

## INTERNAL CONTROL MATTERS

October 14, 2014

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, 2014, and have issued our report thereon, dated October 14, 2014

In planning and performing our audit of the financial statements of the BOCES for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the BOCES' 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' internal control. Accordingly, we do not express an opinion on the effectiveness of the BOCES' 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.

### Internal Claims Auditor Approvals on Warrants

*Observation:* While performing testing of controls over the expenditures it was noted that 4 out of the 40 expenditures examined did not have the signature of the internal claims auditor on the warrants. In order to ensure that expenditures are proper and to know that they have been reviewed, the internal claims auditor should sign off on the warrant after they have gone through the expenses.

*Suggestion:* We recommend that the Internal Claims Auditor sign off and date the warrants after they have approved all payments.

### OPEB Liability Estimate

*Observation:* We noted that 2 of the 25 participants selected for testing had incorrect information in the census data provided to the actuaries to complete their valuation report. Per inquiry with HR these differences in date of birth, hire, or retirement had to do with the oldest retirement files, and were likely due to a change in computer software during the current year.

*Suggestion:* We recommend that the BOCES review the procedures for verifying the census data is correctly transferred to new software when any changes are made.

Extraclassroom Receipts – repeat comment

*Observation:* We noted that certain extraclassroom receipts lacked proper approval and 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:

- Deposit form that contains the club advisor and activity treasurer's signature of approval.
- 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

*Observation:* During our testing of disbursement for the extraclassroom programs, it was noticed that certain disbursements lacked proper approval and supporting documentation.

*Suggestion:* In order to ensure that the disbursements for the extraclassroom programs are properly supported and approved we recommend the following:

- Payment form that contains the club advisor and activity treasurer's signature of approval.
- Supporting documentation, such as invoice or purchase order attached to a copy of the canceled check.

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, 2014**

**Bonadio & Co., LLP**  
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT**

October 14, 2014

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 and each major fund, of Eastern Suffolk Board of Cooperative Educational Services (the "BOCES") as of and for the year ended June 30, 2014, 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)

## **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, and each major fund of the BOCES as of June 30, 2014, and the respective changes in financial position, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **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 39 through 40 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 41 through 43, 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 41 through 43 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 14, 2014 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.

*Bonadio & Co., LLP*

**REQUIRED SUPPLEMENTARY INFORMATION**

**EASTERN SUFFOLK BOCES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

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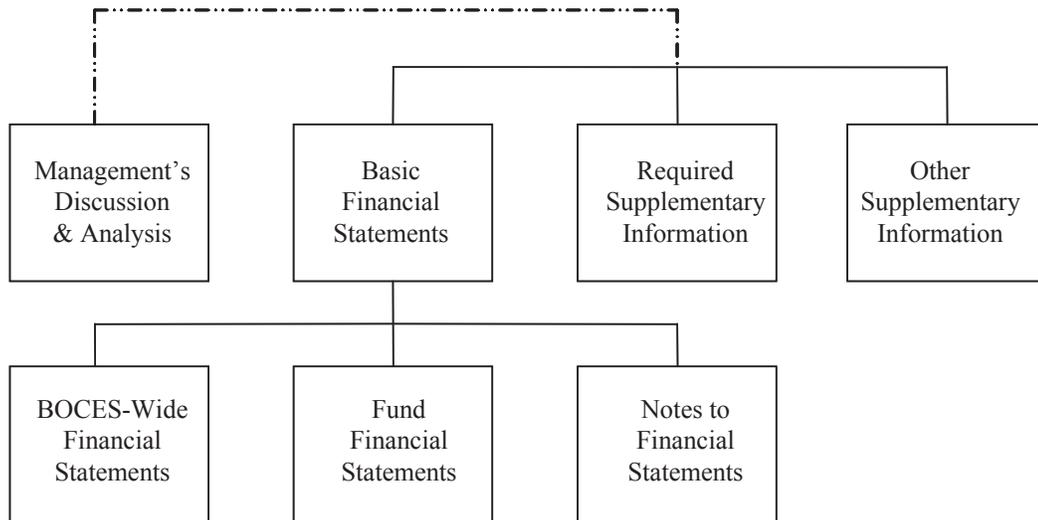
The following is a discussion and analysis of the BOCES' financial performance for the year ended June 30, 2014. This section is a summary of the BOCES' financial activities based on currently known facts, decisions and conditions. It is also based on both the BOCES-wide and fund-based financial statements. 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 \$17,472,014. The primary factor contributing to this decrease was due to the increase in the Other Postemployment Liabilities by \$23,178,661.
- During the year, the BOCES had expenses in excess of program revenues of \$18,989,569 which was partially offset by \$1,517,555 generated in interest and earnings, Sale of Property and Compensation for Loss and State and Local Sources.
- Program revenues included \$316,327,635 in Charges for Services and \$15,936,821 in Operating Grants and Contributions, which together comprise approximately 99.5% of total revenues.
- BOCES total General Fund revenue for 2014 was \$309,597,794. Approximately \$260,233,700 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 2014-2015, \$1,086,604 of the surplus from the prior year will be returned. During 2013-2014, \$2,270,469 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, 2014**

**(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. Because this information does not encompass the additional long-term focus of the BOCES-wide statements, additional information can be found on pages 15 and 17 which reconciles the BOCES-wide financial statements to the fund financial statements.

**EASTERN SUFFOLK BOCES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

**(Continued)**

- **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**

**A. Net Position**

The BOCES total net position decreased \$17,472,014 between fiscal year 2013 and 2014. A summary of the BOCES Statement of Net Position for the June 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Current and Other Assets	\$ 101,523,769	\$ 100,207,464	\$ 1,316,305	1.3%
Capital Assets, (Net of Accumulated Depreciation)	<u>58,241,924</u>	<u>57,099,457</u>	<u>1,142,467</u>	2.0%
Total Assets	<u>\$ 159,765,693</u>	<u>\$ 157,306,921</u>	<u>\$ 2,458,772</u>	1.6%
Non-Current Liabilities	\$ 230,309,541	\$ 209,706,021	\$ 20,603,520	9.8%
Other Liabilities	<u>49,789,306</u>	<u>50,462,040</u>	<u>(672,734)</u>	(1.3%)
Total Liabilities	<u>\$ 280,098,847</u>	<u>\$ 260,168,061</u>	<u>\$ 19,930,786</u>	7.7%
Investment in Capital Assets	\$ 48,083,314	\$ 47,098,382	\$ 984,932	2.1%
Restricted	36,852,389	34,816,523	2,035,866	5.8%
Unrestricted	<u>(205,268,857)</u>	<u>(184,776,045)</u>	<u>(20,492,812)</u>	(11.1%)
Total Net Position	<u>\$ (120,333,154)</u>	<u>\$ (102,861,140)</u>	<u>\$ (17,472,014)</u>	(17.0%)

Current and other assets increased by \$1,316,305, 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 \$1,142,467, 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 \$20,603,520, as compared to the prior year. This increase is primarily the result of the increase in the Other Postemployment Benefits by \$23,178,661.

Other liabilities decreased by \$672,734 as compared to the prior year. This decrease is primarily a result of an decrease in the return of surplus.

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.

The unrestricted net position at June 30, 2014, is a deficit \$205,268,857, 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 liability for Other Postemployment Benefit Liabilities for \$178,705,492 at June 30, 2014.

**EASTERN SUFFOLK BOCES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

**(Continued)**

**B. Changes in Net Position**

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, 2014 and 2013 is as follows:

<b>Revenues</b>	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Program Revenues				
Charges for Services	\$ 316,327,635	\$ 301,743,914	\$ 14,583,721	4.8%
Operating Grants	15,936,821	15,665,343	271,478	1.7%
General Revenues				
State and Federal Sources	1,322,364	1,199,438	122,926	10.2%
Interest and Earnings	23,970	46,519	(22,549)	(48.5%)
Sales of Property and Compensation for Loss	<u>171,221</u>	<u>(73,783)</u>	<u>245,004</u>	332.1%
Total Revenues	<u>333,782,011</u>	<u>318,581,431</u>	<u>15,200,580</u>	4.8%
<b>Expenses</b>				
Administration	36,392,094	36,259,121	132,973	0.4%
Occupation Instruction	35,192,610	32,601,133	2,591,477	7.9%
Instruction for Special Needs	173,756,329	171,487,654	2,268,675	1.3%
Itinerant Services	7,410,010	6,993,422	416,588	6.0%
General Instruction	13,495,406	11,855,257	1,640,149	13.8%
Instructional Support	23,207,103	23,020,889	186,214	0.8%
Other Services	60,754,130	56,654,254	4,099,876	7.2%
Internal Services	261,203	346,889	(85,686)	(24.7%)
School Lunch Program	<u>785,140</u>	<u>758,735</u>	<u>26,405</u>	3.5%
Total Expenses	<u>351,254,025</u>	<u>339,977,354</u>	<u>11,276,671</u>	3.3%
Total Change in Net Position	<u>\$ (17,472,014)</u>	<u>\$ (21,395,923)</u>	<u>\$ 3,923,909</u>	

The BOCES' revenues increased by \$15,200,580 in 2014 or 4.8%. The major factors that contributed to the increase were:

- Charges for Services increased by \$14,583,721.
- Increase to the Operating Grants by \$271,478.

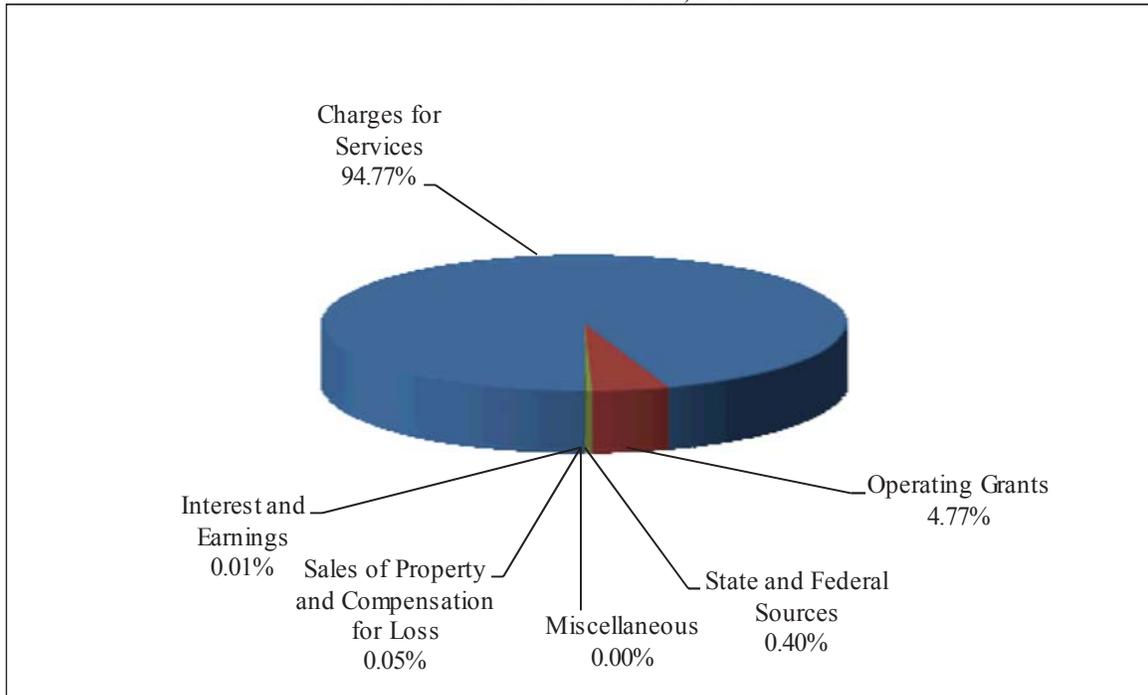
The BOCES' expenditures for the year increased by \$11,276,671 or 3.3%.

**EASTERN SUFFOLK BOCES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

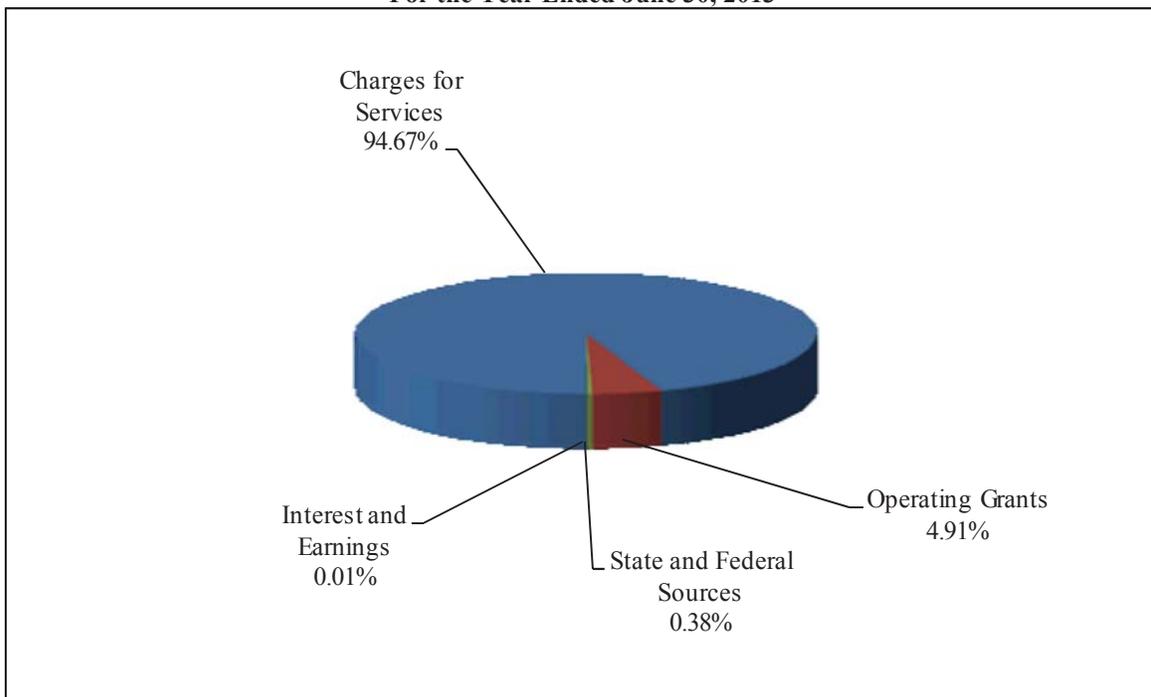
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A graphic display of the distribution of revenues for the two years follows:

**For the Year Ended June 30, 2014**



**For the Year Ended June 30, 2013**

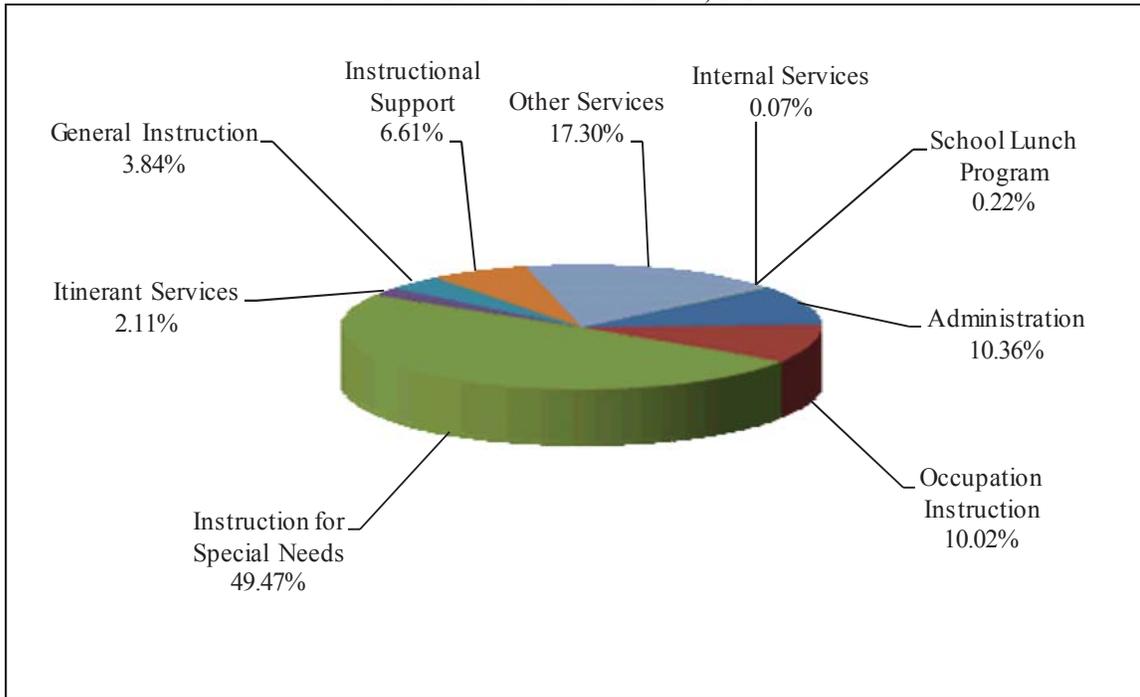


**EASTERN SUFFOLK BOCES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

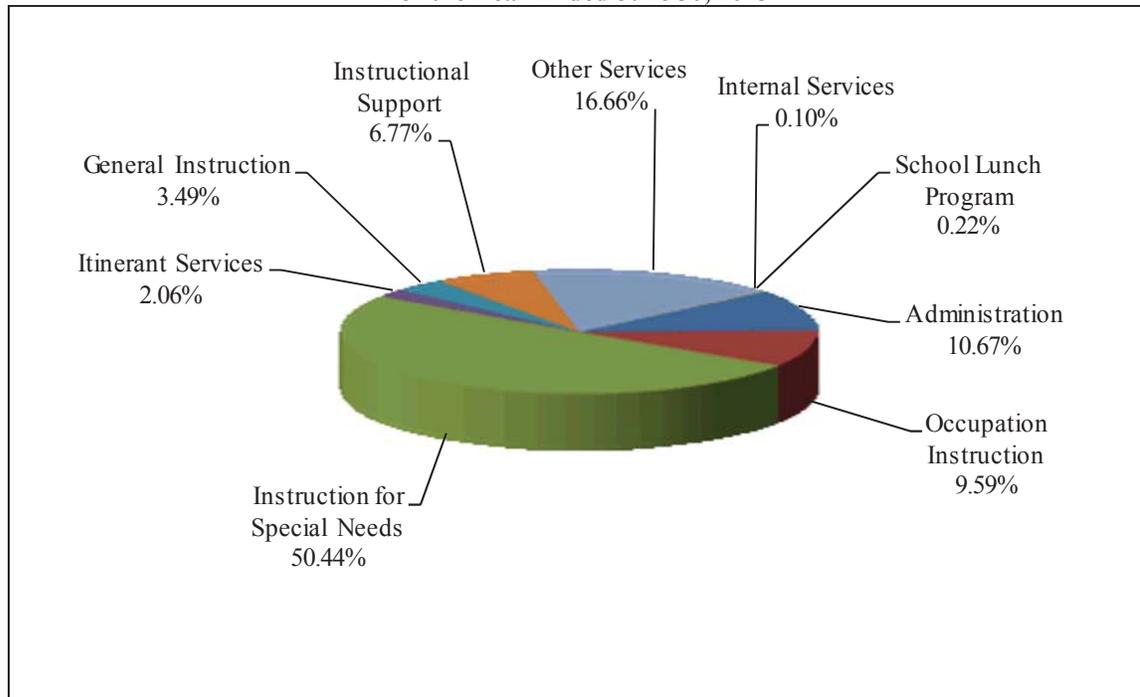
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A graphic display of the distribution of expenses for the two years follows:

**For the Year Ended June 30, 2014**



**For the Year Ended June 30, 2013**



**EASTERN SUFFOLK BOCES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

(Continued)

**4. FINANCIAL ANALYSIS OF THE BOCES' FUND BALANCES**

At June 30, 2014, the BOCES' governmental funds reported combined fund balance of \$50,055,194 which is an increase of \$2,103,241 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:

	2014	2013	Increase (Decrease)
General Fund			
Restricted			
Reserve for Liability	\$ 121,234	\$ 121,234	\$
Unemployment Insurance Reserve	174,173	96,981	77,192
Reserve for Property Loss	28,126	28,126	
Employee Benefit Accued Liability Reserve	28,642,522	29,476,677	(834,155)
Reitrement Contribution Reserve	1,997,663		1,997,663
Workers' Compensation Reserve	<u>5,849,247</u>	<u>5,054,081</u>	<u>795,166</u>
Total Restricted	<u>36,812,965</u>	<u>34,777,099</u>	<u>2,035,866</u>
Assigned			
Administration	261,232	491,660	(230,428)
Occupational Instruction	892,968	1,869,865	(976,897)
Instruction for Special Needs	2,312,776	2,568,965	(256,189)
Itinerant Services	57,399	18,313	39,086
General Instruction	82,017	86,541	(4,524)
Instructional Support	827,106	394,678	432,428
Other Services	<u>1,566,782</u>	<u>1,959,973</u>	<u>(393,191)</u>
Total Assigned	<u>6,000,280</u>	<u>7,389,995</u>	<u>(1,389,715)</u>
Total General Fund	<u>42,813,245</u>	<u>42,167,094</u>	<u>646,151</u>
School Lunch Fund			
Nonspendable	649	143	506
Assigned	<u>164,444</u>	<u>139,197</u>	<u>25,247</u>
Total School Lunch Fund	<u>165,093</u>	<u>139,340</u>	<u>25,753</u>
Special Aid Fund			
Restricted	39,424	39,424	
Assigned	<u>1,339,126</u>	<u>489,162</u>	<u>849,964</u>
Total Special Aid Fund	<u>1,378,550</u>	<u>528,586</u>	<u>849,964</u>
Capital Fund			
Committed	<u>5,698,306</u>	<u>5,116,933</u>	<u>581,373</u>
Total Capital Fund	<u>5,698,306</u>	<u>5,116,933</u>	<u>581,373</u>
Total	<u>\$ 50,055,194</u>	<u>\$ 47,951,953</u>	<u>\$ 2,103,241</u>

**EASTERN SUFFOLK BOCES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

(Continued)

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

- The difference between the original approved budget of \$295,429,490 and prior year encumbrances of \$7,389,995 and the amended budget of \$325,422,614 is \$22,603,129 or 7.5%. The increase is due to the request for additional services from component school districts. The budgetary comparison information can be found on Page 39 which presents both original and amended budget totals compared with actual results for the General Fund for the year ended June 30, 2014.
- Actual expenditures, before encumbrances, were under the amended budget by \$16,470,972 or 5.1%, and actual revenues were below the amended budget by \$15,824,820 or 4.9%.

**6. CAPITAL ASSET AND DEBT ADMINISTRATION**

**A. Capital Assets**

At June 30, 2014 and 2013, the BOCES had \$58,241,924 and \$57,099,457, 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, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>	Increase (Decrease)
Land	\$ 6,306,650	\$ 6,306,650	\$
Technology in Process	150,272	227,745	(77,473)
Construction in Process	387,628	934,913	(547,285)
Buildings	28,644,175	28,713,189	(69,014)
Furniture and Equipment	<u>22,753,199</u>	<u>20,916,960</u>	<u>1,836,239</u>
Capital Assets, Net	<u>\$ 58,241,924</u>	<u>\$ 57,099,457</u>	<u>\$ 1,142,467</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 \$8,708,731 and \$8,508,330 for the years ended June 30, 2014 and 2013, respectively.

**B. Long-Term Debt**

At June 30, 2014 and 2013, the BOCES had total long-term debt of \$230,309,541 and \$209,706,021, respectively. A summary of the long-term debt at June 30, 2014 and 2013, is as followed:

	<u>2014</u>	<u>2013</u>	Increase (Decrease)
Installment Purchase Debt	\$ 4,503,071	\$ 4,359,621	\$ 143,450
Compensated Absences	35,102,452	38,600,363	(3,497,911)
OPEB liability	178,705,492	155,526,831	23,178,661
Deferred Payment Plan Debt	4,165,958	3,971,484	194,474
Workers' Compensation	6,342,987	5,577,752	765,235
Energy Performance Contract	<u>1,489,581</u>	<u>1,669,970</u>	<u>(180,389)</u>
Total Long-Term Debt	<u>\$ 230,309,541</u>	<u>\$ 209,706,021</u>	<u>\$ 20,603,520</u>

**EASTERN SUFFOLK BOCES  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2014**

**(Continued)**

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**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, 2014**

**Assets**

Cash and Cash Equivalents	\$ 22,114,830
Restricted Cash and Cash Equivalents	3,610,009
Receivables	
Due from Other Governments	23,144,175
Due from Components, Net of Allowance of \$328,916	51,555,310
Accounts Receivable	1,097,821
Inventory	649
Prepaid Expenditures	975
Capital Assets, Net of Accumulated Depreciation	<u>58,241,924</u>
Total Assets	<u><u>\$ 159,765,693</u></u>

**Liabilities**

Due to Components - Refund of Surplus	\$ 1,086,604
Due to Components - State Aid	18,170,261
Due to	
Other Governments	139
Fiduciary Funds	2,687,260
Teachers' Retirement System	13,257,359
Employees' Retirement System	1,847,816
Accounts Payable	8,822,720
Accrued Liabilities	3,746,152
Accrued Interest	20,307
Overpayments and Collections in Advance	34,310
Unearned Revenue	116,378
Noncurrent Liabilities	
Due Within One Year	28,599,349
Due in More Than One Year	<u>201,710,192</u>
Total Liabilities	<u><u>280,098,847</u></u>

**Net Position**

Net Investment in Capital Assets	48,083,314
Restricted	36,852,389
Unrestricted (Deficit)	<u>(205,268,857)</u>
Total Net Position (Deficit)	<u><u>(120,333,154)</u></u>

**Total Liabilities and Net Position** \$ 159,765,693

**EASTERN SUFFOLK BOCES**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2014**

<b>Functions/Programs</b>	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Administration	\$ 36,392,094	\$ 35,941,327	\$	\$ (450,767)
Occupational Instruction	35,192,610	31,055,067		(4,137,543)
Instruction for Special Needs	173,756,329	147,280,222	15,450,420	(11,025,687)
Itinerant Services	7,410,010	6,353,816		(1,056,194)
General Instruction	13,495,406	12,136,601		(1,358,805)
Instruction Support	23,207,103	20,283,130		(2,923,973)
Other Services	60,754,130	63,117,697		2,363,567
Internal Services	261,203	68,130		(193,073)
Food Service Program	785,140	91,645	486,401	(207,094)
Total Functions/Programs	\$ 351,254,025	\$ 316,327,635	\$ 15,936,821	(18,989,569)
 <b>General Revenues</b>				
State and Local Sources				1,322,364
Interest and Earnings				23,970
Sales of Property and Compensation for Loss				171,221
Total General Revenues				1,517,555
Change in Net Position				(17,472,014)
Net Position (Deficit), Beginning of Year				(102,861,140)
Net Position (Deficit), End of Year				\$ (120,333,154)

The accompanying notes are an integral part of these statements

**EASTERN SUFFOLK BOCES**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2014**

	General	School Lunch	Special Aid	Capital	Total
<b>Assets</b>					
Unrestricted Cash and Cash Equivalents	\$ 22,112,863	\$ 889	\$ 1,078	\$	\$ 22,114,830
Restricted Cash and Cash Equivalents	3,610,009				3,610,009
Receivables					
Due from Other Governments	18,170,261	51,995	4,921,919		23,144,175
Due from Components, Net of Allowance of \$328,916	50,060,642		1,494,668		51,555,310
Due from Other Funds		185,552		5,934,889	6,120,441
Accounts Receivable	1,089,455	1,605	6,761		1,097,821
Inventory		649			649
Prepaid Expenditures	975				975
Total Assets	<u>\$ 95,044,205</u>	<u>\$ 240,690</u>	<u>\$ 6,424,426</u>	<u>\$ 5,934,889</u>	<u>\$ 107,644,210</u>
<b>Liabilities</b>					
Due to Components - Refund of Surplus	\$ 1,086,604	\$	\$	\$	\$ 1,086,604
Due to Components - State Aid	18,170,261				18,170,261
Due To					
Other Governments	104	35			139
Other Funds	4,629,198		4,178,503		8,807,701
Teachers' Retirement System	13,257,359				13,257,359
Employees' Retirement System	1,847,816				1,847,816
Accounts Payable	8,401,180	71,729	169,198	236,583	8,878,690
Accrued Liabilities	3,127,782	45	562,355		3,690,182
Postemployment Benefit Accrued Liability	1,699,576				1,699,576
Overpayments and Collections in Advance	7,633		26,677		34,310
Unearned Revenue	3,447	3,788	109,143		116,378
Total Liabilities	<u>52,230,960</u>	<u>75,597</u>	<u>5,045,876</u>	<u>236,583</u>	<u>57,589,016</u>
<b>Fund Balances</b>					
Nonspendable		649			649
Restricted	36,812,965		39,424		36,852,389
Committed				5,698,306	5,698,306
Assigned	6,000,280	164,444	1,339,126		7,503,850
Unassigned					
Total Fund Balances	<u>42,813,245</u>	<u>165,093</u>	<u>1,378,550</u>	<u>5,698,306</u>	<u>50,055,194</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 95,044,205</u>	<u>\$ 240,690</u>	<u>\$ 6,424,426</u>	<u>\$ 5,934,889</u>	<u>\$ 107,644,210</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, 2014**

Total Governmental Fund Balances	<u>\$ 50,055,194</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	128,669,843
Accumulated Depreciation	<u>(70,427,919)</u>
	<u>58,241,924</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	(4,165,958)
Installment Purchase Debt	(4,503,071)
Accrued Interest on Energy Performance Contract	(20,307)
Other Postemployment Benefit Liabilities	(177,005,916)
Energy Performance Contract	(1,489,581)
Workers' Compensation Claims	(6,342,987)
Compensated Absences Payable	<u>(35,102,452)</u>
	<u>(228,630,272)</u>

Total Net Position (Deficit)	<u>\$ (120,333,154)</u>
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**EASTERN SUFFOLK BOCES**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2014**

	General	School Lunch	Special Aid	Capital	Total
<b>Revenues</b>					
Charges for Services	\$ 262,997	\$	\$ 8,646,932	\$	\$ 8,909,929
Charges to Components - Administration	18,047,886				18,047,886
Charges to Components - Service Programs	242,185,814				242,185,814
Charges to Non-Components and Other BOCES	20,054,405				20,054,405
Interest and Earnings	23,970				23,970
Sale of Property and Compensation for Loss	316,193		5,141		321,334
Miscellaneous	26,591,143	794	734,251		27,326,188
Refund of Prior Year's Expenditures	257,012		6,144		263,156
Interfund Revenues	536,010				536,010
State and Local Sources	1,322,364	16,704	7,451,257		8,790,325
Federal Sources		469,697	7,999,163		8,468,860
School Lunch Sales		90,851			90,851
Total Revenues	<u>309,597,794</u>	<u>578,046</u>	<u>24,842,888</u>		<u>335,018,728</u>
<b>Expenditures</b>					
Administration	34,520,353				34,520,353
Occupational Instruction	30,858,408				30,858,408
Instruction for Special Needs	137,980,331		23,992,924		161,973,255
Itinerant Services	6,353,819				6,353,819
General Instruction	12,136,605				12,136,605
Instruction Support	21,401,464				21,401,464
Other Services	62,266,732				62,266,732
Internal Services	261,203				261,203
Capital Outlay				5,138,128	5,138,128
School Lunch Program		764,553			764,553
Total Expenditures	<u>305,778,915</u>	<u>764,553</u>	<u>23,992,924</u>	<u>5,138,128</u>	<u>335,674,520</u>
Excess (Deficit) Revenues Over Expenditures	<u>3,818,879</u>	<u>(186,507)</u>	<u>849,964</u>	<u>(5,138,128)</u>	<u>(655,792)</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds of Debt				3,845,637	3,845,637
Return of Surplus	(1,086,604)				(1,086,604)
Transfers from Other Funds		212,260		1,873,864	2,086,124
Transfers to Other Funds	(2,086,124)				(2,086,124)
Total Other Financing Sources (Uses)	<u>(3,172,728)</u>	<u>212,260</u>		<u>5,719,501</u>	<u>2,759,033</u>
<b>Excess Revenues Over Expenditures and Other Financing Sources</b>	646,151	25,753	849,964	581,373	2,103,241
<b>Fund Balances, Beginning of Year</b>	<u>42,167,094</u>	<u>139,340</u>	<u>528,586</u>	<u>5,116,933</u>	<u>47,951,953</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, 2014**

Net Changes in Fund Balance - Total Governmental Funds \$ 2,103,241

**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	(8,708,731)	
	Loss on Disposal	(150,113)	
	Capital Outlays	<u>10,001,311</u>	1,142,467

**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	(143,450)	
	Deferred Payment Plan Debt	(194,474)	
	Energy Performance Contract	180,389	
	Other Post Employment Liabilities	(23,295,323)	
	Accrued Interest on Energy Performance Contract	2,460	
	Compensated Absences	3,497,911	
	Workers' Compensation Claims	<u>(765,235)</u>	<u>(20,717,722)</u>

Change in Net Position Governmental Activities \$ (17,472,014)

**EASTERN SUFFOLK BOCES**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2014**

	Private Purpose	
	Trusts	Agency
<b>Assets</b>		
Cash and Cash Equivalents	\$	\$ 73,994
Cash and Cash Equivalents - Restricted	61,368	
Receivables		2,649
Due from Other Funds		2,687,360
Total Assets	<u>\$ 61,368</u>	<u>\$ 2,764,003</u>
<b>Liabilities</b>		
Accrued Liabilities	\$	\$ 2,691,486
Due to Other Funds	100	
Extraclassroom Activity Balances		72,517
Total Liabilities	<u>100</u>	<u>\$ 2,764,003</u>
<b>Net Position</b>		
Restricted For Other Purposes	<u>61,268</u>	
Total Net Position	<u>61,268</u>	
<b>Total Liabilities and Net Position</b>	<u>\$ 61,368</u>	

These 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, 2014**

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	Private Purpose Trusts
<b>Additions</b>	
Investment Income	\$ 68
Gifts and Contributions	<u>33,241</u>
Total Additions	<u>33,309</u>
<b>Deductions</b>	
Cost of Special Events	1,714
Scholarships and Awards	<u>9,150</u>
Total Deductions	<u>10,864</u>
<b>Change in Net Position</b>	22,445
<b>Net Position, Beginning of Year</b>	<u>38,823</u>
<b>Net Position, End of Year</b>	<u><u>\$ 61,268</u></u>

These accompanying notes are an integral part of these statements

**EASTERN SUFFOLK BOCES**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

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**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, 2014**

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**(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, 2014**

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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 \$328,916 at June 30, 2014.

***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.

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:

**EASTERN SUFFOLK BOCES  
NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2014**

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	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
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.

***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.

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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 investment 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 positions 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**  
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• ***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 either 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, 2014 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 four classifications and are deemed to be available for general use by the BOCES. In other governmental funds, if expenditures incurred for

**EASTERN SUFFOLK BOCES**  
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***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		\$ 295,429,490
Encumbrances from Prior Year		<u>7,389,995</u>
Original Budget		302,819,485
Shared Services Budget Revisions:		
Administration	(424,521)	
Occupational Instruction	(12,132)	
Instruction for Special Needs	12,562,853	
Itinerant Services	379,613	
General Instruction	2,686,365	
Instructional Support	3,253,550	
Other Services	3,896,214	
Internal Services	<u>261,187</u>	<u>22,603,129</u>
Revised Budget		<u><u>\$ 325,422,614</u></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.

***Newly Accounting Standards***

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* establishing accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund calculations and limiting the use of the term deferred in the financial statements.

**EASTERN SUFFOLK BOCES**  
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**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.

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

**4. RESTRICTED CASH**

Restricted cash and cash equivalents of \$1,909,720 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 \$1,700,289 in the General Fund represents funds held for future Occupational Education Equipment expenditures.

Restricted cash and cash equivalents of \$61,368 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, 2014, consisted of:

General Fund		
New York State	\$	18,170,261
Special Aid Fund		
New York State Education Department		4,616,198
VESID/ACCES		169,502
Suffolk County		41,866
US Department Education		94,353
School Lunch Fund		
Federal and State School Lunch Reimbursements		51,995
Total	<u>\$</u>	<u>23,144,175</u>

**6. CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2014, were as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 6,306,650	\$	\$	\$ 6,306,650
Technology in Progress	227,745	150,272	227,745	150,272
Construction in Progress	<u>934,913</u>	<u>387,627</u>	<u>934,912</u>	<u>387,628</u>
Total	<u>7,469,308</u>	<u>537,899</u>	<u>1,162,657</u>	<u>6,844,550</u>
<b>Capital Assets Being Depreciated</b>				
Buildings and Improvements	61,735,043	1,494,776		63,229,819
Furniture and Equipment	<u>59,333,725</u>	<u>9,131,293</u>	<u>9,869,544</u>	<u>58,595,474</u>
Total	<u>121,068,768</u>	<u>10,626,069</u>	<u>9,869,544</u>	<u>121,825,293</u>
<b>Accumulated Depreciation</b>				
Buildings and Improvements	33,021,854	1,563,790		34,585,644
Furniture and Equipment	<u>38,416,765</u>	<u>7,144,941</u>	<u>9,719,431</u>	<u>35,842,275</u>
Total	<u>71,438,619</u>	<u>8,708,731</u>	<u>9,719,431</u>	<u>70,427,919</u>
<b>Net Capital Assets Being Depreciated</b>	<u>49,630,149</u>	<u>1,917,338</u>	<u>150,113</u>	<u>51,397,374</u>
<b>Net Capital Assets</b>	<u>\$ 57,099,457</u>	<u>\$ 2,455,237</u>	<u>\$ 1,312,770</u>	<u>\$ 58,241,924</u>

**EASTERN SUFFOLK BOCES**  
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Depreciation expense has been allocated to functional units as follows:

Administration	\$ 866,719
Occupational Education	878,101
Instruction for Special Needs	4,263,204
Itinerant Services	174,061
General Instruction	298,361
Instructional Support	562,697
Other Services	1,645,001
Food Services	<u>20,587</u>
Total	<u>\$ 8,708,731</u>

**7. INTERFUND TRANSACTIONS**

Interfund balances and activities at June 30, 2014, are as follows:

Fund	Interfund		Interfund	
	Receivable	Payable	Revenues	Expenditures
General	\$	\$ 4,629,198	\$	\$ 2,086,124
Special Aid		4,178,503		
School Lunch	185,552		212,260	
Capital Projects	5,934,889		1,873,864	
Fiduciary	<u>2,687,360</u>	<u>100</u>		
Total Government Activities	<u>\$ 8,807,801</u>	<u>\$ 8,807,801</u>	<u>\$ 2,086,124</u>	<u>\$ 2,086,124</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 \$1,873,864 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 7/1/13	Issued	Redeemed	Balance 6/30/14
RAN	6/27/2014	1.25%	<u>\$</u>	<u>\$ 6,500,000</u>	<u>\$ 6,500,000</u>	<u>\$</u>

Interest expense on short-term debt for the year was \$49,293.

**EASTERN SUFFOLK BOCES**  
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**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
<b>Governmental Activities</b>					
Installment Purchase Debt	\$ 4,359,621	\$ 2,022,648	\$ 1,879,198	\$ 4,503,071	\$ 1,501,858
Deferred Payment Plan Debt	3,971,484	1,822,989	1,628,515	4,165,958	1,599,053
Energy Performance Contract	1,669,970		180,389	1,489,581	187,842
<b>Other Liabilities</b>					
Compensated Absences	38,600,363	2,345,291	5,843,202	35,102,452	4,539,397
Workers' Compensation	5,577,752	3,386,513	2,621,278	6,342,987	
OPEB Liability	<u>155,526,831</u>	<u>40,504,134</u>	<u>17,325,473</u>	<u>178,705,492</u>	<u>20,771,199</u>
<b>Total Governmental Activities</b>	<u>\$ 209,706,021</u>	<u>\$ 50,081,575</u>	<u>\$ 29,478,055</u>	<u>\$ 230,309,541</u>	<u>\$ 28,599,349</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 \$14,560,310 at June 30, 2014 and total accumulated depreciation for these assets was \$7,794,042 at year-end.

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

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

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<u>Description</u>	<u>Issue Date</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2014</u>
Riverhead	04/10	04/15	4.25%	\$ 139,500
Sayville	11/10	11/15	3.73%	16,617
Bayport-Blue Point	11/11	11/15	3.73%	65,993
Port Jefferson	06/11	05/16	3.73%	55,291
Bridgehampton	11/11	05/16	3.73%	48,040
Sayville	11/11	05/16	3.73%	142,699
Hampton Bays	11/11	05/16	3.73%	61,446
Bridgehampton	2/12	11/16	3.73%	28,194
Sachem	2/12	11/16	3.73%	538,605
Center Moriches	3/12	11/15	3.73%	105,007
Bayport-Blue Point	5/12	11/16	3.73%	106,163
Hampton Bays	7/12	05/17	3.73%	98,526
Copaugue	8/12	05/17	3.73%	97,425
East Islip	11/12	11/17	3.73%	245,597
Sayville	11/12	11/17	3.73%	446,070
William Floyd	01/13	11/17	1.33%	483,858
Bayport-Blue Point	06/13	12/17	1.43%	160,062
Bridgehampton	07/13	06/18	1.81%	26,854
Hauppauge	08/13	06/18	1.77%	334,376
Hampton Bays	09/13	06/18	1.95%	175,229
Sayville	09/13	06/18	1.95%	692,490
Copiague	10/13	06/16	1.18%	21,414
Happauge	12/13	06/19	1.73%	179,649
Babylon	12/13	06/19	1.73%	120,113
Amityville	02/14	09/19	1.96%	113,853
				<u>\$ 4,503,071</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>
2015	\$ 1,501,858	\$ 111,235	\$ 1,613,093
2016	1,336,833	67,322	1,404,155
2017	1,008,582	27,804	1,036,386
2018	608,183	7,010	615,193
2019	47,615	427	48,042
Total	<u>\$ 4,503,071</u>	<u>\$ 213,798</u>	<u>\$ 4,716,869</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, 2014**

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:

Description	Issued Date	Final Maturity	Outstanding at June 30, 2014
Brentwood	10/09	09/14	\$ 5,718
South Country	10/09	09/14	16,637
Central Islip	10/10	09/15	25,305
Southampton	1/11	12/15	10,090
Sayville	2/11	1/16	3,115
Shoreham-Wading River	2/11	1/16	38,934
South Country	2/11	1/16	9,463
Sayville	8/10	7/15	19,041
West Babylon	8/10	7/15	91,788
South Country	8/10	7/15	3,229
Three Village	9/10	8/15	3,214
Three Village	7/10	6/15	19,347
East Islip	1/11	12/15	19,943
North Babylon	1/11	12/15	2,697
Port Jefferson	4/11	3/15	15,428
Sachem	3/11	2/16	237,058
West Babylon	8/11	7/16	176,515
South Country	8/11	7/16	6,211
Connetquot	8/11	7/15	65,326
Connetquot	8/11	7/16	32,868
North Babylon	7/11	6/16	11,347
Connetquot	1/11	12/15	8,983
Three Village	1/11	12/15	597,083
Eastport-South Manor	8/12	7/17	224,426
Miller Place	9/12	8/17	34,311
East Islip	12/12	11/17	32,473
Connetquot	1/13	12/17	409,430
Patchogue	4/13	3/18	69,415
Patchogue-Medford	01/14	01/19	167,378
Central Islip	02/14	02/19	286,452
Port Jefferson	04/14	04/18	20,391
Miller Place	02/14	02/18	197,770
Comsewogue	03/14	03/18	110,612
Connetquot	01/14	02/18	104,994
New Hyde Park	04/14	04/18	35,667
South Country	04/14	04/19	116,970
Eastport South Manor	06/14	06/18	21,938
Connetquot	05/14	05/19	204,553
BOCES	7/12	1/18	709,838
			<u>\$ 4,165,958</u>

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

Fiscal Year Ending June 30,	Principal
2015	\$ 1,599,053
2016	1,185,133
2017	795,212
2018	428,392
2019	158,168
Total	<u>\$ 4,165,958</u>

**EASTERN SUFFOLK BOCES**  
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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,	Principal	Interest	Total
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	220,865	26,000	246,865
2019-2021	469,485	24,245	493,730
Total	<u>\$ 1,489,581</u>	<u>\$ 238,471</u>	<u>\$ 1,728,052</u>

Interest on debt for the year was comprised of:

Interest Paid	\$ 268,837
Less: Interest Accrued in the Prior Year	(22,767)
Plus: Interest Accrued in the Current Year	<u>20,307</u>
Total Interest Expense on Long-Term Debt	<u>\$ 266,377</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.

***(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.

**EASTERN SUFFOLK BOCES**  
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**For the Year Ended June 30, 2014**

***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:

Systems Fiscal Year	Rate	NYSTRS	Rate	NYSERS
2013-2014	16.25%	\$ 12,778,959	20.16%	\$ 8,556,075
2012-2013	11.84%	\$ 9,448,994	17.93%	\$ 8,394,593
2011-2012	11.11%	\$ 9,160,858	15.40%	\$ 7,324,752

**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.

***(c) Annual OPEB Cost***

	<u>Total</u>
Normal Cost	\$ 17,984,056
Amortization of UAL	<u>20,568,930</u>
ARC	38,552,986
Interest on Net OPEB Obligation	7,776,342
Adjustment to ARC	<u>(5,825,194)</u>
OPEB Expense	<u>\$ 40,504,134</u>

**EASTERN SUFFOLK BOCES**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**(d) Reconciliation of Net OPEB Obligation**

	<u>Total</u>
Net OPEB Obligation at the Beginning of the Year	\$ 155,526,831
Annual Required Contribution	40,504,134
Net OPEB Contributions Made During the Fiscal Year	<u>(17,325,473)</u>
Net OPEB Obligation at the End of the Year	<u>\$ 178,705,492</u>
Percentage of Expense Contributed	43%

**(e) Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Net OPEB Expense</u>	<u>OPEB Expense Contributed</u>	<u>% of Expense Contributed</u>	<u>Net OPEB Obligation</u>
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
June 30, 2014	\$ 40,504,134	\$ 17,325,473	42.8%	\$ 178,705,492

**(f) Funding Status**

	<u>Total</u>
Actuarial Accrued Liability	\$ 549,169,772
Actuarial Value of Assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 549,169,772</u>
Funded Ratio	0%
Annual Covered Payroll	\$ 110,705,438
UAAL as a Percentage of Covered Payroll	496%

**(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.

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, 2013.

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.

**EASTERN SUFFOLK BOCES**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

In the July 1, 2013, 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 7.35% initially, reduced by decrements to an ultimate rate of 4.24% in 2084. 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, 2014 is 24 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:

	2014	2013
Unpaid Claims at Beginning of Year	\$ 5,577,752	\$ 4,670,741
Incurred Claims and Claim Adjustment Expenses	3,386,513	3,596,881
Claim Payments	(2,621,278)	(2,689,870)
Unpaid Claims at Year End	\$ 6,342,987	\$ 5,577,752

***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, 2014.

**13. OPERATING LEASES**

Short-term operating leases, predominantly of 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 \$5,878,409 for the year.

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

Year Ending June 30,	Amount
2015	\$ 5,283,659
2016	\$ 4,506,765
2017	\$ 4,417,405
2018	\$ 3,278,033
2019	\$ 2,773,513
Thereafter	\$ 3,071,949

**EASTERN SUFFOLK BOCES**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**14. FUND BALANCE**

(a) The following is a summary of the change in General fund restricted reserve funds during the year ended June 30, 2014:

	Beginning Balance	Increases/ Decreases	Ending Balance
<b>Restricted</b>			
General Fund			
Employee Benefit Accrued Liability	\$ 29,476,677	\$ (834,155)	\$ 28,642,522
Retirement Contribution Reserve	0	1,997,663	1,997,663
Reserve for Liability	121,234		121,234
Unemployment Insurance	96,981	77,192	174,173
Reserve for Property Loss	28,126		28,126
Workers' Compensation	5,054,081	795,166	5,849,247
<b>Total General Fund Restricted</b>	<b>\$ 34,777,099</b>	<b>\$ 2,035,866</b>	<b>\$ 36,812,965</b>

(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, 2014:

	General	School Lunch	Special Aid	Capital	Total
<b>Nonspendable</b>	\$	\$ 649	\$	\$	\$ 649
<b>Restricted</b>					
Employee Benefit Accrued Liability	28,642,522				28,642,522
Retirement Contribution Reserve	1,997,663				1,997,663
Reserve for Liability	121,234				121,234
Unemployment Insurance Reserve	174,173				174,173
Reserve for Property Loss	28,126				28,126
Workers' Compensation Reserve	5,849,247				5,849,247
Special Aid Fund			39,424		39,424
<b>Total Restricted</b>	<b>36,812,965</b>		<b>39,424</b>		<b>36,852,389</b>
<b>Committed</b>					
Capital Projects				5,698,306	5,698,306
<b>Assigned</b>					
Administration	261,232				261,232
Occupational Instruction	892,968				892,968
Instruction for Special Needs	2,312,776		1,339,126		3,651,902
Itinerant Services	57,399				57,399
General Instruction	82,017				82,017
Instruction Support	827,106				827,106
Other Services	1,566,782				1,566,782
School Lunch		164,444			164,444
<b>Total Assigned</b>	<b>6,000,280</b>	<b>164,444</b>	<b>1,339,126</b>		<b>7,503,850</b>
<b>Total Fund Equity</b>	<b>\$ 42,813,245</b>	<b>\$ 165,093</b>	<b>\$ 1,378,550</b>	<b>\$ 5,698,306</b>	<b>\$ 50,055,194</b>

**EASTERN SUFFOLK BOCES**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2014**

**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.

***Encumbrances***

Encumbrance accounting is employed as an extension of formal budgetary integration for the General Fund, School Lunch Fund, Special Aid Funds, and Capital Projects Funds. At June 30, 2014, 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	School Lunch	Special Aid	Capital	Total
Administration	\$ 261,232	\$	\$	\$	\$ 261,232
Occupational Instruction	892,968				892,968
Instruction for Special Needs	2,312,776		233,958		2,546,734
Itinerant Services	57,399				57,399
General Instruction	82,017				82,017
Instruction Support	827,106				827,106
Other Services	1,566,782				1,566,782
Capital Outlay				549,046	549,046
School Lunch		679			679
Total Encumbrances	\$ 6,000,280	\$ 679	\$ 233,958	\$ 549,046	\$ 6,783,963

**16. FUND DEFICITS**

***Net Position Deficit – BOCES-Wide***

The BOCES-wide net position had a deficit at June 30, 2014 of \$120,333,154. 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 \$178,705,492 at June 30, 2014. Since New York State Laws provide no mechanism for funding the liability, the subsequent accruals are expected to increase the deficit.

**REQUIRED SUPPLEMENTARY INFORMATION**

**EASTERN SUFFOLK BOCES**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended June 30, 2014**

	Original Budget	Final Budget	Actual		Final Budget Variance With Actual
<b>Revenues</b>					
Administration	\$ 37,446,289	\$ 37,021,772	\$ 35,814,818		\$ (1,206,954)
Occupational Instruction	32,853,257	32,841,121	30,450,881		(2,390,240)
Instruction for Special Needs	130,520,161	143,083,014	138,784,078		(4,298,936)
Itinerant Services	6,820,684	7,200,297	6,501,918		(698,379)
General Instruction	10,681,245	13,367,610	12,227,643		(1,139,967)
Instruction Support	20,586,127	23,839,677	22,100,565		(1,739,112)
Other Services and Internal Services	63,911,722	67,807,936	63,456,704		(4,351,232)
Internal Services		261,187	261,187		0
Total Revenues	<u>\$ 302,819,485</u>	<u>\$ 325,422,614</u>	<u>309,597,794</u>		<u>\$ (15,824,820)</u>
	Original Budget	Final Budget	Actual	Year-End Encumbrances	Final Budget Variance With Actual
<b>Expenditures</b>					
Administration	\$ 36,446,289	\$ 35,571,772	34,520,353	\$ 261,232	\$ 790,187
Occupational Instruction	32,853,257	32,841,121	30,858,408	892,968	1,089,745
Instruction for Special Needs	130,520,161	143,083,014	137,980,331	2,312,776	2,789,907
Itinerant Services	6,820,684	7,200,297	6,353,819	57,399	789,079
General Instruction	10,681,245	13,367,610	12,136,605	82,017	1,148,988
Instruction Support	20,586,127	23,839,677	21,401,464	827,106	1,611,107
Other Services	63,611,722	67,595,676	62,266,732	1,566,782	3,762,162
Internal Services		261,187	261,203		(16)
Total Expenditures	<u>301,519,485</u>	<u>323,760,354</u>	<u>305,778,915</u>	<u>6,000,280</u>	<u>11,981,159</u>
<b>Other Financing Uses</b>					
Transfer to Other Funds	1,300,000	1,662,260	2,086,124		(423,864)
Return of Surplus			1,086,604		(1,086,604)
Total Expenditures and Other Financing Uses	<u>\$ 302,819,485</u>	<u>\$ 325,422,614</u>	<u>308,951,643</u>	<u>\$ 6,000,280</u>	<u>\$ 10,470,691</u>
<b>Net Change in Fund Balances</b>			<u>646,151</u>		
<b>Fund Balance - Beginning of Year</b>			<u>42,167,094</u>		
<b>Fund Balance - End of Year</b>			<u>\$ 42,813,245</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**  
**SCHEDULES OF FUNDING PROGRESS OF OTHER POSTEMPLOYMENT BENEFITS**  
**For the Year Ended June 30, 2014**

Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued 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, 2014	\$ 0	\$ 549,169,772	\$ 549,169,772	0%	\$ 110,705,438	496%
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%

These notes are an integral part of these statements

**SUPPLEMENTARY INFORMATION**

**EASTERN SUFFOLK BOCES**  
**SCHEDULES OF A431 SCHOOL DISTRICT ACCOUNT**  
**For the Year Ended June 30, 2014**

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Balance, Beginning of Year	<u>\$ 51,279,464</u>
Debits	
Billings to Components	280,357,899
Refund Balances Due School Districts - June 30, 2013	2,270,469
Encumbrances - June 30, 2014	6,000,280
Other Adjustments - Allowance for Receivable - June 30, 2013	<u>599,355</u>
Total Debits	<u>289,228,003</u>
Subtotal	<u>340,507,467</u>
Credits	
Collections from Components	282,727,467
Refund Balances Due School Districts - June 30, 2014	1,086,604
Encumbrances - June 30, 2013	7,389,995
Other Adjustments - Refunds from other BOCES	447
Other Adjustments - Allowance for Receivable - June 30, 2014	<u>328,916</u>
Total Credits	<u>291,533,429</u>
Balance, End of Year	<u><u>\$ 48,974,038</u></u>
<u>Summary:</u>	
A380 Accounts Receivable Components	\$ 50,060,642
A431 School District Accounts	<u>(1,086,604)</u>
Balance, End of Year	<u><u>\$ 48,974,038</u></u>

These notes are an integral part of these statements

**EASTERN SUFFOLK BOCES**  
**SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND**  
**For the Year Ended June 30, 2014**

	Budget June 30, 2013	Budget June 30, 2014	Expenditures		Unexpended Balance	Methods of Financing		Fund Balance June 30, 2014
			Prior Years	Current Year		Proceeds of Obligations	Local Sources	
Exterior Doors and Windows Replacement	\$ 819,505	\$ 653,415	\$ 603,347	\$ 50,069	\$ (1)	\$ 653,416	\$ 653,416	\$
Phase I/MTC Infra-Red Heating	30,000	10,807	10,807			10,807	10,807	
St. Joseph Renovations	698,464	751,690	320,758	430,931	1	751,689	751,689	
Utility and Service		430,000	272,245		157,755	430,000	430,000	157,755
WHB Defeo Building Canopy		49,864			49,864	49,864	49,864	49,864
Fire Protection System - HBW		200,000	60,588		139,412	200,000	200,000	139,412
Fire Protection System - Hines		59,016	30,824		28,192	59,016	59,016	28,192
BMS System Upgrade - Hines		92,970		23,970	92,970	92,970	92,970	92,970
HB Ward Building 4		150,000			126,030	150,000	150,000	126,030
Capital Projects-Unallocated	2,503,556	3,104,085			3,104,085	3,104,083	3,104,083	3,104,083
Career Education	216,320	423,864			423,864	423,864	423,864	423,864
Career Education	1,784,001	2,000,000		423,864	1,576,136	2,000,000	2,000,000	1,576,136
Technology CoSers		3,845,637		3,845,637		3,845,637	3,845,637	
<b>Totals</b>	<b>\$ 6,051,846</b>	<b>\$ 11,771,348</b>	<b>\$ 934,912</b>	<b>\$ 5,138,128</b>	<b>\$ 5,698,308</b>	<b>\$ 7,925,709</b>	<b>\$ 11,771,346</b>	<b>\$ 5,698,306</b>

These notes are an integral part of these statements

**EASTERN SUFFOLK BOCES**  
**NET INVESTMENT IN CAPITAL ASSETS**  
**For the Year Ended June 30, 2014**

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Capital Assets, Net of Accumulated Depreciation	\$ 58,241,924
Deduct:	
Installment Purchase Debt	(4,503,071)
Deferred Payment Plan Debt	(4,165,958)
Energy Performance Contract	<u>(1,489,581)</u>
Total Deductions	<u>(10,158,610)</u>
 Net Investment in Capital Assets	 <u>\$ 48,083,314</u>

These notes are an integral part of these statements

**REQUIRED REPORTS UNDER OMB CIRCULAR A-133**

**EASTERN SUFFOLK BOCES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>2014 Expenditures</u>
<u>U.S. Department of Agriculture</u> Food Distribution	10.555	*	\$ 30,102
<u>U.S. Department of Agriculture</u> <u>Pass-Through New York State Dept. of Education</u>			
School Breakfast program	10.553	*	167,366
National School Lunch Program	10.555	*	<u>289,933</u>
Total U.S Department of Agriculture			<u>486,401</u>
<u>U.S. Department of Education</u>			
Student Financial Aid Cluster: Federal Family Education Loans	84.032	+	1,568,249
Pell Grants	84.063	+	<u>616,156</u>
			2,184,405
US DoE SCCIES	84.215	S215E130364	233,334
US DoE AEMDP	84.351	U351D100124	<u>252,554</u>
Total Direct U.S Department of Education			<u>2,670,293</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	2338-14-2035	626,294
Adult Education - State Grant Program	84.002	2338-14-3052	100,000
Adult Education - State Grant Program	84.002	0040-14-2020	<u>249,592</u>
			975,886
Migrant Education - State Grant Program	84.011	0035-13-0009	91,675
Migrant Education - State Grant Program	84.011	0035-14-0009	<u>459,162</u>
			550,837
Career and Technical Education - Basic Grants to States	84.048	8080-14-0012	640,824
Career and Technical Education - Basic Grants to States	84.048	8000-14-9025	103,711
Career and Technical Education - Basic Grants to States	84.048	8030-14-0008	<u>20,403</u>
			764,938
Education for Homeless Children and Youth	84.196	0212-12-4005	34,603
Education for Homeless Children and Youth	84.196	0212-14-4078	52,267
Education for Homeless Children and Youth	84.196	0212-14-4007	<u>53,646</u>
			140,516
English Language Acquisition Grants	84.365	0293-13-3285	18,210
English Language Acquisition Grants	84.365	0293-14-3285	154,285
English Language Acquisition Grants	84.365	0293-13-1724	10,195
English Language Acquisition Grants	85.365	0293-14-1724	<u>85,266</u>
			267,956
Total Direct U.S Department of Education Pass-Through New York State Dept. of Education			<u>2,700,133</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>86,969</u>
Total U.S. Department of Education			<u>5,457,395</u>
Total Expenditures of Federal Awards			<u>\$ 5,943,796</u>

\* Part of National School Lunch Program Cluster  
+ Part of Student Financial Aid Cluster

# EASTERN SUFFOLK BOCES

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS JUNE 30, 2014

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### 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, 2014.

### 5. LOAN PROGRAMS

Students attending the BOCES received the following new loans during the year ended June 30, 2014. 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	\$1,568,249
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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 14, 2014

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, and each major fund, of Eastern Suffolk Board of Cooperative Educational Services (the "BOCES") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the BOCES' basic financial statements and have issued our report thereon dated October 14, 2014.

**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.

(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.

Bonadio & Co., LLP

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

October 14, 2014

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, 2014. 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, 2014.

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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.

*Bonadio & Co., LLP*

# EASTERN SUFFOLK BOCES

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2014

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### Section I—Summary of Auditor’s Results

#### Financial Statements

Type of independent auditor’s report issued Unmodified

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: Unmodified

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)

10.553  
84.002  
84.011

#### Name of Federal Program or Cluster

Child Nutrition Cluster  
Adult Education – Basic Grants to States  
Migrant Education State Grant Program

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, 2014 (Continued)**

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#### **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, 2014**

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For the year ended June 30, 2014, there were no findings required to be reported under *Government Auditing Standards* or OMB Circular A-133. Accordingly, a corrective action plan is unnecessary.