALANCE

FUND BALANCE \$36,773

TOTAL FUND BALANCE \$36,773

The accompanying notes are an integral part of these statements.

EASTERN SUFFOLK BOCES

**EXTRACLASSROOM ACTIVITY FUND
STATEMENT OF CASH RECEIPTS AND CASH DISBURSEMENTS - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Activities and Clubs</u>	Balance July 1, <u>2012</u>	<u>Receipts</u>	<u>Disbursements</u>	Balance June 30, <u>2013</u>
H.B. Ward Technical Center VICA Club	\$ 26,369	\$ 37,943	\$ 39,321	\$ 24,992
Brookhaven Technical Center VICA Club	5,996	40,239	44,625	1,610
Islip Career Center VICA Club	5,079	10,355	10,829	4,605
Brookhaven Technical Center School Store	2,428	13,330	15,156	603
Milliken Technical Center Skills USA	6,603	44,311	47,157	3,757
Centereach Academic Center	-	1,320	802	518
Brookhaven Academic Center Student Council	<u>737</u>	<u>414</u>	<u>463</u>	<u>688</u>
 Grand Total	 <u>\$ 47,212</u>	 <u>\$ 147,913</u>	 <u>\$ 158,352</u>	 <u>\$ 36,773</u>

The accompanying notes are an integral part of these statements.

**Eastern Suffolk BOCES
EXTRACLASSROOM ACTIVITY FUND**

**NOTE TO FINANCIAL STATEMENTS
JUNE 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statement of the Extraclassroom Activity Funds of Eastern Suffolk BOCES (the BOCES) is prepared basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. The cash basis of accounting, therefore, does not recognize receivables and payables, inventories, long-lived assets, and accrued income and expenses, which would be recognized under accounting principles generally accepted in the United States. The significant principles are policies used by the BOCES are described below.

Reporting Entity

The transactions of the Extraclassroom Activity Funds are included in the reporting entity of the BOCES. Such transactions are included in the combined financial statements of the BOCES and reported in the Trust and Agency Fund as cash and extraclassroom activity fund balances. Exclusion from the BOCES' financial statements, due to their nature and significance of their relationship with the primary government, would cause the reporting entity's financial statements to be misleading or incomplete.

The Extraclassroom Activity Funds represent funds of the students of the BOCES. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the BOCES with respect to its financial transactions and the designation of student management. The activities included in this report were formed only for educational and school activity purposes in accordance with BOCES rules and regulations for the conduct, operation, and maintenance of the extraclassroom activities.

Cash

The BOCES' cash consist of cash on hand and demand deposits. New York State law governs the BOCES' 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 not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, and obligations of New York State or its localities.

Demand deposits at year-end were entirely covered by FDIC insurance or deposited in trust companies located within the State. At June 30, 2013, cash and cash equivalents are entirely composed of cash on hand and demand deposit accounts. All deposits are carried at cost, which equals market.

Equity Classification – Fund Balance

Unreserved fund balance consists of the portion of fund balance that has not been designated or reserved.

Salatto, Barbara

From: Conley, Laurie
Sent: Monday, March 10, 2014 12:59 PM
To: Salatto, Barbara
Cc: Kaelin, Maureen
Subject: Cy Young Industries

Barbara,
We have pulled line item 43 for Cy Young Industries catalog off of our Classroom Furniture Bid. The Participants of the Cooperative Bidding Program will no longer have access to this line item on the website. I have also spoken with Brian Burke of Young Equipment Sales and Young Equipment Sales has formally requested withdrawal of line item 43 in writing. I will have a regular Cooperative Bidding Update put out to the Participants informing them of this change. If you would like me to take any further action, please let me know.

Laurie

Laurie Conley, CPPB
School Purchasing Agent
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