

**EASTERN SUFFOLK BOARD OF
COOPERATIVE EDUCATIONAL SERVICES**

**Financial Statements and Required Reports
Under OMB Circular A-133 as of
June 30, 2015**

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

October 20, 2015

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, 2015, 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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of funding progress, contributions, and proportionate share of the net pension asset 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' basic financial statements. The supplemental information on pages 46 through 48, 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 basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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. Such information 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 supplemental information on pages 46 through 48 have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2015 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.

REQUIRED SUPPLEMENTARY INFORMATION

EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015

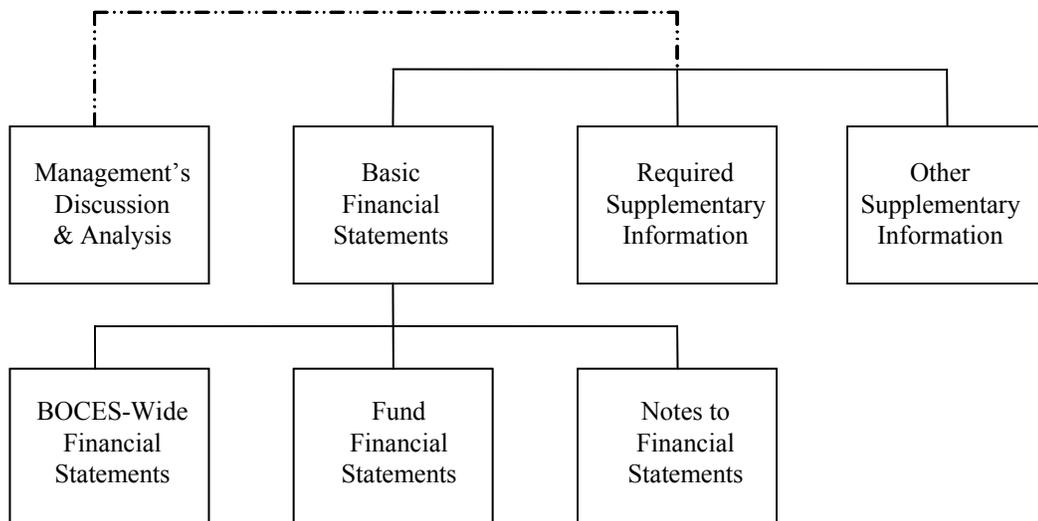
The following is a discussion and analysis of the BOCES' financial performance for the year ended June 30, 2015. This section is a summary of the BOCES' financial activities based on currently known facts, decisions and conditions. It is also based on both the BOCES-wide and fund-based financial statements. 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 \$2,932,544. The primary factor contributing to this decrease was due to the increase in the Other Postemployment Liabilities by \$26,817,403. This amount was offset through the recognition of net asset/liability for GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which reduced expenditures by \$18,835,909.
- During the year, the BOCES had expenses in excess of program revenues of \$1,730,518. In addition, the general revenues were a negative \$1,202,026, which due to a \$1,218,305 Sale of Property and Compensation for Loss.
- Program revenues included \$319,291,438 in Charges for Services and \$19,243,748 in Operating Grants and Contributions.
- BOCES total General Fund revenue for 2015 was \$318,292,838. Approximately \$268,558,484 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 2015-2016, \$6,405,830 of the surplus from the prior year will be returned. During 2014-2015, \$1,086,604 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, 2015**

(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, deferred outflows, liabilities, and deferred inflows – 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, 2015**

(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 \$2,932,544 between fiscal year 2014 and 2015. A summary of the BOCES Statement of Net Position for the June 30, 2015 and 2014, is as follows:

| | <u>2015</u> | <u>Restated 2014</u> | <u>Increase (Decrease)</u> | <u>Percentage Change</u> |
|--|-------------------------|--------------------------|--------------------------------|------------------------------|
| Current and Other Assets | \$ 115,393,633 | \$ 101,523,769 | \$ 13,869,864 | 13.7% |
| Net Pension Asset - Proportionate Share | 59,306,940 | 3,586,359 | 55,720,581 | 1553.7% |
| Capital Assets, (Net of Accumulated Depreciation) | <u>58,662,853</u> | <u>58,241,924</u> | <u>420,929</u> | 0.7% |
| Total Assets | <u>233,363,426</u> | <u>163,352,052</u> | <u>70,011,374</u> | 42.9% |
| Deferred Outflow of Resources | <u>16,793,861</u> | <u>14,627,622</u> | <u>2,166,239</u> | 14.8% |
| Non-Current Liabilities | 255,701,155 | 230,309,541 | 25,391,614 | 11.0% |
| Net Pension Liability - Proportionate Share | 5,195,381 | 6,949,527 | (1,754,146) | (25.2%) |
| Other Liabilities | <u>60,456,938</u> | <u>49,789,306</u> | <u>10,667,632</u> | 21.4% |
| Total Liabilities | <u>321,353,474</u> | <u>287,048,374</u> | <u>34,305,100</u> | 12.0% |
| Deferred Inflow of Resources | <u>40,805,057</u> | <u>40,805,057</u> | <u>40,805,057</u> | |
| Investment in Capital Assets | 48,602,560 | 48,083,314 | 519,246 | 1.1% |
| Restricted | 41,044,254 | 36,852,389 | 4,191,865 | 11.4% |
| Unrestricted | <u>(201,648,058)</u> | <u>(194,004,403)</u> | <u>(7,643,655)</u> | (3.9%) |
| Total Net Position (Deficit) | <u>\$ (112,001,244)</u> | <u>\$ (109,068,700)</u> | <u>\$ (2,932,544)</u> | (2.7%) |

Current and other assets increased by \$13,869,864, as compared to the prior year. The increase is primarily due to an increase in the BOCES' amounts due from component districts.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* was implemented in 2015. The statement required the recognition of the BOCES proportionate share of Net Assets/Liabilities and Deferred Outflows/Inflows for the New York State Employees' and Teachers' retirement systems. The new accounting pronouncement required that the prior year be restated for the implementation of the standard.

Capital assets increased by \$420,929, 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 \$25,391,614, as compared to the prior year. This increase is primarily the result of the increase in the Other Postemployment Benefits by \$25,117,827.

**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(Continued)

Other liabilities increased by \$10,667,632 as compared to the prior year. This increase is primarily a result of an increase in the return of surplus.

The net investment 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, 2015, is a deficit \$201,648,058, 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 \$203,823,319 at June 30, 2015.

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, 2015 and 2014 is as follows:

| Revenues | <u>2015</u> | <u>Restated 2014</u> | <u>Increase (Decrease)</u> | <u>Percentage Change</u> |
|--|-----------------------|-----------------------------|--------------------------------|------------------------------|
| Program Revenues | | | | |
| Charges for Services | \$ 319,291,438 | \$ 316,327,635 | \$ 2,963,803 | 0.9% |
| Operating Grants | 19,243,748 | 17,259,185 | 1,984,563 | 11.5% |
| General Revenues | | | | |
| Interest and Earnings | 14,731 | 23,970 | (9,239) | (38.5%) |
| Sales of Property and Compensation for Loss | (1,218,305) | 171,221 | (1,389,526) | (811.5%) |
| Miscellaneous | <u>1,548</u> | <u> </u> | <u>1,548</u> | |
| Total Revenues | <u>337,333,160</u> | <u>333,782,011</u> | <u>3,551,149</u> | 1.1% |
| Expenses | | | | |
| Administration | 36,496,996 | 36,392,094 | 104,902 | 0.3% |
| Occupation Instruction | 33,365,996 | 35,192,610 | (1,826,614) | (5.2%) |
| Instruction for Special Needs | 174,678,220 | 173,756,329 | 921,891 | 0.5% |
| Itinerant Services | 7,278,809 | 7,410,010 | (131,201) | (1.8%) |
| General Instruction | 13,659,187 | 13,495,406 | 163,781 | 1.2% |
| Instructional Support | 21,838,186 | 23,207,103 | (1,368,917) | (5.9%) |
| Other Services | 51,875,870 | 60,754,130 | (8,878,260) | (14.6%) |
| Internal Services | 271,670 | 261,203 | 10,467 | 4.0% |
| School Lunch Program | <u>800,770</u> | <u>785,140</u> | <u>15,630</u> | 2.0% |
| Total Expenses | <u>340,265,704</u> | <u>351,254,025</u> | <u>(10,988,321)</u> | (3.1%) |
| Total Change in Net Position | <u>\$ (2,932,544)</u> | <u>\$ (17,472,014)</u> | <u>\$ 14,539,470</u> | |

The BOCES' revenues increased by \$3,551,149 in 2015 or 1.1%. The major factors that contributed to the increase were:

- Charges for Services increased by \$2,963,803.
- Increase to the Operating Grants by \$1,984,563.

The BOCES' expenditures for the year decreased by \$10,988,321 or 3.1%.

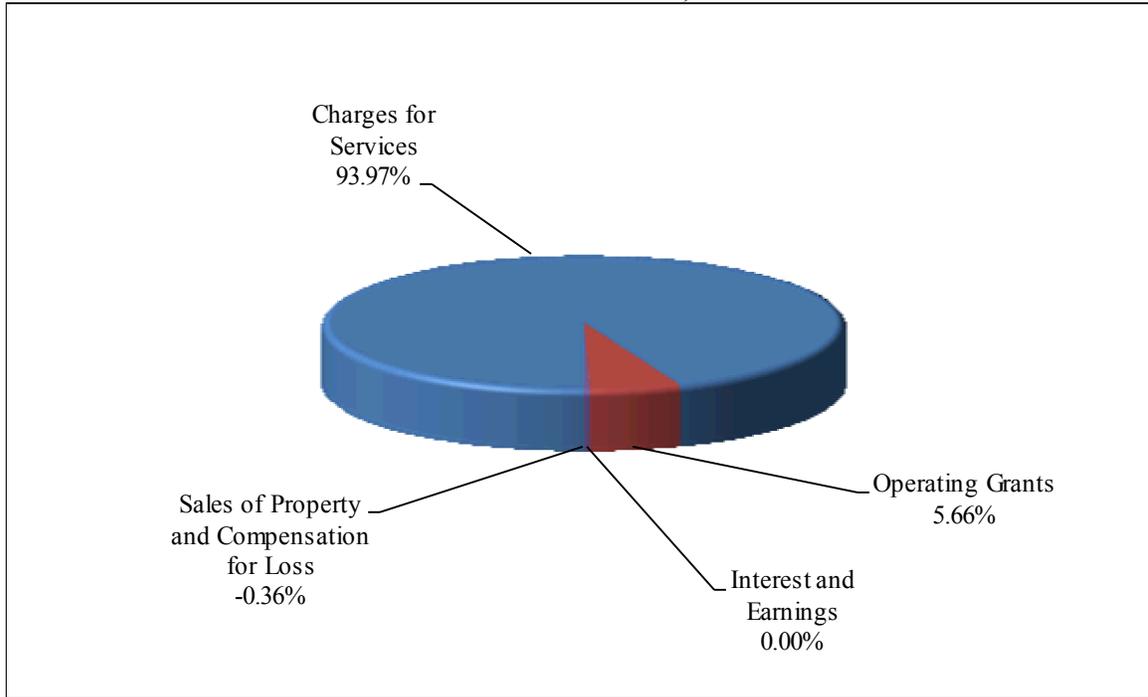
- The primary reason for this decrease was due to an \$8,878,260 decrease in Other Services expense.

**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

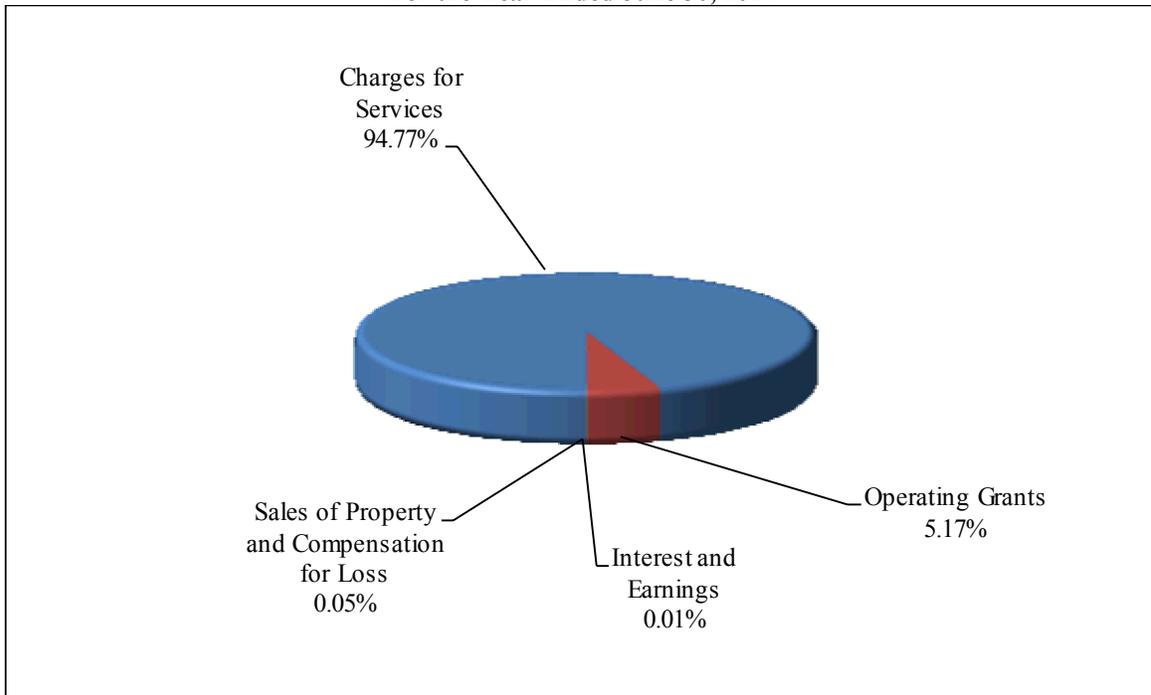
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A graphic display of the distribution of revenues for the two years follows:

For the Year Ended June 30, 2015



For the Year Ended June 30, 2014

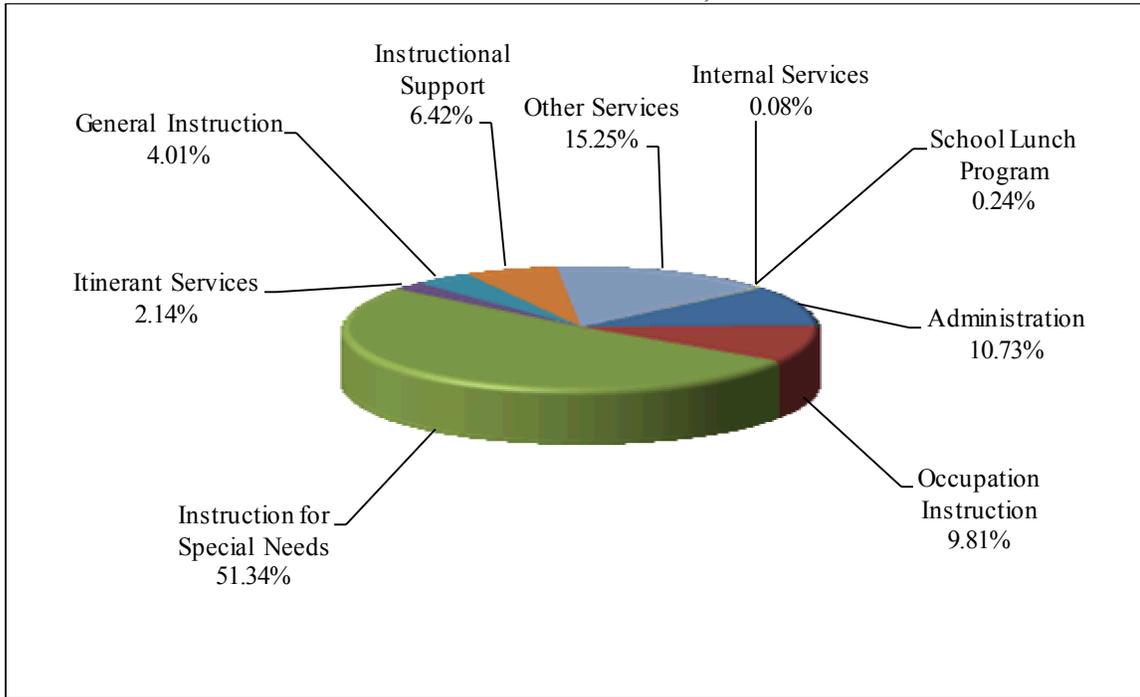


**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

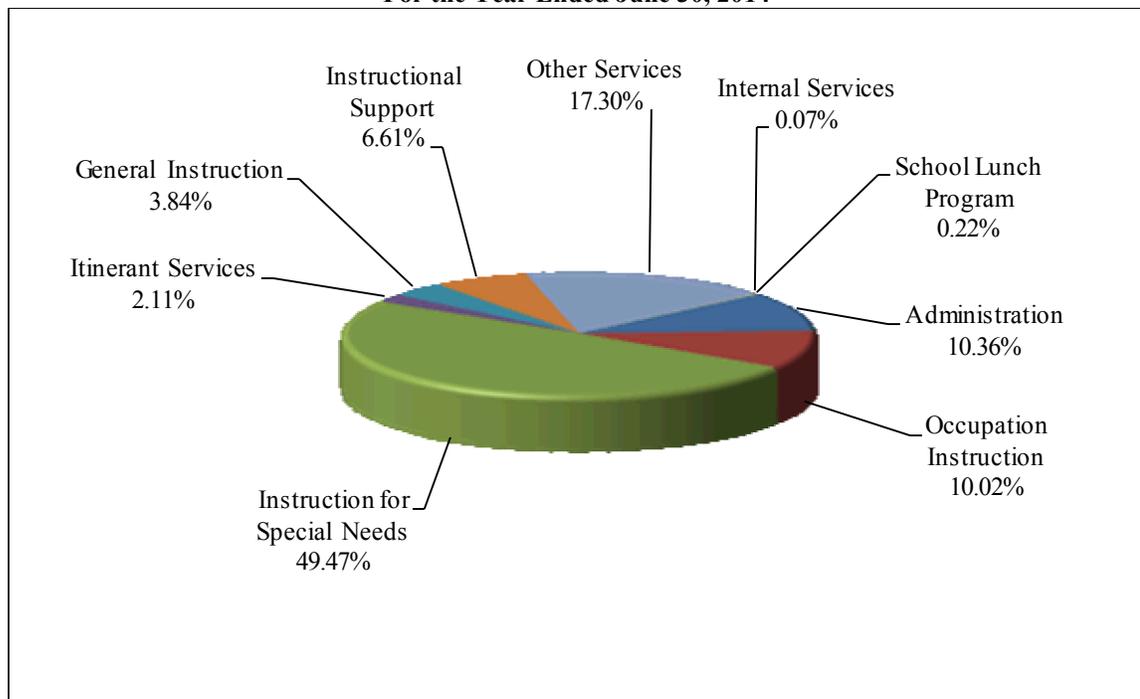
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A graphic display of the distribution of expenses for the two years follows:

For the Year Ended June 30, 2015



For the Year Ended June 30, 2014



**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(Continued)

4. FINANCIAL ANALYSIS OF THE BOCES' FUND BALANCES

At June 30, 2015, the BOCES' governmental funds reported combined fund balance of \$54,948,245 which is an increase of \$4,893,051 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:

| | 2015 | 2014 | Increase (Decrease) |
|---|----------------------|----------------------|------------------------|
| General Fund | | | |
| Restricted | | | |
| Reserve for Liability | \$ 121,234 | \$ 121,234 | \$ |
| Unemployment Insurance Reserve | 390,677 | 174,173 | 216,504 |
| Reserve for Property Loss | 23,126 | 28,126 | (5,000) |
| Employee Benefit Accued Liability Reserve | 29,109,212 | 28,642,522 | 466,690 |
| Reitirement Contribution Reserve | 3,997,278 | 1,997,663 | 1,999,615 |
| Workers' Compensation Reserve | <u>7,363,158</u> | <u>5,849,247</u> | <u>1,513,911</u> |
| Total Restricted | <u>41,004,685</u> | <u>36,812,965</u> | <u>4,191,720</u> |
| Assigned | | | |
| Administration | 285,164 | 261,232 | 23,932 |
| Occupational Instruction | 1,179,304 | 892,968 | 286,336 |
| Instruction for Special Needs | 2,419,909 | 2,312,776 | 107,133 |
| Itinerant Services | 68,980 | 57,399 | 11,581 |
| General Instruction | 67,905 | 82,017 | (14,112) |
| Instructional Support | 553,161 | 827,106 | (273,945) |
| Other Services | <u>1,248,644</u> | <u>1,566,782</u> | <u>(318,138)</u> |
| Total Assigned | <u>5,823,067</u> | <u>6,000,280</u> | <u>(177,213)</u> |
| Total General Fund | <u>46,827,752</u> | <u>42,813,245</u> | <u>4,014,507</u> |
| School Lunch Fund | | | |
| Nonspendable | | 649 | (649) |
| Assigned | <u>183,414</u> | <u>164,444</u> | <u>18,970</u> |
| Total School Lunch Fund | <u>183,414</u> | <u>165,093</u> | <u>18,321</u> |
| Special Aid Fund | | | |
| Restricted | 39,569 | 39,424 | 145 |
| Assigned | <u>1,510,007</u> | <u>1,339,126</u> | <u>170,881</u> |
| Total Special Aid Fund | <u>1,549,576</u> | <u>1,378,550</u> | <u>171,026</u> |
| Capital Fund | | | |
| Committed | <u>6,387,503</u> | <u>5,698,306</u> | <u>689,197</u> |
| Total Capital Fund | <u>6,387,503</u> | <u>5,698,306</u> | <u>689,197</u> |
| Total | <u>\$ 54,948,245</u> | <u>\$ 50,055,194</u> | <u>\$ 4,893,051</u> |

**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(Continued)

5. GENERAL FUND BUDGETARY HIGHLIGHTS

- The difference between the original approved budget of \$313,501,953 and prior year encumbrances of \$6,000,280 and the amended budget of \$342,997,037 is \$23,494,804 or 7.4%. The increase is due to the request for additional services from component school districts. The budgetary comparison information can be found on Page 44 which presents both original and amended budget totals compared with actual results for the General Fund for the year ended June 30, 2015.
- Actual expenditures, before encumbrances, were under the amended budget by \$35,124,536 or 10.2%, and actual revenues and other financing sources were below the amended budget by \$24,704,199 or 7.2%.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2015 and 2014, the BOCES had \$58,662,853 and \$58,241,924, 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, 2015 and 2014, is as follows:

| | <u>2015</u> | <u>2014</u> | <u>Increase (Decrease)</u> |
|-------------------------|----------------------|----------------------|--------------------------------|
| Land | \$ 6,306,650 | \$ 6,306,650 | \$ |
| Technology in Process | | 150,272 | (150,272) |
| Construction in Process | 1,341,150 | 387,628 | 953,522 |
| Buildings | 27,054,930 | 28,644,175 | (1,589,245) |
| Furniture and Equipment | <u>23,960,123</u> | <u>22,753,199</u> | <u>1,206,924</u> |
| Capital Assets, Net | <u>\$ 58,662,853</u> | <u>\$ 58,241,924</u> | <u>\$ 420,929</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 \$9,045,871 and \$8,708,731 for the years ended June 30, 2015 and 2014, respectively.

B. Long-Term Debt

At June 30, 2015 and 2014, the BOCES had total long-term debt of \$255,701,155 and \$230,309,541, respectively. A summary of the long-term debt at June 30, 2015 and 2014, is as followed:

| | <u>2015</u> | <u>2014</u> | <u>Increase (Decrease)</u> |
|-----------------------------|-----------------------|-----------------------|--------------------------------|
| Installment Purchase Debt | \$ 4,476,383 | \$ 4,503,071 | \$ (26,688) |
| Compensated Absences | 34,452,994 | 35,102,452 | (649,458) |
| OPEB liability | 203,823,319 | 178,705,492 | 25,117,827 |
| Deferred Payment Plan Debt | 4,259,514 | 4,165,958 | 93,556 |
| Workers' Compensation | 7,364,549 | 6,342,987 | 1,021,562 |
| Energy Performance Contract | <u>1,324,396</u> | <u>1,489,581</u> | <u>(165,185)</u> |
| Total Long-Term Debt | <u>\$ 255,701,155</u> | <u>\$ 230,309,541</u> | <u>\$ 25,391,614</u> |

**EASTERN SUFFOLK BOCES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(Continued)

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 2014-15, Eastern Suffolk BOCES opened a STEM (Science, Technology, Engineering and Mathematics) High School bringing new opportunities for students in the region. According to Forbes Magazine, employment in Science, Technology, Engineering and Mathematic (STEM) occupations is projected to grow nearly two times faster than the average for all occupations over the next four years. During that time, tech companies alone will need to fill 430,000 STEM jobs.

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, 2015

| | |
|---|------------------------------|
| Assets | |
| Cash and Cash Equivalents | \$ 26,221,019 |
| Restricted Cash and Cash Equivalents | 3,765,358 |
| Receivables | |
| Due from Other Governments | 27,076,203 |
| Other Funds | |
| Due from Components, Net of Allowance of \$328,916 | 57,277,438 |
| Accounts Receivable | 1,052,640 |
| Prepaid Expenditures | 975 |
| Net Pension Asset - Proportionate Share | 59,306,940 |
| Capital Assets, Net of Accumulated Depreciation | <u>58,662,853</u> |
| Total Assets | <u>233,363,426</u> |
| Deferred Outflow of Resources | |
| Deferred Outflow - Pensions | <u>16,793,861</u> |
| Total Assets and Deferred Outflow of Resources | <u><u>\$ 250,157,287</u></u> |
| Liabilities | |
| Due to Components - Refund of Surplus | \$ 6,405,830 |
| Due to Components - State Aid | 22,575,524 |
| Due to | |
| Other Governments | 347 |
| Fiduciary Funds | 2,811,072 |
| Teachers' Retirement System | 14,188,082 |
| Employees' Retirement System | 2,045,457 |
| Accounts Payable | 9,186,759 |
| Accrued Liabilities | 2,981,563 |
| Accrued Interest | 11,550 |
| Overpayments and Collections in Advance | 13,679 |
| Unearned Revenue | 237,075 |
| Net Pension Liability - Proportionate Share | 5,195,381 |
| Noncurrent Liabilities | |
| Due Within One Year | 29,270,050 |
| Due in More Than One Year | <u>226,431,105</u> |
| Total Liabilities | <u>321,353,474</u> |
| Deferred Inflow of Resources | |
| Deferred Inflow - Pensions | <u>40,805,057</u> |
| Total Liabilities and Deferred Inflow of Resources | <u><u>362,158,531</u></u> |
| Net Position | |
| Net Investment in Capital Assets | 48,602,560 |
| Restricted | 41,044,254 |
| Unrestricted (Deficit) | <u>(201,648,058)</u> |
| Total Net Position (Deficit) | <u>(112,001,244)</u> |
| Total Liabilities and Net Position | <u><u>\$ 250,157,287</u></u> |

The accompanying notes are an integral part fo these statements.

EASTERN SUFFOLK BOCES
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) |
|--|-----------------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | Revenue and Changes in Net Position |
| Administration | \$ 36,496,996 | \$ 36,564,377 | \$ | \$ 67,381 |
| Occupational Instruction | 33,365,996 | 31,154,972 | 441,852 | (1,769,172) |
| Instruction for Special Needs | 174,678,220 | 149,869,436 | 17,130,941 | (7,677,843) |
| Itinerant Services | 7,278,809 | 6,747,214 | | (531,595) |
| General Instruction | 13,659,187 | 12,907,274 | | (751,913) |
| Instruction Support | 21,838,186 | 19,786,238 | 1,132,848 | (919,100) |
| Other Services | 51,875,870 | 62,136,429 | | 10,260,559 |
| Internal Services | 271,670 | 34,422 | | (237,248) |
| Food Service Program | <u>800,770</u> | <u>91,076</u> | <u>538,107</u> | <u>(171,587)</u> |
| Total Functions/Programs | <u>\$ 340,265,704</u> | <u>\$ 319,291,438</u> | <u>\$ 19,243,748</u> | <u>(1,730,518)</u> |
| General Revenues | | | | |
| Interest and Earnings | | | | 14,731 |
| Sales of Property and Compensation for Loss | | | | (1,218,305) |
| Miscellaneous | | | | <u>1,548</u> |
| Total General Revenues | | | | <u>(1,202,026)</u> |
| Change in Net Position | | | | <u>(2,932,544)</u> |
| Net Position (Deficit), Beginning of Year | | | | (120,333,154) |
| Prior Period Adjustments | | | | <u>11,264,454</u> |
| Net Position (Deficit), Beginning of Year (Restated) | | | | <u>(109,068,700)</u> |
| Net Position (Deficit), End of Year | | | | <u>\$ (112,001,244)</u> |

The accompanying notes are an integral part of these financial statements.

EASTERN SUFFOLK BOCES
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

| | General | School Lunch | Special Aid | Capital | Total |
|--|-----------------------|-------------------|---------------------|---------------------|-----------------------|
| Assets | | | | | |
| Unrestricted Cash and Cash Equivalents | \$ 26,219,225 | \$ 716 | \$ 1,078 | \$ | \$ 26,221,019 |
| Restricted Cash and Cash Equivalents | 3,765,358 | | | | 3,765,358 |
| Receivables | | | | | |
| Due from Other Governments | 22,575,524 | 49,150 | 4,451,529 | | 27,076,203 |
| Due from Components, Net of Allowance of \$328,916 | 54,259,241 | | 3,018,197 | | 57,277,438 |
| Due from Other Funds | | 194,741 | | 7,297,924 | 7,492,665 |
| Accounts Receivable | 1,042,584 | 5,408 | 4,648 | | 1,052,640 |
| Prepaid Expenditures | 975 | | | | 975 |
| Total Assets | <u>\$ 107,862,907</u> | <u>\$ 250,015</u> | <u>\$ 7,475,452</u> | <u>\$ 7,297,924</u> | <u>\$ 122,886,298</u> |
| Liabilities | | | | | |
| Due to Components - Refund of Surplus | \$ 6,405,830 | \$ | \$ | \$ | \$ 6,405,830 |
| Due to Components - State Aid | 22,575,524 | | | | 22,575,524 |
| Due To | | | | | |
| Other Governments | 287 | 60 | | | 347 |
| Other Funds | 5,482,145 | | 4,821,592 | | 10,303,737 |
| Teachers' Retirement System | 14,188,082 | | | | 14,188,082 |
| Employees' Retirement System | 2,045,457 | | | | 2,045,457 |
| Accounts Payable | 8,706,813 | 60,348 | 358,629 | 60,969 | 9,186,759 |
| Accrued Liabilities | 1,627,570 | 2,140 | 502,401 | 849,452 | 2,981,563 |
| Overpayments and Collections in Advance | | | 13,679 | | 13,679 |
| Unearned Revenue | 3,447 | 4,053 | 229,575 | | 237,075 |
| Total Liabilities | <u>61,035,155</u> | <u>66,601</u> | <u>5,925,876</u> | <u>910,421</u> | <u>67,938,053</u> |
| Fund Balances | | | | | |
| Restricted | 41,004,685 | | 39,569 | | 41,044,254 |
| Committed | | | | 6,387,503 | 6,387,503 |
| Assigned | 5,823,067 | 183,414 | 1,510,007 | | 7,516,488 |
| Total Fund Balances | <u>46,827,752</u> | <u>183,414</u> | <u>1,549,576</u> | <u>6,387,503</u> | <u>54,948,245</u> |
| Total Liabilities and Fund Balances | <u>\$ 107,862,907</u> | <u>\$ 250,015</u> | <u>\$ 7,475,452</u> | <u>\$ 7,297,924</u> | <u>\$ 122,886,298</u> |

The accompanying notes are an integral part of these financial statements.

EASTERN SUFFOLK BOCES
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCES
TO THE BOCES-WIDE NET POSITION
June 30, 2015

Total Governmental Fund Balances \$ 54,948,245

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 | 133,520,451 |
| Accumulated Depreciation | <u>(74,857,598)</u> |
| | <u>58,662,853</u> |

Proportionate share of long-term asset and liability associated with participation in state retirement system are not current financial resources or obligations and are not reported in the funds.

| | |
|---|---------------------|
| Net Pension Asset - Proportionate Share | 59,306,940 |
| Deferred Outflows - Pensions | 16,793,861 |
| Net Pension Liability - Proportionate Share | (5,195,381) |
| Deferred Inflows - Pensions | <u>(40,805,057)</u> |
| | <u>30,100,363</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 | (4,259,514) |
| Installment Purchase Debt | (4,476,383) |
| Accrued Interest on Energy Performance Contract | (11,550) |
| Other Postemployment Benefit Liabilities | (203,823,319) |
| Energy Performance Contract | (1,324,396) |
| Workers' Compensation Claims | (7,364,549) |
| Compensated Absences Payable | <u>(34,452,994)</u> |
| | <u>(255,712,705)</u> |

Total Net Position (Deficit) \$ (112,001,244)

EASTERN SUFFOLK BOCES
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

| | General | School Lunch | Special Aid | Capital | Total |
|--|----------------------|-------------------|---------------------|---------------------|----------------------|
| Revenues | | | | | |
| Charges for Services | \$ 218,908 | \$ | \$ 9,321,853 | \$ | \$ 9,540,761 |
| Charges to Components - Administration | 18,050,720 | | | | 18,050,720 |
| Charges to Components - Service Programs | 250,507,764 | | | | 250,507,764 |
| Charges to Non-Components and Other BOCES | 19,310,942 | | | | 19,310,942 |
| Interest and Earnings | 14,731 | | | | 14,731 |
| Sale of Property and Compensation for Loss | 746,204 | | 2,815 | | 749,019 |
| Miscellaneous | 27,251,633 | 1,421 | 811,094 | | 28,064,148 |
| Refund of Prior Year's Expenditures | 133,278 | 4,981 | 1,548 | | 139,807 |
| State and Local Sources | 1,574,700 | 17,185 | 6,528,527 | | 8,120,412 |
| Federal Sources | | 520,922 | 10,602,414 | | 11,123,336 |
| School Lunch Sales | | 84,674 | | | 84,674 |
| Total Revenues | <u>317,808,880</u> | <u>629,183</u> | <u>27,268,251</u> | | <u>345,706,314</u> |
| Expenditures | | | | | |
| Administration | 35,286,385 | | | | 35,286,385 |
| Occupational Instruction | 31,171,529 | | | | 31,171,529 |
| Instruction for Special Needs | 139,787,252 | | 26,613,267 | | 166,400,519 |
| Itinerant Services | 6,736,647 | | | | 6,736,647 |
| General Instruction | 12,922,041 | | | | 12,922,041 |
| Instruction Support | 21,195,275 | | | | 21,195,275 |
| Other Services | 58,100,395 | | | | 58,100,395 |
| Internal Services | 271,670 | | | | 271,670 |
| Capital Outlay | | | | 5,335,910 | 5,335,910 |
| School Lunch Program | | 779,386 | | | 779,386 |
| Total Expenditures | <u>305,471,194</u> | <u>779,386</u> | <u>26,613,267</u> | <u>5,335,910</u> | <u>338,199,757</u> |
| Excess (Deficit) Revenues Over Expenditures | <u>12,337,686</u> | <u>(150,203)</u> | <u>654,984</u> | <u>(5,335,910)</u> | <u>7,506,557</u> |
| Other Financing Sources (Uses) | | | | | |
| Proceeds of Debt | | | | 3,792,324 | 3,792,324 |
| Return of Surplus | (6,405,830) | | | | (6,405,830) |
| Transfers from Other Funds | 483,958 | 168,524 | | 2,232,783 | 2,885,265 |
| Transfers to Other Funds | (2,401,307) | | (483,958) | | (2,885,265) |
| Total Other Financing Sources (Uses) | <u>(8,323,179)</u> | <u>168,524</u> | <u>(483,958)</u> | <u>6,025,107</u> | <u>(2,613,506)</u> |
| Excess Revenues Over Expenditures and Other Financing Sources | <u>4,014,507</u> | <u>18,321</u> | <u>171,026</u> | <u>689,197</u> | <u>4,893,051</u> |
| Fund Balances, Beginning of Year | <u>42,813,245</u> | <u>165,093</u> | <u>1,378,550</u> | <u>5,698,306</u> | <u>50,055,194</u> |
| Fund Balances, End of Year | <u>\$ 46,827,752</u> | <u>\$ 183,414</u> | <u>\$ 1,549,576</u> | <u>\$ 6,387,503</u> | <u>\$ 54,948,245</u> |

The accompanying notes are an integral part of these financial 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, 2015

Net Changes in Fund Balance - Total Governmental Funds \$ 4,893,051

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 | (9,045,871) | |
| Loss on Disposal | (1,967,324) | |
| Capital Outlays | <u>11,434,124</u> | 420,929 |

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 | \$26,688 | |
| Deferred Payment Plan Debt | (93,556) | |
| Energy Performance Contract | \$165,185 | |
| Other Post Employment Liabilities | (26,817,403) | |
| Accrued Interest on Energy Performance Contract | \$8,757 | |
| Compensated Absences | \$649,458 | |
| Workers' Compensation Claims | <u>(1,021,562)</u> | (27,082,433) |

(Increases) decreases in proportionate share of net pension asset/liability reported in the Statement of Activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.

| | | |
|------------------------------|------------------|-------------------|
| Teachers' Retirement System | 15,922,186 | |
| Employees' Retirement System | <u>2,913,723</u> | <u>18,835,909</u> |

Change in Net Position Governmental Activities \$ (2,932,544)

The accompanying notes are an integral part of these financial statements.

EASTERN SUFFOLK BOCES
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2015

| | Private Purpose Trusts | Agency |
|---|---------------------------|---------------------|
| Assets | | |
| Cash and Cash Equivalents | \$ | \$ 108,035 |
| Cash and Cash Equivalents - Restricted | 53,872 | |
| Receivables | | 3,085 |
| Due from Other Funds | | 2,815,297 |
| Total Assets | <u>\$ 53,872</u> | <u>\$ 2,926,417</u> |
| Liabilities | | |
| Accrued Liabilities | \$ | \$ 2,836,454 |
| Due to Other Funds | 4,225 | |
| Extraclassroom Activity Balances | | 89,963 |
| Total Liabilities | <u>4,225</u> | <u>\$ 2,926,417</u> |
| Net Position | | |
| Restricted For Other Purposes | <u>49,647</u> | |
| Total Net Position | <u>49,647</u> | |
| Total Liabilities and Net Position | <u>\$ 53,872</u> | |

The accompanying notes are an integral part of these financial statements.

EASTERN SUFFOLK BOCES
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2015

| | Private Purpose Trusts |
|--|---------------------------|
| Additions | |
| Investment Income | \$ 29 |
| Gifts and Contributions | <u>7,623</u> |
| Total Additions | <u>7,652</u> |
| Deductions | |
| Cost of Special Events | 4,345 |
| Scholarships and Awards | <u>14,928</u> |
| Total Deductions | <u>19,273</u> |
| Change in Net Position | (11,621) |
| Net Position, Beginning of Year | <u>61,268</u> |
| Net Position, End of Year | <u>\$ 49,647</u> |

The accompanying notes are an integral part of these financial statements.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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.

(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.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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.

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.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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 School 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, 2015.

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.

Deferred Outflow of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The BOCES has one item that qualifies for reporting in this category. The item is related to pensions reported in the BOCES-wide Statement of Net Position. This represents the effect of the net change in the BOCES' proportion of the collective net pension asset or liability and difference during the measurement period between the BOCES' contributions and its proportion share of total contributions not included in pension expense.

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:

| | <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 |

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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.

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The BOCES has one item that qualifies for reporting in this category. The item is related to pensions reported in the BOCES-wide Statement of Net Position. This represents the effect of the net change in the BOCES' proportion of the collective net pension liability (ERS System) and difference during the measurement periods between the BOCES' contributions and its proportion share of total contributions to the pension systems not included in pension expense.

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.

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.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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.

• *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.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

• ***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.

• ***Reserve for Employees' Retirement System Contributions***

Retirement Contribution Reserve (GML §6-r) is used for the purpose of financing retirement contributions. The reserve must be accounted for separate and apart from all other funds, and a detailed report of the operation and condition of the fund must be provided to the Board. 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, 2015 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 specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in the respective fund.

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.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

The following supplemental appropriation occurred during the year:

| | | |
|-----------------------------------|----------------|-----------------------|
| Adopted Budget | | \$ 313,501,953 |
| Encumbrances from Prior Year | | <u>6,000,280</u> |
| Original Budget | | 319,502,233 |
| Shared Services Budget Revisions: | | |
| Administration | (153,930) | |
| Occupational Instruction | 1,689,333 | |
| Instruction for Special Needs | 11,042,965 | |
| Itinerant Services | 453,889 | |
| General Instruction | 2,030,787 | |
| Instructional Support | 3,936,396 | |
| Other Services | 4,223,703 | |
| Internal Services | <u>271,661</u> | <u>23,494,804</u> |
| Revised Budget | | <u>\$ 342,997,037</u> |

Encumbrances

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

New Accounting Standard

The BOCES changed accounting policies related to the financial statement presentation of defined benefit pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68, in 2015. The new pronouncements require governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

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.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

(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.

(d) Pension differences

Pension differences occur as a result of changes in the BOCES’ proportion of the collective net pension asset/liability and differences between the BOCES’ contributions and its proportionate share of the total contributions to the pension systems.

3. CUSTODIAL AND CONCENTRATION OF CREDIT RISK

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

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

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

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

4. RESTRICTED CASH

Restricted cash and cash equivalents of \$1,998,061 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 \$1,767,297 in the General Fund represents funds held for future Occupational Education Equipment expenditures.

Restricted cash and cash equivalents of \$53,872 in the fiduciary fund represents various expendable trust funds held by the BOCES.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

5. DUE FROM OTHER GOVERNMENTS

Due from other governments at June 30, 2015, consisted of:

| | | |
|---|----|----------------------|
| General Fund | | |
| New York State | \$ | 22,575,524 |
| Special Aid Fund | | |
| New York State Education Department | | 4,117,712 |
| VESID/ACCES | | 172,408 |
| Suffolk County | | 25,260 |
| US Department Education | | 136,149 |
| School Lunch Fund | | |
| Federal and State School Lunch Reimbursements | | 49,150 |
| Total | | <u>\$ 27,076,203</u> |

6. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2015, were as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|----------------------|---------------------|---------------------|----------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 6,306,650 | \$ | \$ | \$ 6,306,650 |
| Technology in Progress | 150,272 | | 150,272 | |
| Construction in Progress | <u>387,628</u> | <u>953,522</u> | | <u>1,341,150</u> |
| Total | <u>6,844,550</u> | <u>953,522</u> | <u>150,272</u> | <u>7,647,800</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings and Improvements | 63,229,819 | 74,895 | 31,437 | 63,273,277 |
| Furniture and Equipment | <u>58,595,474</u> | <u>10,555,979</u> | <u>6,552,079</u> | <u>62,599,374</u> |
| Total | <u>121,825,293</u> | <u>10,630,874</u> | <u>6,583,516</u> | <u>125,872,651</u> |
| Accumulated Depreciation | | | | |
| Buildings and Improvements | 34,585,644 | 1,641,964 | 9,261 | 36,218,347 |
| Furniture and Equipment | <u>35,842,275</u> | <u>7,403,907</u> | <u>4,606,931</u> | <u>38,639,251</u> |
| Total | <u>70,427,919</u> | <u>9,045,871</u> | <u>4,616,192</u> | <u>74,857,598</u> |
| Net Capital Assets Being Depreciated | <u>51,397,374</u> | <u>1,585,003</u> | <u>1,967,324</u> | <u>51,015,053</u> |
| Net Capital Assets | <u>\$ 58,241,924</u> | <u>\$ 2,538,525</u> | <u>\$ 2,117,596</u> | <u>\$ 58,662,853</u> |

| | |
|-------------------------------|---------------------|
| Administration | \$ 900,272 |
| Occupational Education | 912,095 |
| Instruction for Special Needs | 4,428,243 |
| Itinerant Services | 180,800 |
| General Instruction | 309,912 |
| Instructional Support | 584,481 |
| Other Services | 1,708,684 |
| Food Services | 21,384 |
| Total | <u>\$ 9,045,871</u> |

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

7. INTERFUND TRANSACTIONS

Interfund balances and activities at June 30, 2015, are as follows:

| Fund | Interfund | | Interfund | |
|-----------------------------|----------------------|----------------------|---------------------|---------------------|
| | Receivable | Payable | Revenues | Expenditures |
| General | \$ | \$ 5,482,145 | \$ 483,958 | \$ 2,401,307 |
| Special Aid | | 4,821,592 | | 483,958 |
| School Lunch | 194,741 | | 168,524 | |
| Capital Projects | 7,297,924 | | 2,232,783 | |
| Fiduciary | 2,815,297 | 4,225 | | |
| Total Government Activities | <u>\$ 10,307,962</u> | <u>\$ 10,307,962</u> | <u>\$ 2,885,265</u> | <u>\$ 2,885,265</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 \$2,232,783 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 7/1/14 | Issued | Redeemed | Balance 6/30/15 |
|-----|-----------|---------------|----------------|---------------------|---------------------|-----------------|
| RAN | 6/26/2015 | 1.00% | <u>\$</u> | <u>\$ 6,000,000</u> | <u>\$ 6,000,000</u> | <u>\$</u> |

Interest expense on short-term debt for the year was \$31,638.

9. LONG-TERM LIABILITIES

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

| Description | Beginning Balance | Issued | Paid | Ending Balance | Due Within One Year |
|-------------------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
| Governmental Activities | | | | | |
| Installment Purchase Debt | \$ 4,503,071 | \$ 1,837,725 | \$ 1,864,413 | \$ 4,476,383 | \$ 1,694,538 |
| Deferred Payment Plan Debt | 4,165,958 | 1,954,599 | 1,861,043 | 4,259,514 | 1,616,871 |
| Energy Performance Contract | 1,489,581 | | 165,185 | 1,324,396 | 196,670 |
| Other Liabilities | | | | | |
| Compensated Absences | 35,102,452 | 4,837,412 | 5,486,870 | 34,452,994 | 2,269,023 |
| Workers' Compensation | 6,342,987 | 7,434,935 | 6,413,373 | 7,364,549 | |
| OPEB Liability | <u>178,705,492</u> | <u>43,835,636</u> | <u>18,717,809</u> | <u>203,823,319</u> | <u>23,492,948</u> |
| Total Governmental Activities | <u>\$ 230,309,541</u> | <u>\$ 59,900,307</u> | <u>\$ 34,508,693</u> | <u>\$ 255,701,155</u> | <u>\$ 29,270,050</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 \$13,695,235, at June 30, 2015 and total accumulated depreciation for these assets was \$6,847,617 at year-end.

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

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

| Description | Issue Date | Final Maturity | Interest Rate | Outstanding at June 30, 2015 |
|--------------------|------------|----------------|---------------|------------------------------|
| Sayville | 11/10 | 11/15 | 3.73% | \$ 22,405 |
| Bayport-Blue Point | 11/11 | 11/15 | 3.73% | 5,642 |
| Port Jefferson | 06/11 | 05/16 | 3.73% | 28,156 |
| Bridgehampton | 11/11 | 05/16 | 3.73% | 29,355 |
| Sayville | 11/11 | 05/16 | 3.73% | 72,668 |
| Hampton Bays | 11/11 | 05/16 | 3.73% | 31,291 |
| Bridgehampton | 2/12 | 11/16 | 3.73% | 17,228 |
| Sachem | 2/12 | 11/16 | 3.73% | 329,115 |
| Center Moriches | 3/12 | 11/15 | 3.73% | 35,651 |
| Bayport-Blue Point | 5/12 | 11/16 | 3.73% | 64,871 |
| Hampton Bays | 7/12 | 05/17 | 3.73% | 66,890 |
| Copague | 8/12 | 05/17 | 3.73% | 66,142 |
| East Islip | 11/12 | 11/17 | 3.73% | 178,637 |
| Sayville | 11/12 | 11/17 | 3.73% | 324,453 |
| William Floyd | 01/13 | 11/17 | 1.33% | 347,896 |
| Bayport-Blue Point | 06/13 | 12/17 | 1.43% | 115,142 |
| Bridgehampton | 07/13 | 06/18 | 1.81% | 20,320 |
| Hauppauge | 08/13 | 06/18 | 1.77% | 252,974 |
| Hampton Bays | 09/13 | 06/18 | 1.95% | 132,687 |
| Sayville | 09/13 | 06/18 | 1.95% | 524,369 |
| Copiague | 10/13 | 06/16 | 1.18% | 10,770 |
| Happauge | 12/13 | 06/19 | 1.73% | 140,922 |
| Babylon | 12/13 | 06/19 | 1.73% | 94,220 |
| Amityville | 02/14 | 09/19 | 1.96% | 89,408 |
| Westhampton Beach | 8/14 | 1/19 | 1.96% | 218,064 |
| Bayport-Blue Point | 8/14 | 5/19 | 2.04% | 72,853 |
| Hauppauge | 8/14 | 5/19 | 2.04% | 280,042 |
| Sayville | 8/14 | 5/19 | 2.04% | 385,793 |
| William Floyd | 8/14 | 5/19 | 2.04% | 518,419 |
| | | | | <u>\$ 4,476,383</u> |

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

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|---------------------|-------------------|---------------------|
| 2016 | \$ 1,694,538 | \$ 95,437 | \$ 1,789,975 |
| 2017 | 1,373,580 | 52,409 | 1,425,989 |
| 2018 | 980,620 | 22,512 | 1,003,132 |
| 2019 | 427,645 | 6,217 | 433,862 |
| 2020 | | | |
| Total | <u>\$ 4,476,383</u> | <u>\$ 176,575</u> | <u>\$ 4,652,958</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, 2015

| Description | Issued Date | Final Maturity | Outstanding at June 30, 2015 |
|-----------------------|----------------|-------------------|---------------------------------|
| Sayville | 8/10 | 7/15 | \$ 1,464 |
| West Babylon | 8/10 | 7/15 | 7,060 |
| South Country | 8/10 | 7/15 | 248 |
| Three Village | 9/10 | 8/15 | 459 |
| East Islip | 1/11 | 12/15 | 6,647 |
| North Babylon | 1/11 | 12/15 | 899 |
| Sachem | 3/11 | 2/16 | 94,823 |
| West Babylon | 8/11 | 7/16 | 91,788 |
| South Country | 8/11 | 7/16 | 3,229 |
| Connetquot | 8/11 | 7/15 | 5,025 |
| Connetquot | 8/11 | 7/16 | 17,091 |
| North Babylon | 7/11 | 6/16 | 5,674 |
| Connetquot | 1/11 | 12/15 | 2,994 |
| Three Village | 1/11 | 12/15 | 358,250 |
| Eastport-South Manor | 8/12 | 7/17 | 151,640 |
| Miller Place | 9/12 | 8/17 | 23,476 |
| East Islip | 12/12 | 11/17 | 22,969 |
| Connetquot | 1/13 | 12/17 | 292,450 |
| Patchogue | 4/13 | 3/18 | 50,904 |
| Patchogue-Medford | 01/14 | 01/19 | 130,183 |
| Central Islip | 02/14 | 02/19 | 223,953 |
| Port Jefferson | 04/14 | 04/18 | 14,953 |
| Miller Place | 02/14 | 02/18 | 142,579 |
| Comsewogue | 03/14 | 03/18 | 80,445 |
| Connetquot | 01/14 | 02/18 | 75,694 |
| New Hyde Park | 04/14 | 04/18 | 26,156 |
| South Country | 04/14 | 04/19 | 92,345 |
| Eastport South Manor | 06/14 | 06/18 | 16,337 |
| Connetquot | 05/14 | 05/19 | 162,232 |
| Hauppauge UFSD | 8/14 | 8/19 | 324,411 |
| Port Jefferson | 8/14 | 2/18 | 60,649 |
| Bayport/Bluepoint | 10/14 | 10/18 | 171,422 |
| Brentwood | 11/14 | 11/18 | 124,099 |
| Connetquot | 11/14 | 11/18 | 10,417 |
| New Hyde Park | 12/14 | 12/18 | 21,444 |
| Comsewogue | 11/14 | 11/18 | 47,785 |
| West Babylon | 1/15 | 1/20 | 4,504 |
| South Country | 2/15 | 2/20 | 95,512 |
| Central Islip | 12/14 | 12/19 | 275,340 |
| Shoreham-Wading River | 4/15 | 4/20 | 187,122 |
| Port Jefferson | 4/15 | 4/19 | 62,032 |
| Sayville | 6/15 | 6/19 | 12,831 |
| South Country | 6/15 | 6/20 | 69,134 |
| BOCES | 7/12 | 1/18 | 690,845 |
| | | | <u>\$ 4,259,514</u> |

**EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

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

| Fiscal Year Ending June 30, | Principal |
|--------------------------------|---------------------|
| 2016 | \$ 1,616,871 |
| 2017 | 1,226,951 |
| 2018 | 860,130 |
| 2019 | 459,952 |
| 2020 | 95,610 |
| Total | <u>\$ 4,259,514</u> |

On April 21, 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 \$127,359, including interest at 4.55% beginning October 21, 2006.

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

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|---------------------|-------------------|---------------------|
| 2016 | \$ 196,670 | \$ 58,048 | \$ 254,718 |
| 2017 | 205,720 | 48,998 | 254,718 |
| 2018 | 215,187 | 39,531 | 254,718 |
| 2019 | 225,089 | 29,629 | 254,718 |
| 2020 | 235,447 | 19,271 | 254,718 |
| 2021 | 246,283 | 8,436 | 254,719 |
| Total | <u>\$ 1,324,396</u> | <u>\$ 203,913</u> | <u>\$ 1,528,309</u> |

Interest on debt for the year was comprised of:

| | |
|--|-------------------|
| Interest Paid | \$ 232,838 |
| Less: Interest Accrued in the Prior Year | (20,307) |
| Plus: Interest Accrued in the Current Year | 11,550 |
| Total Interest Expense on Long-Term Debt | <u>\$ 224,081</u> |

10. PENSION PLANS

A. New York State and Local Employees' Retirement System (ERS)

Plan Description

The BOCES participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer public employee retirement system. The system provides retirement benefits as well as death and disability benefits.

The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. Thomas P. DiNapoli has served as Comptroller since February 7, 2007. In November, 2014, he was elected for a new term commencing January 1, 2015. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The BOCES also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Contributions

The System is noncontributory for employees who joined prior to July 28, 1976. For employees who joined after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary for the first ten years of membership. Employees who joined on or after January 1, 2010 are required to contribute 3% of their annual salary for their entire working career. Under the authority of the RSSL, the Comptroller certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. All required contributions for the NYSERS fiscal year ended March 31, 2015, were paid.

The required contributions for the current year and two preceding years were:

| | Amount |
|------|--------------|
| 2013 | \$ 8,512,184 |
| 2014 | \$ 8,556,075 |
| 2015 | \$ 7,391,266 |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the BOCES reported a liability of \$5,195,381 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The BOCES's proportion of the net pension liability was based on a projection of the BOCES's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2015 and 2014, the BOCES's proportion was .1537894% percent.

For the year ended June 30, 2015, the BOCES recognized pension expense of \$4,477,543. At June 30, 2015, the BOCES reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 166,310 | \$ |
| Net difference between projected and actual earnings on Pensions plan investments | 902,372 | |
| Changes in proportion and differences between contributions and proportionate share of contributions | | 106,746 |
| Contributions subsequent to the measurement date | 2,045,457 | |
| Total | \$ 3,114,139 | \$ 106,746 |

At June 30, 2015 \$2,045,457 was reported as deferred outflows of resources related to pensions resulting from BOCES contributions subsequent to the measurement date will be recognized as a reduction of the net pension asset/liability in the year ended June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30, | | |
|---------------------|----|---------|
| 2016 | \$ | 240,484 |
| 2017 | \$ | 240,484 |
| 2018 | \$ | 240,484 |
| 2019 | \$ | 240,484 |
| Thereafter | \$ | 0 |

Actuarial Assumptions

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

The total pension liability at March 31, 2015 was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The actuarial valuation used the following actuarial assumptions.

Significant actuarial assumptions used in the April 1, 2014 valuation were as follows:

| | |
|--|---|
| Investment rate of return (net of investment expense, including inflation) | 7.50% |
| Salary scale | 4.90% |
| Decrement tables | April 1, 2005 - March 31, 2010 System's Experience |
| Inflation rate | 2.70% |

Annuitant mortality rates are based on April 1, 2005 - March 31, 2011 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2011 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 are summarized below.

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------|---|
| Domestic equity | 7.30% |
| International equity | 8.55% |
| Private equity | 11.00% |
| Real estate | 8.25% |
| Absolute return strategies | 6.75% |
| Opportunistic portfolio | 8.60% |
| Real assets | 8.65% |
| Bonds and mortgages | 4.00% |
| Cash | 2.25% |
| Inflation-indexed bonds | 4.00% |

Discount Rate

The discount rate used to calculate the total pension asset/liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset/liability.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the BOCES's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the BOCES's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease 6.5% | Current Assumption 7.5% | 1% Increase 8.5% |
|--|------------------------|-------------------------------|------------------------|
| Proportionate share of the net pension liability (assets) | \$ 34,629,466 | \$ 5,195,381 | \$(19,654,284) |

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued ERS financial report.

Payables to the Pension Plan

The BOCES has recorded an amount due to ERS in amount of \$2,045,457 at June 30, 2015. This amount represents the three months of the BOCES's fiscal year that will be covered in the ERS 2015-2016 billing cycle and has been accrued as an expenditure in the current year.

B. New York State Teachers' Retirement System (TRS)

Plan Description

The BOCES participates in the New York Teachers' Retirement System (TRS). This is a cost-sharing multiple-employer public employee retirement system. The system provides retirement benefits as well as death and disability benefits.

The TRS was created and exists pursuant to Article 11 of the New York State Education Law. TRS is administered by the system and governed by a ten member board to provide these benefits to teachers employed by participating employers in the State of New York, excluding New York City. The System provides benefits to plan members and beneficiaries as authorized by the New York State Law and may be amended only by the Legislature with the Governor's approval. Benefit provisions vary depending on date of membership and membership class (6 tiers). TRS issues a publicly available financial report that contains basic financial statements and required supplementary information for the System. For additional plan information please refer to the NYSTRS Comprehensive Annual Financial Report which can be found on the TRS website located at www.nystrs.org.

Contributions

Pursuant to Article 11 of the New York State Education Law, employers are required to contribute at an actuarially determined rate adopted annually by the Retirement Board. Tier 3 and Tier 4 members who have less than 10 years of service or membership are required by law to contribute 3% of salary to the System. Tier 5 members are required by law to contribute 3.5% of salary throughout their active membership. Tier 6 members are required by law to contribute between 3% and 6% of salary throughout their active membership in accordance with a schedule based upon salary earned. Pursuant to Article 14 and Article 15 of the Retirement and Social Security Law, those member contributions are used to help fund the benefits provided by the System. However, if a member dies or leaves covered employment with less than 5 years of credited service for Tiers 3 and 4, or 10 years of credited service for Tiers 5 and 6, the member contributions with interest calculated at 5% per annum are refunded to the employee or designated beneficiary. Eligible Tier 1 and Tier 2 members may make member contributions under certain conditions pursuant to the provisions of Article 11 of the Education Law and Article 11 of the Retirement and Social Security Law. Upon termination of membership, such accumulated member contributions are refunded. At retirement, such accumulated member contributions can be withdrawn or are paid as a life annuity.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

The required employer contributions for the current year and two preceding years were:

| | Amount |
|------|---------------|
| 2013 | \$ 9,448,994 |
| 2014 | \$ 12,778,859 |
| 2015 | \$ 13,606,475 |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the BOCES reported an asset of \$59,306,940 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2013. The BOCES's proportion of the net pension asset was based on a projection of the BOCES's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2014, the BOCES's proportion was .532408 percent, which was a decrease of .012421 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the BOCES recognized a pension credit of \$2,298,449. At June 30, 2015, the BOCES reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ | \$ 867,255 |
| Net difference between projected and actual earnings on Pensions plan investments | | 39,831,056 |
| Changes in proportion and differences between contributions and proportionate share of contributions | 73,247 | |
| Contributions subsequent to the measurement date | 13,606,475 | |
| Total | \$ 13,679,722 | \$ 40,698,311 |

Amounts reported as deferred outflows/inflows of resources related to pensions resulting from BOCES contributions subsequent to the measurement date, if any, will be recognized as a reduction of the net pension asset. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | |
|---------------------|-----------------|
| 2015 | \$ (10,050,091) |
| 2016 | \$ (10,050,091) |
| 2017 | \$ (10,050,091) |
| 2018 | \$ (10,050,091) |
| 2019 | \$ (92,327) |
| Thereafter | \$ (332,373) |

Actuarial Assumptions

The total pension liability at June 30, 2014 measurement date was determined by using an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. The actuarial valuation used the following actuarial assumptions.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Significant actuarial assumptions used in the June 30, 2013 valuation were as follows:

| | |
|---------------------------|--|
| Investment Rate of Return | 8.0 % compounded annually, net of pension plan investment expense, including inflation. |
| Salary scale | Rates of increase differ based on age and gender. They have been calculated based upon recent NYSTRS member experience. |

| Age | Female | Male |
|-----|--------|--------|
| 25 | 10.35% | 10.91% |
| 35 | 6.26% | 6.27% |
| 45 | 5.39% | 5.04% |
| 55 | 4.42% | 4.01% |

Projected COLAs 1.625% compounded annually.

Inflation rate 3.0%

Annuitant mortality rates are based on plan member experience, with adjustments for mortality improvements based on the Society of Actuaries Scale AA.

The actuarial assumptions used in the June 30, 2013 and 2012 valuations were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2010.

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance.

Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of the valuation date of June 30, 2013 and June 30, 2012 are summarized in the following table:

| Asset Class | Target Allocation | | Long-Term Expected Real Rate of Return* | |
|----------------------------------|-------------------|-------|---|-------|
| | 2013 | 2012 | 2013 | 2012 |
| Domestic equity | 37.0% | 37.0% | 7.3% | 7.0% |
| International equity | 18.0% | 18.0% | 8.5% | 9.1% |
| Real estate | 10.0% | 10.0% | 5.0% | 4.9% |
| Alternative investments | 7.0% | 7.0% | 11.0% | 10.2% |
| Domestic fixed income securities | 18.0% | 18.0% | 1.5% | 2.0% |
| Global fixed income securities | 2.0% | 2.0% | 1.4% | 1.7% |
| Mortgages | 8.0% | 8.0% | 3.4% | 4.0% |
| Short-term | 0.0% | 0.0% | 0.8% | 1.2% |

* Real rates of return are net of the long-term inflation assumption of 2.3% for 2013 and 2012.

Discount Rate

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from BOCES will be made at statutorily required rates, actuarially determined. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents BOCES' proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the BOCES' proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

| | 1% Decrease 7% | Current Assumption 8% | 1% Increase 9% |
|--|----------------------|-----------------------------|----------------------|
| Proportionate share of the net pension liability (assets) | \$(1,279,334) | \$ (59,306,940) | \$ (108,754,520) |

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued TRS financial report.

Payables to the Pension Plan

The BOCES has recorded an amount due to TRS in amount of \$14,188,082 in the General Fund at June 30, 2015. This amount represents contribution for the 2014-2015 fiscal year that will be made in 2015-2016 and has been accrued as an expenditure in the current year.

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

| | Total |
|---------------------------------|---------------|
| Normal Cost | \$ 18,973,179 |
| Amortization of UAL | 21,640,403 |
| ARC | 40,613,582 |
| Interest on Net OPEB Obligation | 8,935,275 |
| Adjustment to ARC | (6,693,341) |
| OPEB Expense | \$ 42,855,516 |

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

(d) Reconciliation of Net OPEB Obligation

| | |
|--|-----------------------|
| | <u>Total</u> |
| Net OPEB Obligation at the Beginning of the Year | \$ 178,705,492 |
| Annual Required Contribution | 42,855,516 |
| Net OPEB Contributions Made During the Fiscal Year | <u>(17,737,689)</u> |
| Net OPEB Obligation at the End of the Year | <u>\$ 203,823,319</u> |
| Percentage of Expense Contributed | 41% |

(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, 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 |
| June 30, 2015 | \$ 42,855,516 | \$ 17,737,689 | 41.4% | \$ 203,823,319 |

(f) Funding Status

| | |
|---|-----------------------|
| | <u>Total</u> |
| Actuarial Accrued Liability | \$ 577,777,013 |
| Actuarial Value of Assets | <u>0</u> |
| Unfunded Actuarial Accrued Liability (UAAL) | <u>\$ 577,777,013</u> |
| Funded Ratio | 0% |
| | |
| Annual Covered Payroll | \$ 112,823,411 |
| UAAL as a Percentage of Covered Payroll | 512% |

(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, 2014.

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

In the July 1, 2014, 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, 2015 is 23 years.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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:

| | 2015 | 2014 |
|--------------------------------------|--------------|--------------|
| Unpaid Claims at Beginning of Year | \$ 6,342,987 | \$ 5,577,752 |
| Incurred Claims and Claim Adjustment | | |
| Expenses | 7,434,935 | 3,386,513 |
| Claim Payments | (6,413,373) | (2,621,278) |
| Unpaid Claims at Year End | \$ 7,364,549 | \$ 6,342,987 |

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, 2015.

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 \$5,274,759 for the year. Future minimum rental payments under the terms of the renewal lease are payable as follows:

| Year Ending June 30, | Amount |
|-------------------------|--------------|
| 2016 | \$ 4,702,362 |
| 2017 | \$ 4,542,711 |
| 2018 | \$ 3,194,855 |
| 2019 | \$ 2,657,630 |
| 2020 | \$ 967,471 |
| 2021 | \$ 929,727 |
| 2022 | \$ 892,146 |
| 2023 | \$ 76,533 |

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

14. FUND BALANCE

(a) The following is a summary of the change in General fund restricted reserve funds during the year ended June 30, 2015:

| | Beginning Balance | Increases/ Decreases | Ending Balance |
|--------------------------------------|----------------------|-------------------------|----------------------|
| Restricted | | | |
| General Fund | | | |
| Employee Benefit Accrued Liability | \$ 28,642,522 | \$ 466,690 | \$ 29,109,212 |
| Retirement Contribution Reserve | 1,997,663 | 1,999,615 | 3,997,278 |
| Reserve for Liability | 121,234 | | 121,234 |
| Unemployment Insurance | 174,173 | 216,504 | 390,677 |
| Reserve for Property Loss | 28,126 | (5,000) | 23,126 |
| Workers' Compensation | 5,849,247 | 1,513,911 | 7,363,158 |
| Total General Fund Restricted | \$ 36,812,965 | \$ 4,191,720 | \$ 41,004,685 |

(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, 2015:

| | General | School Lunch | Special Aid | Capital | Total |
|------------------------------------|----------------------|-------------------|---------------------|---------------------|----------------------|
| Restricted | | | | | |
| Employee Benefit Accrued Liability | \$ 29,109,212 | | | | \$ 29,109,212 |
| Retirement Contribution Reserve | 3,997,278 | | | | 3,997,278 |
| Reserve for Liability | 121,234 | | | | 121,234 |
| Unemployment Insurance Reserve | 390,677 | | | | 390,677 |
| Reserve for Property Loss | 23,126 | | | | 23,126 |
| Workers' Compensation Reserve | 7,363,158 | | | | 7,363,158 |
| Special Aid Fund | | | 39,569 | | 39,569 |
| Total Restricted | 41,004,685 | | 39,569 | | 41,044,254 |
| Committed | | | | | |
| Capital Projects | | | | 6,387,503 | 6,387,503 |
| Assigned | | | | | |
| Administration | 285,164 | | | | 285,164 |
| Occupational Instruction | 1,179,304 | | | | 1,179,304 |
| Instruction for Special Needs | 2,419,909 | | 1,510,007 | | 3,929,916 |
| Itinerant Services | 68,980 | | | | 68,980 |
| General Instruction | 67,905 | | | | 67,905 |
| Instruction Support | 553,161 | | | | 553,161 |
| Other Services | 1,248,644 | | | | 1,248,644 |
| School Lunch | | 183,414 | | | 183,414 |
| Total Assigned | 5,823,067 | 183,414 | 1,510,007 | | 7,516,488 |
| Total Fund Equity | \$ 46,827,752 | \$ 183,414 | \$ 1,549,576 | \$ 6,387,503 | \$ 54,948,245 |

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

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, 2015, 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:

| | <u>Assigned</u> | | | <u>Committed</u> | |
|-------------------------------|---------------------|-------------------------|------------------------|-------------------|---------------------|
| | <u>General</u> | <u>School Lunch</u> | <u>Special Aid</u> | <u>Capital</u> | <u>Total</u> |
| Administration | \$ 285,164 | \$ | \$ | \$ | \$ 285,164 |
| Occupational Instruction | 1,179,304 | | | | 1,179,304 |
| Instruction for Special Needs | 2,419,909 | | 254 | | 2,420,163 |
| Itinerant Services | 68,980 | | | | 68,980 |
| General Instruction | 67,905 | | | | 67,905 |
| Instruction Support | 553,161 | | | | 553,161 |
| Other Services | 1,248,644 | | | | 1,248,644 |
| Capital Outlay | | | | 162,476 | 162,476 |
| School Lunch | | 10,800 | | | 10,800 |
| Total Encumbrances | <u>\$ 5,823,067</u> | <u>\$ 10,800</u> | <u>\$ 254</u> | <u>\$ 162,476</u> | <u>\$ 5,996,597</u> |

16. FUND DEFICITS

Net Position Deficit – BOCES-Wide

The BOCES-wide net position is a deficit at June 30, 2015 of \$112,001,244. 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 \$203,823,319 at June 30, 2015. Since New York State Laws provide no mechanism for funding the liability, the subsequent accruals are expected to increase the deficit.

EASTERN SUFFOLK BOCES
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

16. PRIOR-PERIOD ADJUSTMENT

Government-Wide

The prior year net position in the BOCES-Wide financial statements was increased \$11,264,454 to account for the change in accounting for the Pension systems in accordance with GASB Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The District's Net Position has been restated as follows:

| | |
|---|----------------------|
| GASB Statement No. 68 implementation | |
| Beginning System asset - Teachers' Retirement System | \$ 3,586,359 |
| Beginning System liability - Employees' Retirement System | (6,949,527) |
| Beginning deferred outflow of resources for contributions subsequent to the measurement date | |
| Teachers' Retirement System | 12,779,806 |
| Employees' Retirement System | <u>1,847,816</u> |
| Total Prior Period Adjustment | <u>\$ 11,264,454</u> |

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, 2015

| | Original Budget | Final Budget | Actual | | Final Budget Variance With Actual |
|---|-----------------------|-----------------------|----------------------|---------------------|---|
| Revenues | | | | | |
| Administration | \$ 41,162,666 | \$ 41,008,735 | \$ 37,052,778 | | \$ (3,955,957) |
| Occupational Instruction | 32,054,607 | 33,743,940 | 32,344,421 | | (1,399,519) |
| Instruction for Special Needs | 137,759,704 | 148,802,669 | 143,484,853 | | (5,317,816) |
| Itinerant Services | 7,220,738 | 7,674,627 | 6,775,906 | | (898,721) |
| General Instruction | 13,550,633 | 15,581,420 | 12,969,913 | | (2,611,507) |
| Instruction Support | 22,106,393 | 26,042,789 | 21,343,047 | | (4,699,742) |
| Other Services and Internal Services | 65,647,492 | 69,871,195 | 63,566,303 | | (6,304,892) |
| Internal Services | | 271,661 | 271,659 | | (2) |
| Total Revenues | <u>319,502,233</u> | <u>342,997,037</u> | <u>317,808,880</u> | | <u>(25,188,157)</u> |
| Other Financing Sources | | | | | |
| Transfer from Other Funds | | | 483,958 | | 483,958 |
| Total Revenue and Other Financing Sources | <u>\$ 319,502,233</u> | <u>\$ 342,997,037</u> | <u>318,292,838</u> | | <u>\$ (24,704,199)</u> |
| Expenditures | | | | | |
| Administration | \$ 40,162,666 | \$ 39,008,735 | 35,286,385 | \$ 285,164 | \$ 3,437,186 |
| Occupational Instruction | 32,054,607 | 33,511,158 | 31,171,529 | 1,179,304 | 1,160,325 |
| Instruction for Special Needs | 137,759,704 | 148,802,669 | 139,787,252 | 2,419,909 | 6,595,508 |
| Itinerant Services | 7,220,738 | 7,674,627 | 6,736,647 | 68,980 | 869,000 |
| General Instruction | 13,550,633 | 15,581,420 | 12,922,041 | 67,905 | 2,591,474 |
| Instruction Support | 22,106,393 | 26,042,789 | 21,195,275 | 553,161 | 4,294,353 |
| Other Services | 65,347,492 | 69,704,185 | 58,100,395 | 1,248,644 | 10,355,146 |
| Internal Services | | 271,661 | 271,670 | | (9) |
| Total Expenditures | <u>318,202,233</u> | <u>340,597,244</u> | <u>305,471,194</u> | <u>5,823,067</u> | <u>29,302,983</u> |
| Other Financing Uses | | | | | |
| Transfer To Other Funds | 1,300,000 | 2,399,793 | 2,401,307 | | (1,514) |
| Return of Surplus | | | 6,405,830 | | (6,405,830) |
| Total Expenditures and Other Financing Uses | <u>\$ 319,502,233</u> | <u>\$ 342,997,037</u> | <u>314,278,331</u> | <u>\$ 5,823,067</u> | <u>\$ 22,895,639</u> |
| Net Change in Fund Balances | | | <u>4,014,507</u> | | |
| Fund Balance - Beginning of Year | | | <u>42,813,245</u> | | |
| Fund Balance - End of Year | | | <u>\$ 46,827,752</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, 2015

| 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, 2015 | \$ 0 | \$ 577,777,013 | \$ 577,777,013 | 0% | \$ 112,823,411 | 512% |
| 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% |

The accompanying notes are an integral part of these financial statements.

SUPPLEMENTARY INFORMATION

EASTERN SUFFOLK BOCES
SCHEDULES OF A431 SCHOOL DISTRICT ACCOUNT
For the Year Ended June 30, 2015

| | |
|--|----------------------|
| Balance, Beginning of Year | \$ <u>48,974,038</u> |
| Debits | |
| Billings to Components | 287,950,689 |
| Refund Balances Due School Districts - June 30, 2014 | 2,476,319 |
| Encumbrances - June 30, 2015 | 5,823,067 |
| Other Adjustment - Allowance for Post Employment Liabilities | 177,833 |
| Other Adjustments - Allowance for Receivable - June 30, 2014 | <u>328,916</u> |
| Total Debits | <u>296,756,824</u> |
| Subtotal | <u>345,730,862</u> |
| Credits | |
| Collections from Components | 285,142,425 |
| Refund Balances Due School Districts - June 30, 2015 | 6,405,830 |
| Encumbrances - June 30, 2014 | 6,000,280 |
| Other Adjustments - Refunds from other BOCES | |
| Other Adjustments - Allowance for Receivable - June 30, 2014 | <u>328,916</u> |
| Total Credits | <u>297,877,451</u> |
| Balance, End of Year | <u>\$ 47,853,411</u> |
| <u>Summary:</u> | |
| A380 Accounts Receivable Components | \$ 54,259,241 |
| A431 School District Accounts | <u>(6,405,830)</u> |
| Balance, End of Year | <u>\$ 47,853,411</u> |

The accompanying notes are an integral part of these financial statements.

EASTERN SUFFOLK BOCES
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
For the Year Ended June 30, 2015

| | Budget June 30, 2014 | Budget June 30, 2015 | Expenditures | | | Unexpended Balance | Methods of Financing | | | Fund Balance June 30, 2015 |
|--------------------------------|-------------------------|-------------------------|-------------------|---------------------|---------------------|-----------------------|----------------------------|---------------------|----------------------|----------------------------------|
| | | | Prior Years | Current Year | Total | | Proceeds of Obligations | Local Sources | Total | |
| Utility and Service | \$ 430,000 | \$ 436,567 | \$ 272,246 | \$ 91,481 | \$ 363,727 | \$ 72,840 | \$ 436,567 | \$ 436,567 | \$ 72,840 | |
| WHB Defeo Building Canopy | 49,864 | 49,864 | | 35,000 | 35,000 | 14,864 | 49,864 | 49,864 | 14,864 | |
| Fire Protection System - HBW | 200,000 | 194,062 | 60,588 | 133,474 | 194,062 | | 194,062 | 194,062 | | |
| Fire Protection System - Hines | 59,016 | 30,824 | 30,824 | | 30,824 | | 30,824 | 30,824 | | |
| BMS System Upgrade - Hines | 92,970 | 110,102 | | 110,102 | 110,102 | | 110,102 | 110,102 | | |
| HB Ward Building 4 | 150,000 | 203,970 | 23,970 | 108,426 | 132,396 | 71,574 | 203,970 | 203,970 | 71,574 | |
| New Maintenance Build MTC | | 8,325 | | | | | 8,325 | 8,325 | 8,325 | |
| MTC - Roof Replacement | | 3,290,000 | | 832,320 | 832,320 | | 3,290,000 | 3,290,000 | 2,457,680 | |
| Capital Projects-Unallocated | 3,104,085 | 1,762,220 | | | | 1,762,220 | 1,762,220 | 1,762,220 | 1,762,220 | |
| Career Education | 423,864 | 232,783 | | | | 232,783 | 232,783 | 232,783 | 232,783 | |
| Career Education | 1,576,136 | 2,000,000 | | 232,783 | 232,783 | 1,767,217 | 2,000,000 | 2,000,000 | 1,767,217 | |
| Technology CoSers | | 3,792,324 | | 3,792,324 | 3,792,324 | | 3,792,324 | 3,792,324 | | |
| Totals | <u>\$ 6,085,935</u> | <u>\$ 12,111,041</u> | <u>\$ 387,628</u> | <u>\$ 5,335,910</u> | <u>\$ 5,723,538</u> | <u>\$ 3,921,498</u> | <u>\$ 3,792,324</u> | <u>\$ 8,318,717</u> | <u>\$ 12,111,041</u> | <u>\$ 6,387,503</u> |

The accompanying notes are an integral part of these financial statements.

EASTERN SUFFOLK BOCES
SCHEDULE OF INVESTMENT IN CAPITAL ASSETS
For the Year Ended June 30, 2015

| | |
|---|----------------------|
| Capital Assets, Net of Accumulated Depreciation | \$ 58,662,853 |
| Deduct: | |
| Installment Purchase Debt | (4,476,383) |
| Deferred Payment Plan Debt | (4,259,514) |
| Energy Performance Contract | <u>(1,324,396)</u> |
| Total Deductions | <u>(10,060,293)</u> |
| Net Investment in Capital Assets | <u>\$ 48,602,560</u> |

The accompanying notes are an integral part of these financial statements.

REQUIRED REPORTS UNDER OMB CIRCULAR A-133

EASTERN SUFFOLK BOCES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Agency or Pass-through Number</u> | <u>2015 Expenditures</u> |
|--|------------------------------------|--|------------------------------|
| <u>U.S. Department of Agriculture</u> | | | |
| Food Distribution | 10.555 | * | \$ 33,791 |
| <u>U.S. Department of Agriculture</u> <u>Pass-Through New York State Dept. of Education</u> | | | |
| School Breakfast program | 10.553 | * | 179,555 |
| National School Lunch Program | 10.555 | * | <u>324,762</u> |
| Total U.S Department of Agriculture | | | <u>538,108</u> |
| <u>U.S. Department of Education</u> | | | |
| Student Financial Aid Cluster: Federal Family Education Loans | 84.032 | + | 1,664,609 |
| Pell Grants | 84.063 | + | <u>670,244</u> |
| | | | 2,334,853 |
| US DoE SCCIES | 84.215 | S215E130364 | 387,737 |
| US DoE AEMDP | 84.351 | U351D100124 | <u>199,153</u> |
| Total Direct U.S Department of Education | | | <u>2,921,743</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 | 2338-15-2035 | 626,294 |
| Adult Education - State Grant Program | 84.002 | 2338-15-3052 | 100,000 |
| Adult Education - State Grant Program | 84.002 | 0040-15-2020 | <u>250,000</u> |
| | | | 976,294 |
| Migrant Education - State Grant Program | 84.011 | 0035-14-0009 | 113,691 |
| Migrant Education - State Grant Program | 84.011 | 0035-15-0009 | <u>468,619</u> |
| | | | 582,310 |
| Career and Technical Education - Basic Grants to States | 84.048 | 8080-15-0012 | 653,816 |
| Career and Technical Education - Basic Grants to States | 84.048 | 8000-15-9025 | <u>84,464</u> |
| | | | 738,280 |
| Education for Homeless Children and Youth | 84.196 | 0212-15-4005 | 35,346 |
| Education for Homeless Children and Youth | 84.196 | 0212-15-4078 | 54,987 |
| Education for Homeless Children and Youth | 84.196 | 0212-15-4077 | <u>53,804</u> |
| | | | 144,137 |
| English Language Acquisition Grants | 84.365 | 0293-14-3285 | 28,083 |
| English Language Acquisition Grants | 84.365 | 0293-15-3285 | 151,557 |
| English Language Acquisition Grants | 84.365 | 0293-14-1724 | 24,340 |
| English Language Acquisition Grants | 85.365 | 0293-15-1724 | <u>124,235</u> |
| | | | 328,215 |
| ARRA - Race to the Top | 84.395 | 5590-15-0006 | 141,903 |
| ARRA - Race to the Top | 84.395 | 5565-15-0002 | 1,362,905 |
| ARRA - Race to the Top | 84.395 | 5575-15-0002 | <u>248,138</u> |
| | | | 1,752,946 |
| Total Direct U.S Department of Education Pass-Through New York State Dept. of Education | | | <u>4,522,182</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>55,773</u> |
| Total U.S. Department of Education | | | <u>7,499,698</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 8,037,806</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, 2015

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' 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*.

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, 2015.

5. LOAN PROGRAMS

Students attending the BOCES received the following new loans during the year ended June 30, 2015. 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 | \$1,664,609 |
|--------------------------------|-------------|-------------|

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 20, 2015

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, 2015, and the related notes to the financial statements, which collectively comprise the BOCES' basic financial statements and have issued our report thereon dated October 20, 2015.

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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

October 20, 2015

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, 2015. 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, 2015.

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(Continued)

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 (Continued)

Report on Internal Control over Compliance

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

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

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

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

EASTERN SUFFOLK BOCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2015

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 X No

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

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

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

Student Financial Aid Cluster

84.032

Federal Family Education Loans

84.063

Pell Grants

84.215

Fund for the Improvement of Education

84.395

ARRA – Race to the Top

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

Auditee qualified as low-risk auditee? X Yes No

EASTERN SUFFOLK BOCES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015 (Continued)

Section II—Financial Statement Findings

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

Section III—Federal Award Findings and Questioned Costs

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

Section IV - Status of Prior Year Comments

There were no prior year comments.

EASTERN SUFFOLK BOCES

CORRECTIVE ACTION PLAN YEAR ENDED JUNE 30, 2015

For the year ended June 30, 2015, there were no findings required to be reported under *Government Auditing Standards* or OMB Circular A-133. Accordingly, a corrective action plan is unnecessary.