

**WESTERN SUFFOLK BOARD OF
COOPERATIVE EDUCATION SERVICES**

**Financial Statements and Required Reports
June 30, 2018
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

WESTERN SUFFOLK BOARD OF COOPERATIVE EDUCATION SERVICES

TABLE OF CONTENTS JUNE 30, 2018

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1 - 2
Management's discussion and analysis (Unaudited).....	3 - 11
FINANCIAL STATEMENTS	
Statement of net position.....	12
Statement of activities.....	13
Balance sheet - Governmental funds and reconciliation of total governmental fund balance to government-wide net position.....	14 - 15
Statement of revenue, expenditures, and changes in fund balance - Governmental funds.....	16
Reconciliation of the statement of revenue, expenditures, and changes in fund balance to the statement of activities.....	17
Statement of net position - Fiduciary fund.....	18
Notes to the financial statements.....	19 - 47
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
Schedule of revenue, expenditures, and changes in fund balance - Budget and actual - General fund.....	48-49
Schedule of proportionate share of net pension liability (asset).....	50
Schedule of contributions - pension plans.....	51
Schedule of changes in total OPEB liability and related ratios.....	52
SUPPLEMENTARY INFORMATION (UNAUDITED)	
Schedule of Account A431-School District.....	53
Schedule of project expenditures - Capital Projects Fund.....	54-55
Schedule of change from original budget to revised budget - General fund.....	56
Schedule of net investment in capital assets	57
Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	58-59

INDEPENDENT AUDITOR'S REPORT

November 26, 2018

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Western Suffolk BOCES (the BOCES) as of and for the year ended June 30, 2018, 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, each major fund, and the aggregate remaining fund information of the BOCES as of June 30, 2018, 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.

Change in Accounting Principle

As discussed in Note 16 to the financial statements, in 2018 the BOCES adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedules of contributions – pension plans, proportionate share of the net pension liability (asset), and changes in total OPEB liability and related ratios 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.

Other 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, as required by the New York State Education Department is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the BOCES' 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.

WESTERN SUFFOLK BOCES

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) JUNE 30, 2018

The following is a discussion and analysis of the Western Suffolk BOCES (the BOCES) financial performance for the fiscal year ended June 30, 2018. The section is a summary of the BOCES' financial activities based on currently known facts, decisions, or conditions. It is also based on both the Government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the BOCES' financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

For the year ended June 30, 2018 the total net position was (\$314,299,368), a decrease of \$6,443,855 from the prior year. This decrease is primarily the result of the changes in the actuarial information recorded related to pension liabilities and assets and the increase in the other postemployment benefit liability.

At the present time, the BOCES continues to show strong financial stability. In an effort to protect taxpayer resources from fiscal mismanagement, fraud or abuse, the BOCES continues to review and strengthen their internal controls posture. To this end, the Business Office staff meets regularly with upper management and its Audit Committee to ensure integrity in all activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: Management's Discussion and Analysis (MD&A) (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the BOCES:

- The first two statements are *Government-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 Government-wide statements. The fund financial statements concentrate on the BOCES most significant funds with all other non-major funds listed in total in one column.
- The *governmental funds statements* tell 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.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Figure A-1 shows how the various sections of this annual report are arranged and related to one another.

Figure A-1

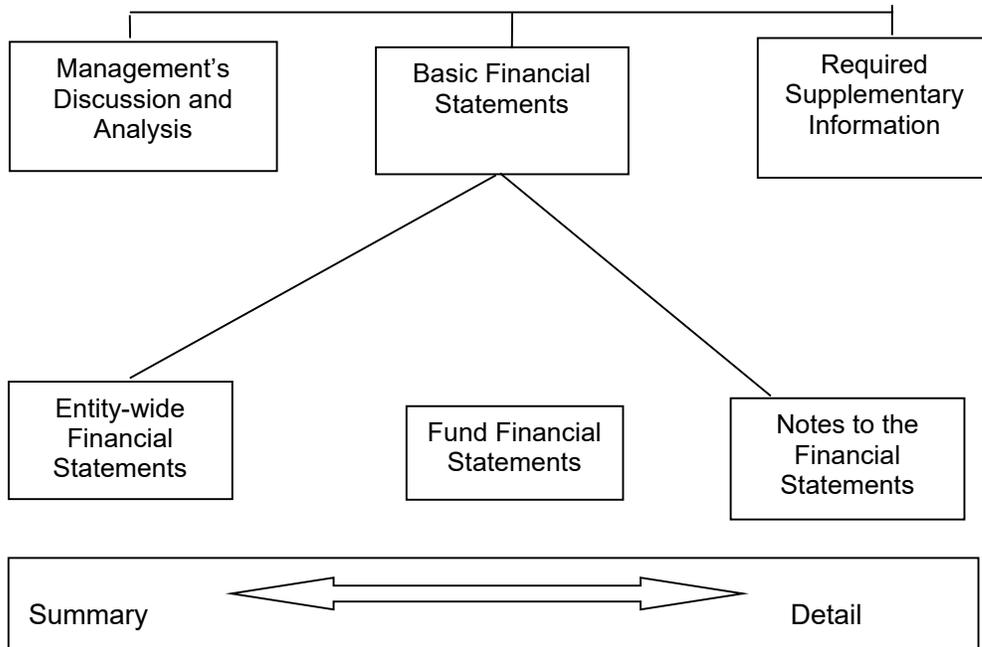


Figure A-2 summarizes the major features of the Western Suffolk BOCES' financial statements, including a portion of the BOCES' activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements

	Fund Financial Statements		
	Government-wide	Governmental Funds	Fiduciary Funds
Scope	Entire BOCES (except fiduciary funds)	The activities of the BOCES that are not fiduciary, such as special education.	Instances in which the BOCES administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	<ul style="list-style-type: none"> Statement of net position Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenue, expenditures, and changes in fund equity 	<ul style="list-style-type: none"> Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Figure A-2 Major Features of the Government-wide and Fund Financial Statements (Continued)

	Fund Financial Statements (Continued)		
	Government-wide	Governmental Funds	Fiduciary Funds
Type of asset/deferred inflows-outflows of resources/liability information	All assets, deferred inflows/outflows of resources, and liabilities, both financial and capital, short-term and long-term debt	Assets, deferred inflows/outflows of deferred resources, and liabilities that come due during the year or soon after; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenue and expenses during year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

The Government-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/deferred outflows of resources and liabilities/deferred inflows of resources. All of the current year's revenue and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the BOCES *net position* and how they have changed. Net position – the difference between the BOCES assets and liabilities – are 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, you need to consider additional nonfinancial factors, such as changes in the condition of school buildings and other facilities.

Net position of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (dollars) are expended to purchase or build such assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. Principal and interest payments are considered expenditures when paid. Depreciation is not calculated. Capital assets and long-term debt are accounted for in account groups and do not affect the fund balances.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-wide Statements (Continued)

Government-wide statements use an economic resources measurement focus and full accrual basis of accounting that involves the following steps to prepare the statement of net position:

- Capitalize current outlays for capital assets.
- Report long-term debt as a liability.
- Depreciate capital assets and allocate the depreciation to the proper function.
- Calculate revenue and expenditures using the economic resources measurement focus and the full accrual basis of accounting.
- Allocate net position balances as follows:
 - Net investment in capital assets.
 - Restricted net position are those with constraints placed on use by external sources or imposed by law.
 - Unrestricted net position are net position that do not meet any of the above restrictions.

Fund Financial Statements

The fund financial statements provide more detailed information about the BOCES funds – not the BOCES as a whole. Funds are accounting devices the BOCES uses to keep track of specific sources of funding and spending on particular programs. The funds have been established by the State of New York.

The BOCES has two kinds of funds:

- *Governmental Funds*: Most of the BOCES basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets 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 helps 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 Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The governmental fund statements focus primarily on current financial resources and often have a budgetary orientation. Governmental funds include the general fund, special aid fund, school lunch fund, and the capital projects fund. Required financial statements are the balance sheet and the statement of revenue, expenditures, and changes in fund balance.
- *Fiduciary Funds*: The BOCES is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and 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 Government-wide financial statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net position and changes in net position.

FINANCIAL ANALYSIS OF THE BOCES AS A WHOLE

Figure A-3 Condensed Statement of Net position (in thousands of dollars)

	Fiscal Year <u>2018</u>	(restated) Fiscal Year <u>2017</u>	Percent <u>Change</u>
Current and other assets	\$ 97,918	\$ 91,288	7.3%
Net pension asset	2,049	-	100.0%
Capital assets	<u>80,257</u>	<u>75,710</u>	6.0%
Total assets	180,224	166,998	7.9%
Deferred outflows of resources	<u>38,129</u>	<u>37,119</u>	2.7%
Total assets and deferred outflows of resources	<u>218,353</u>	<u>204,117</u>	7.0%
Current liabilities	64,450	59,247	8.8%
Net pension liability	2,998	11,784	-74.6%
Long-term liabilities	<u>440,486</u>	<u>430,253</u>	2.4%
Total liabilities	507,934	501,284	1.3%
Deferred inflows of resources	<u>24,718</u>	<u>10,688</u>	131.3%
Total liabilities and deferred inflows of resources	<u>532,652</u>	<u>511,972</u>	4.0%
Net position:			
Investment in capital assets	70,368	67,897	3.6%
Restricted	22,985	17,217	33.5%
Unrestricted	<u>(407,652)</u>	<u>(392,969)</u>	3.7%
Total net position	<u>\$ (314,299)</u>	<u>\$ (307,855)</u>	2.1%

Net Position

Current assets increased approximately \$6.6 million mainly due to an increase in amounts due to the fiduciary fund for year-end payroll accruals. The net pension asset increased \$2.0 million due to the change in the actuarial valuation related to pensions.

Current liabilities increased by \$5.2 million primarily due to an increase in accounts payable and accrued liabilities.

The net pension liability decreased approximately \$8.7 million and the deferred inflow of resources increased approximately \$14 million due to the changes in the actuarial valuation related to pensions.

Long-term liabilities increased by only 2.4%, however, the implementation of GASB 75, Accounting for Post-Employment Benefits, resulted in a restatement of the liability for other post-employment benefits of approximately a \$272 million increase.

The net position of the BOCES has decreased by approximately \$6.4 million mainly due to an increase in other post-employment benefits of approximate \$9 million and changes in the actuarial valuation for recording of pension liabilities. The implementation of GASB 75, also resulted in a restatement of net position of approximately a \$272 million decrease.

FINANCIAL ANALYSIS OF THE BOCES AS A WHOLE (Continued)

Figure A-4 Changes in Net position from Operating Results (in thousands of dollars)

	Fiscal Year <u>2018</u>	Fiscal Year <u>2017</u>	Percent <u>Change</u>
<u>Revenue</u>			
Program revenue:			
Charges for services	\$ 181,206	\$ 174,959	3.6%
Operating grants and contributions	5,675	5,736	-1.1%
General revenue:			
Use of money and property	177	92	92.4%
Sale of property and compensation for loss	193	93	107.5%
Miscellaneous	1,584	1,514	4.6%
Rental income	<u>84</u>	<u>74</u>	13.5%
 Total revenue	 <u>\$ 188,919</u>	 <u>\$ 182,468</u>	 3.5%
<u>Expenses</u>			
Administration	\$ 14,292	\$ 14,389	-0.7%
Occupational instruction	32,661	33,780	-3.3%
Instruction for special education	94,483	96,159	-1.7%
Itinerant services	280	429	-34.7%
General instruction	8,955	8,470	5.7%
Instruction support	22,803	20,032	13.8%
Other services	11,555	11,500	0.5%
Internal services	2,482	1,896	30.9%
School lunch program	1,587	1,551	2.3%
Return of surplus	<u>6,265</u>	<u>4,674</u>	34.0%
 Total expenses	 <u>195,363</u>	 <u>192,880</u>	 1.3%
 Change in net position	 <u>\$ (6,444)</u>	 <u>\$ (10,412)</u>	 -38.1%

Changes in Net position

The Western Suffolk BOCES 2018 revenue was \$188.9 million compared to the previous year of \$182.4 million (see Figure A-4). This increase in revenue was primarily driven by an increase in charges for services.

The total cost of all programs and services totaled \$195.3 million for 2018, compared to \$192.8 million in the previous year. These expenses are predominantly for the education, supervision, and transportation of students (see Figure A-6).

FINANCIAL ANALYSIS OF THE BOCES AS A WHOLE (Continued)

Changes in Net position (Continued)

Instructional support expenses increased by \$2.7 million primarily due to services provided to component districts within that coser increasing for 2017-18 year.

Changes in the valuation of GASB Statement No. 68 & 71, Accounting and Financial Reporting for Pensions, along with the increase in other postemployment benefits of \$9 million increased expenditures in 2018.

Return of surplus increased by approximately \$1.6 million primarily due to a decrease in the costs related to services provided to component districts.

Figure A-5: Revenue Sources for 2018

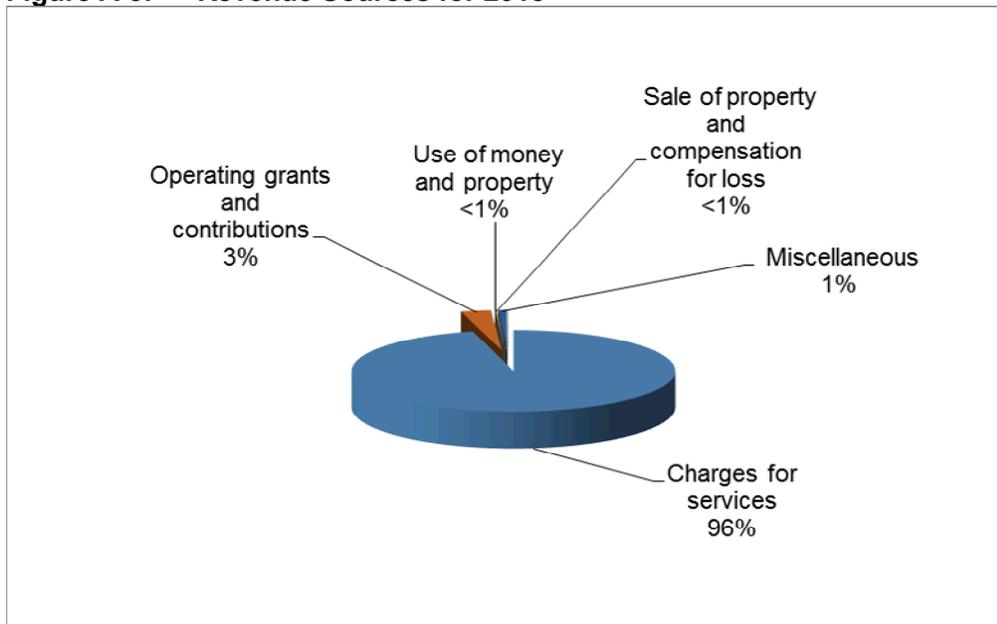
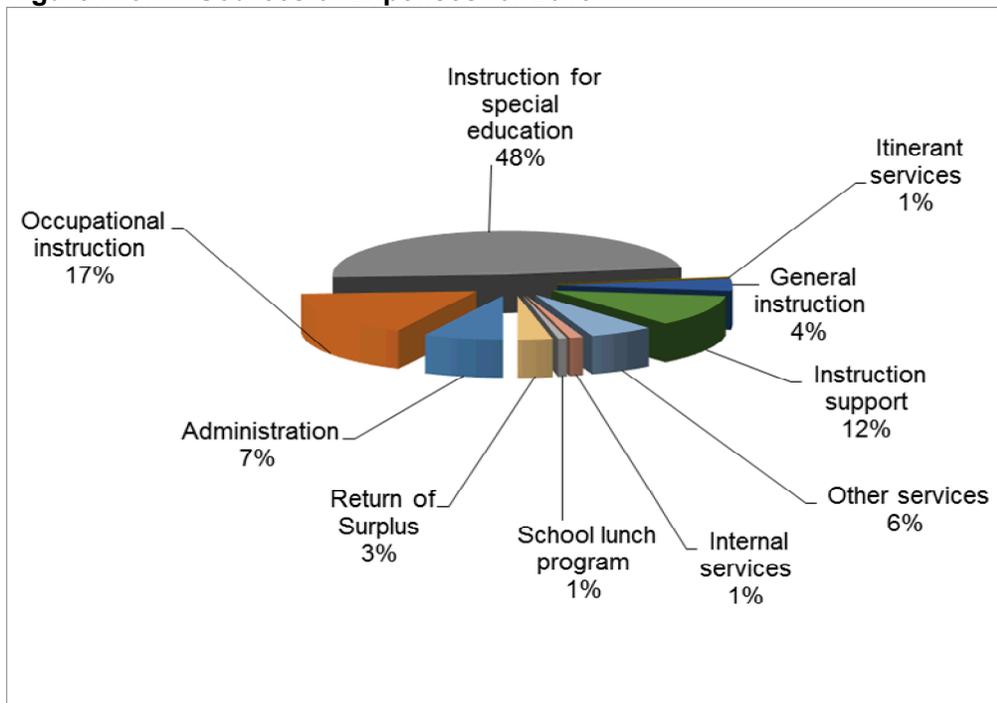


Figure A-6: Sources of Expenses for 2018



FINANCIAL ANALYSIS OF THE BOCES' FUNDS

Variations between years for the governmental fund financial statements are not the same as variations between years for the Government-wide financial statements. The Western Suffolk BOCES governmental funds are presented on the current financial resources measurement focus and the modified accrual basis of accounting. Under this method of presentation, governmental funds do not include long-term liabilities for the funds' projects and capital assets purchased by the funds. Governmental funds will include proceeds from the issuance of debt, the current payments for capital assets, and the current payments for debt.

The following is a brief description of the activity in the governmental funds for 2018 and 2017:

General Fund: Revenues exceeded expenditures by \$6.3 million: Health insurance costs continue to represent one of the most significant expenses in the fund. This past year Health and Dental Insurance expenses increased \$251.9 thousand (1.7%) to \$14.7 million. Post-retirement health benefits also increased \$226.8 thousand (3.3%) to \$7.1 million. The total expense of \$21.8 million represents 13% of overall General Fund expenses. While overall health insurance expenses are expected to continue rising, the rate of growth should lessen over time as new employees make up a larger percentage of covered members. As a result of new collective bargaining agreements, reductions in the board's share of contributions for health insurance premiums will mitigate the impact of large increases in health insurance premiums moving forward.

Special Aid: The special aid fund does not generate a significant fund balance. All revenue received is expended for grant programs, the summer handicapped program and the Employment Preparation Education (EPE) program. The amounts received and expended are program specific and are accounted for separately. These programs have accumulated a slight fund balance of approximately \$62 thousand. Approximately \$10 million of revenue was generated in this fund.

School Lunch: The school lunch fund ended 2017-2018 with an increase in their fund balance of \$15 thousand. This resulted in a fund balance of \$85 thousand on hand as of June 30, 2018.

Capital Projects: Capital projects spending totaled \$12.9 million in 2017-2018. This left a fund balance of \$9.2 million on hand as of June 30, 2018.

General Fund Budgetary Highlights

As additional requests for service are accepted, spending adjustments are required to meet these changing needs. The original approved budget as well as estimated revenues are adjusted to more accurately reflect actual service levels. Once fixed costs are covered, additional services typically drive a small surplus. This surplus is then refunded to the participants the following fiscal year.

Capital Assets

As of June 30, 2018, the BOCES had \$80,257,430 invested in a broad range of capital assets including land, buildings, computers, and other educational equipment.

Capital Assets (Net of Depreciation, in Thousands of Dollars)

<u>Category</u>	Fiscal Year <u>2018</u>	Fiscal Year <u>2017</u>	Percent <u>Change</u>
Land	\$ 818	\$ 818	0.0%
Construction in progress	3,752	516	627.3%
Buildings and improvements	59,083	57,847	2.1%
Equipment and furniture	<u>16,605</u>	<u>16,529</u>	0.5%
Total	<u>\$ 80,257</u>	<u>\$ 75,710</u>	6.0%

FINANCIAL ANALYSIS OF THE BOCES' FUNDS (Continued)

Long-Term Liabilities

As of June 30, 2018, the BOCES had approximately \$444 million in Long-Term Liabilities outstanding. More detailed information about the BOCES' long-term liabilities is included in the notes to the financial statements.

<u>Category</u>	(In Thousands)	
	Fiscal Year <u>2018</u>	(Restated) Fiscal Year <u>2017</u>
Installment Purchase Debt	\$ 9,671	\$ 7,365
Other Post Employment Benefits	414,744	405,535
Compensated Absences	12,710	12,765
Workers' Compensation Claims Payable	6,793	7,126
Capital Leases	<u>217</u>	<u>448</u>
Total	<u>\$ 444,138</u>	<u>\$ 433,239</u>

FACTORS BEARING ON THE BOCES' FUTURE

The general fund budget for the 2018-2019 school year was approved for the amount of \$177,268,992. This is an increase of \$7,559,424 over the previous year's budget. The increase was primarily due to increases in personnel costs and employee benefits, principally health insurance costs which are expected to rise by \$1.7 million from the prior year.

BOCES remains aware of the fiscal constraints on local component school districts. In that regard the tuition rates charged to the districts have been limited to approximately 1.9%. Student enrollment in Special Education programs was flat from the prior year and Occupational Education enrollment declined 1%. Collective bargaining agreements have been negotiated with all groups to include an increase in employees' contributions towards their health insurance premiums. As of the date of this report there are three (3) expired collective bargaining agreements. Pension costs continued to decrease in both the TRS and ERS. As noted above, health insurance expenses are expected to increase in calendar year 2019.

Subsequent to June 30, 2018, the BOCES entered into new long term debt in the amount of \$1,373,000 for technology.

CONTACTING THE BOCES' FINANCIAL MANAGEMENT

This financial report is designed to provide the BOCES' component districts, customers, investors, and creditors with a general overview of the BOCES' finances and to demonstrate the BOCES' accountability for the money it received. If you have any questions about this report or need additional financial information, contact:

Warren E. Taylor
Chief Financial Officer
Western Suffolk BOCES
507 Deer Park Road
Huntington Station, NY 11746

WESTERN SUFFOLK BOCES**STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018****ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

CURRENT ASSETS:	
Cash - Unrestricted	\$ 29,237,553
Cash - Restricted	23,364,180
Due from school districts	18,802,286
Due from other governments	382,540
Due from state and federal	18,934,182
Due from fiduciary fund	6,009,950
Accounts receivable	474,681
Other receivables	650,317
Inventories	<u>62,545</u>
Total current assets	<u>97,918,234</u>
NONCURRENT ASSETS:	
Net pension asset	2,048,832
Capital assets, net of accumulated depreciation	<u>80,257,430</u>
Total non-current assets	<u>82,306,262</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	<u>38,128,501</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>218,352,997</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	
CURRENT LIABILITIES:	
Accounts payable	6,803,038
Accrued liabilities	47,969,183
Due to Teachers' Retirement System	4,493,299
Due to Employee Retirement System	1,358,736
Due to Other Governments	958
Current portion of long-term debt	3,652,453
Unearned revenue	<u>172,380</u>
Total current liabilities	<u>64,450,047</u>
LONG-TERM LIABILITIES:	
Compensated absences payable	12,711,411
Workers' Compensation payable	6,792,861
Installment purchase debt	6,204,347
Capital leases	32,986
Net pension liability	2,998,487
Other postemployment benefits	<u>414,743,992</u>
Total long-term liabilities	<u>443,484,084</u>
DEFERRED INFLOWS OF RESOURCES	
Pension related	15,187,066
Deferred charges to districts	<u>9,531,168</u>
Total deferred inflows of resources	<u>24,718,234</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>532,652,365</u>
NET POSITION	
Net Investment in capital assets	70,367,644
Restricted	22,984,964
Unrestricted	<u>(407,651,976)</u>
TOTAL NET POSITION	<u>\$ (314,299,368)</u>

The accompanying notes are an integral part of these statements.

WESTERN SUFFOLK BOCES

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
FUNCTIONS/PROGRAMS:				
Administration	\$ 14,292,340	\$ 13,795,892	\$ -	\$ (496,448)
Occupational instruction	32,661,170	31,526,677	1,857,915	723,422
Instruction for special education	94,483,233	91,201,337	2,310,931	(970,965)
Itinerant services	279,608	269,896	-	(9,712)
General instruction	8,954,847	8,643,798	-	(311,049)
Instruction support	22,802,503	22,010,453	1,055,308	263,258
Other services	11,554,654	11,153,300	-	(401,354)
Internal services	2,482,160	2,395,942	-	(86,218)
School lunch program	1,587,214	208,744	451,136	(927,334)
Return of Surplus	<u>6,265,168</u>	<u>-</u>	<u>-</u>	<u>(6,265,168)</u>
TOTAL FUNCTIONS AND PROGRAMS	\$ <u>195,362,897</u>	\$ <u>181,206,039</u>	\$ <u>5,675,290</u>	<u>(8,481,568)</u>
GENERAL REVENUE:				
Use of money and property				177,231
Sale of property and compensation for loss				193,086
Miscellaneous				1,583,546
Rental Income				<u>83,850</u>
TOTAL GENERAL REVENUE				<u>2,037,713</u>
CHANGE IN NET POSITION				(6,443,855)
TOTAL NET POSITION - beginning of year, as previously reported				(35,826,570)
PRIOR PERIOD ADJUSTMENT (Note 16)				<u>(272,028,943)</u>
TOTAL NET POSITION - beginning of year, as restated				(307,855,513)
TOTAL NET POSITION - end of year				<u>\$ (314,299,368)</u>

The accompanying notes are an integral part of these statements.

WESTERN SUFFOLK BOCES

**BALANCE SHEET - GOVERNMENTAL FUNDS AND RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCE TO GOVERNMENT-WIDE NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Governmental Fund Types				Total Governmental Funds
	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	
ASSETS					
Cash - Unrestricted	\$ 26,208,004	\$ 1,991,117	\$ 1,038,432	\$ -	\$ 29,237,553
Cash - Restricted	17,223,412	-	-	6,140,768	23,364,180
Due from school districts	18,484,042	318,244	-	-	18,802,286
Due from other funds	12,235,996	-	-	3,967,954	16,203,950
State and federal aid	15,645,134	3,258,796	30,252	-	18,934,182
Accounts receivable	474,681	-	-	-	474,681
Other receivables	650,317	-	-	-	650,317
Due from other governments	112,540	270,000	-	-	382,540
Inventory	-	-	62,545	-	62,545
TOTAL ASSETS	\$ 91,034,126	\$ 5,838,157	\$ 1,131,229	\$ 10,108,722	\$ 108,112,234
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
LIABILITIES:					
Accounts payable	\$ 5,854,380	\$ 176,518	\$ -	\$ 772,140	\$ 6,803,038
Accrued liabilities	851,708	81,229	18,855	-	951,792
Compensated absences	521,430	-	-	-	521,430
Due to component districts - return of surplus	30,551,746	299,080	-	-	30,850,826
Due to ERS	1,316,273	10,897	31,566	-	1,358,736
Due to TRS	4,493,299	-	-	-	4,493,299
Due to other governments	28	-	930	-	958
State aid due to school districts	15,645,135	-	-	-	15,645,135
Due to other funds	3,967,954	5,196,695	990,577	38,774	10,194,000
Unearned revenue	156,784	11,336	4,260	-	172,380
Total Liabilities	63,358,737	5,775,755	1,046,188	810,914	70,991,594
DEFERRED INFLOWS OF RESOURCES					
Deferred charges to districts	9,531,168	-	-	-	9,531,168
Deferred revenue related to life insurance	650,317	-	-	-	650,317
	<u>10,181,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,181,485</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	73,540,222	5,775,755	1,046,188	810,914	81,173,079

(Continued)

WESTERN SUFFOLK BOCES

**BALANCE SHEET - GOVERNMENTAL FUNDS AND RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCE TO GOVERNMENT-WIDE NET POSITION (Continued)
JUNE 30, 2018**

	Governmental Fund Types				Total Governmental Funds
	<u>General</u>	<u>Special Aid</u>	<u>School Lunch</u>	<u>Capital Projects</u>	
FUND BALANCES					
Nonspendable					
Inventory	-	-	62,545	-	62,545
Restricted					
Reserve for ERS	1,517,973	-	-	-	1,517,973
Reserve for compensated absences	11,822,620	-	-	-	11,822,620
Reserve for unemployment	161,267	-	-	-	161,267
Reserve for workers compensation	2,942,336	-	-	-	2,942,336
Reserve for property and casualty claims	400,000	-	-	-	400,000
Restricted for capital projects	-	-	-	6,140,768	6,140,768
Total restricted	<u>16,844,196</u>	<u>-</u>	<u>-</u>	<u>6,140,768</u>	<u>22,984,964</u>
Assigned	649,708	62,402	22,496	3,157,040	3,891,646
Unassigned	-	-	-	-	-
TOTAL FUND BALANCES	<u>17,493,904</u>	<u>62,402</u>	<u>85,041</u>	<u>9,297,808</u>	<u>26,939,155</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 91,034,126</u>	<u>\$ 5,838,157</u>	<u>\$ 1,131,229</u>	<u>\$ 10,108,722</u>	<u>\$ 108,112,234</u>

A reconciliation of total governmental fund balance to government-wide net assets follows:

Total governmental fund balances per above	\$ 26,939,155
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	80,257,430
GASB 68 related government-wide activity	
Net pension asset	2,048,832
Deferred outflows of resources	38,128,501
Net pension liability	(2,998,487)
Deferred inflows of resources	(15,187,066)
Deferred revenues recognized as revenue under full accrual accounting	650,317
Other postemployment benefits are recognized as a liability under full accrual accounting	(414,743,992)
Compensated absences due in more than one year are recognized as a liability under full accrual accounting	(12,711,411)
Installment purchase debt is not due in the current period and, therefore, are not reported in the funds	(9,671,367)
Capital leases are not due in the current period and, therefore, are not reported in the funds	(218,419)
Workers compensation payable (net of general fund accrued liability)	<u>(6,792,861)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (314,299,368)</u>

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

WESTERN SUFFOLK BOCES

**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Governmental Fund Types</u>				Total Governmental Funds
	<u>General</u>	Special <u>Aid</u>	School <u>Lunch</u>	Capital <u>Projects</u>	
REVENUE:					
Charges for services	\$ 4,902,923	\$ -	\$ -	\$ -	\$ 4,902,923
Charges to components	162,937,292	4,159,370	-	-	167,096,662
Charges to other BOCES	8,801,760	195,950	-	-	8,997,710
Interest and earnings	177,231	-	-	-	177,231
Rental property	83,850	-	-	-	83,850
Sale of property and compensation for loss	193,086	-	-	-	193,086
Miscellaneous	1,135,982	157,398	32,051	256,175	1,581,606
State sources	-	4,508,152	13,023	-	4,521,175
Federal sources	-	716,002	438,113	-	1,154,115
Sales - School lunch	-	-	208,744	-	208,744
	<u>178,232,124</u>	<u>9,736,872</u>	<u>691,931</u>	<u>256,175</u>	<u>188,917,102</u>
Total revenue					
EXPENDITURES:					
Administration	12,839,690	-	-	-	12,839,690
Occupational instruction	26,483,610	2,755,195	-	-	29,238,805
Instruction for special education	80,566,630	3,426,994	-	-	83,993,624
Itinerant services	257,393	-	-	-	257,393
General instruction	8,129,827	-	-	-	8,129,827
Instruction support	24,876,887	1,564,968	-	-	26,441,855
Other services	10,684,024	-	-	-	10,684,024
Internal services	2,482,160	-	-	-	2,482,160
School lunch program	-	-	1,587,214	-	1,587,214
Capital outlay	-	-	-	12,264,722	12,264,722
	<u>166,320,221</u>	<u>7,747,157</u>	<u>1,587,214</u>	<u>12,264,722</u>	<u>187,919,314</u>
Total expenditures					
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>11,911,903</u>	<u>1,989,715</u>	<u>(895,283)</u>	<u>(12,008,547)</u>	<u>997,788</u>
OTHER SOURCES AND (USES):					
Operating transfers in	2,068,550	156,361	915,000	6,791,633	9,931,544
Return of surplus due to component districts	(6,265,168)	-	-	-	(6,265,168)
Proceeds of debt issuance	-	-	-	6,140,700	6,140,700
Operating transfers (out)	<u>(7,781,298)</u>	<u>(2,146,076)</u>	<u>(4,170)</u>	<u>-</u>	<u>(9,931,544)</u>
	<u>(11,977,916)</u>	<u>(1,989,715)</u>	<u>910,830</u>	<u>12,932,333</u>	<u>(124,468)</u>
Total other sources (uses)					
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(66,013)	-	15,547	923,786	873,320
FUND BALANCES - beginning of year	<u>17,559,917</u>	<u>62,402</u>	<u>69,494</u>	<u>8,374,022</u>	<u>26,065,835</u>
FUND BALANCES - end of year	<u>\$ 17,493,904</u>	<u>\$ 62,402</u>	<u>\$ 85,041</u>	<u>\$ 9,297,808</u>	<u>\$ 26,939,155</u>

The accompanying notes are an integral part of these statements.

WESTERN SUFFOLK BOCES

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Net changes in fund balance - Total governmental funds	\$ 873,320
Capital outlays are expenditures in governmental funds, but are capitalized in the statement of net position.	13,394,063
Depreciation is not recorded as an expenditure in the governmental funds, but is recorded in the statement of activities.	(8,846,580)
Pension expense resulting from the GASB 68 related actuary reporting is not recorded as an expenditure in the governmental funds but is recorded in the statement of activities	(966,326)
Certain revenues that do not provide current financial resources that are recognized in the Statement of net position but not in the fund financial statements.	1,940
Net repayments of long-term debt, other liabilities, and installment purchase debt are recorded as expenditures in the governmental funds, but are recorded as payments of liabilities in the statement of net position	4,063,049
Certain revenues recorded in the acquisition of long-term debt that are not recognized as revenue in the statement of activities	(6,140,700)
Accrued postemployment benefits do not require the expenditure of current resources and are, therefore not reported as expenditures in the governmental funds	(9,209,364)
Certain expenses in the statement of activities do not require the expenditure of current resources and are, therefore, not reported as expenditures in the governmental funds.	<u>386,743</u>
Change in net position - Governmental activities	<u>\$ (6,443,855)</u>

The accompanying notes are an integral part of these statements.

WESTERN SUFFOLK BOCES

STATEMENT OF NET POSITION - FIDUCIARY FUND FOR THE YEAR ENDED JUNE 30, 2018

	<u>Agency</u>
ASSETS:	
Cash - Unrestricted	\$ 8,316,564
Cash - Restricted	7,398
Deposits	150,000
Other receivables	<u>1,375,754</u>
 Total assets	 <u>\$ 9,849,716</u>
LIABILITIES:	
Extraclassroom activity balances	\$ 7,398
Due to other funds	6,009,950
Other liabilities	<u>3,832,368</u>
 Total liabilities	 <u>\$ 9,849,716</u>

The accompanying notes are an integral part of these statements.

WESTERN SUFFOLK BOCES

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2018

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Western Suffolk BOCES (the BOCES) provides shared educational programs and services to its component units.

Significant Accounting Policies

The financial statements of the BOCES have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The BOCES is governed by the laws of New York State. The BOCES is an independent entity governed by an elected Board of Education consisting of 7 members. The board is responsible for, and controls all activities related to public school education within the BOCES. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

BOCES are organized under §1950 of the New York State Education Law. A BOCES board is considered a corporate body. Members of a BOCES board are nominated and elected by their component member boards in accordance with provisions of §1950 of the New York State Education Law. All BOCES property is held by the BOCES board as a corporation (§1950(6)). In addition, BOCES boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n (a) of the New York State General Municipal Law.

BOCES budget is comprised of separate budgets for administrative, program, and capital costs. Each component BOCES' share of administrative and capital costs is calculated using a 50/50 hybrid combination of the components total true valuation and resident weighted average daily attendance (RWADA) as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component school districts pay tuition or a service fee for programs in which its students participate.

The reporting entity of the BOCES is based upon criteria set forth by generally accepted accounting principles. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the BOCES. The BOCES is not a component unit of another 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 following is a brief description of a certain entity included in the BOCES reporting entity.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Separate audited financial statements (cash basis) of the extraclassroom activity funds can be found at the BOCES business office. The BOCES accounts for assets held as an agent for various student organizations in an agency fund.

Basis of Presentation

BOCES -Wide Financial Statements

The statement of net position and the statement of activities present financial information about the BOCES governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through state aid, intergovernmental revenue, and other exchange and non-exchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the BOCES governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Program revenue includes charges paid by the recipients of goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenue that is not classified as program revenue is presented as general revenue.

Fund Financial Statements

The fund 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, each displayed in a separate column.

The BOCES reports the following major governmental funds:

General Fund: This is the BOCES primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Special Aid Fund: This fund accounts for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specified purposes and other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

School Lunch Fund: This fund accounts for the activities of the school lunch operations.

Capital Projects Fund: This fund is used to account for the financial resources used for acquisition, construction, or major repair of capital facilities.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued)

Fiduciary Fund: This fund is used to account for fiduciary activities. Fiduciary activities are those in which the BOCES acts as trustee or agent for resources that belong to others. These activities are not included in the Government-wide financial statements, because their resources do not belong to the BOCES, and are not available to be used. There is one class of fiduciary funds:

- 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.

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

Measurement Focus and Basis of Accounting

The BOCES-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The BOCES considers all revenue reported in the governmental funds to be available if the revenue is collected within the subsequent 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 been paid. 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.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Cash

The BOCES cash consists of cash on hand and demand deposits.

New York State law governs the BOCES investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the state. Permissible investments include obligations of the United States Treasury, United States agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal deposit insurance. BOCES has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Such obligations include, among other instruments, obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

Accounts Receivable

Receivables include amounts due from other governments and individuals for services provided by BOCES. Receivables are recorded and revenues recognized as earned or as specific program expenditures/expenses are incurred. Allowances are recorded when appropriate.

Inventories and Prepaid Items

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, at stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

Prepaid items represent payments made by the BOCES for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the BOCES-wide and fund financial statements. These items are reported as assets on the statement of net position or balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

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 expenditures and revenue to provide financing or other services.

In the Government-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 may be 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.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Capital Assets

Capital assets are reported at actual cost for acquisitions. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the Government-wide statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$500	SL	50 years
Furniture and equipment	\$500	SL	5-10 years

Deferred Outflows and Inflows 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 (expenses/expenditure) until then.

The government has the following items that qualify for reporting in this category;

Deferred charges result from pension contributions made subsequent to the measurement date of the plan.

Deferred charges result from differences between expected and actual experience of the plan.

Deferred charges result from net differences between projected and actual earnings on pension plan investments of the plan.

These amounts are deferred and amortized and expensed against pension expense in future periods.

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 and so will not be recognized as an inflow of resources (revenue) until then.

The government has the following items that qualify for reporting in this category;

The net amount of the BOCES' balances of deferred inflows of resources related to pensions is reported in the government-wide Statement of Net Position as deferred inflows of resources. This represents the effect of the net change in the BOCES' proportion of the collective net pension asset or liability and the difference during the measurement period between the BOCES' contributions and its proportionate share of total contributions to the pension systems not included in pension expense.

Amounts received in the current year for health insurance costs in the subsequent period, are deferred until the following year when the costs will be paid.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

Vested Employee Benefits

The BOCES employees are granted vacation and sick leave in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

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 Statement No. 16, *Accounting for Compensated Absences*, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the Government-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 funds statements, only the amount of matured liabilities is accrued within the general fund based on expendable and available financial resources. These amounts are expensed on a pay-as-you go basis.

Other Benefits

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

Other Postemployment Benefits

In addition to providing retirement benefits described, the BOCES provides postemployment health insurance coverage to its retired employees and their survivors in accordance with the provisions of the employment contracts negotiated between the BOCES and its employee groups. Substantially all of these employees may become eligible for these benefits if they reach normal retirement age while working for the BOCES. The BOCES pays a variable percentage of the cost of premiums to an insurance company that provides health care insurance. See Note 9 for additional information regarding postemployment benefits.

Unearned Revenue

Unearned revenues arise when assets are recognized before revenue recognition criteria has been satisfied. In BOCES-wide financial statements, unearned revenues consist of amounts received in advance and/or amounts from grants received before the eligibility requirements have been met.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

Unearned Revenue (Continued)

Unearned revenues in the fund financial statements are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met. BOCES has reported unearned revenues of \$156,784 for amounts received in advance in the General Fund, \$11,336 in advance grant monies received in the Special Aid Fund, and \$4,260 for collections in advance in the School Lunch Fund. Such amounts have been deemed to be measurable but not available pursuant to generally accepted accounting principles.

Accrued Liabilities and Long-Term Obligations

Payables, accrued liabilities, and long-term obligations are reported in the Government-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. Installment Purchase Agreements 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.

Restricted Resources

When an expense 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, many of which are described elsewhere in these notes.

Equity Classifications

Government-wide Statements

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

Net investment in capital assets - consists of net capital assets reduced by outstanding balances of related debt obligations from the acquisition, construction or improvements of those assets plus any unspent proceeds of those debt obligations.

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

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

Fund Statements

In the fund basis statements there are five classifications of fund balance:

Non-spendable fund balance - Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Non-spendable fund balance includes the inventory recorded in the school lunch fund.

Restricted fund balance - 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.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

Equity Classifications (Continued)
Fund Statements (Continued)

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.

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. This reserve is accounted for in the general fund.

Employee Benefit Accrued Liability Reserve

Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds 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. The reserve is accounted for in the general fund.

Retirement Contribution Reserve

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.

Property Loss Reserve

Property Loss Reserve (Education Law §1709(8) (c)) is used to pay for property loss incurred. A separate fund for property loss is required, and the reserve 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 school districts and BOCES, except city school districts with a population greater than 125,000. This reserve is accounted for in the general fund.

Committed fund balance - 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 has no committed fund balances as of June 30, 2018.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

Equity Classifications (Continued)

Fund Statements (Continued)

Assigned fund balance - Includes amounts that are constrained by the BOCES' intent to be used for specific purposes, but are neither restricted nor committed. All encumbrances of the general fund are classified as assigned fund balance. Encumbrances reported in the general fund amounted to \$649,708. As of June 30, 2018, the BOCES' encumbrances were classified as follows:

Administration	\$	6,000
Occupational instruction		8,852
Instruction for special education		30,538
General instruction		10,147
Instruction support		143,184
Internal services		450,987
	\$	<u>649,708</u>

Unassigned fund balance - Includes all other general fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the BOCES.

Fund Balance - Reservations and Designations

Order of Fund Balance Spending Policy

The BOCES' policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. For all funds, non-spendable fund balances are determined first and then restricted fund balances for specific purposes are determined.

Any remaining fund balance amounts for funds other than the general fund are classified as restricted fund balance. In the general fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

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

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the Government-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 focus of the statement of activities compared with the current financial resources 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 differs 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 net position versus the solely current financial resources focus of the governmental fund balance sheets.

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

Differences between the governmental funds statement of revenue, expenditures, and changes in fund balance and the statement of activities fall into one of three broad categories.

Long-Term Revenue and Expense Differences

Long-term revenue differences arise because governmental funds report revenue only when it is considered available, whereas the statement of activities reports revenue 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.

Capital Related Differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental 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 governmental fund statements and depreciation expense on those items as recorded in the statement of activities.

Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the statement of activities as incurred, and principal payments are recorded as a reduction of liabilities in the statement of net position.

3. STEWARDSHIP AND COMPLIANCE

Budgets

Section 1950 of the Education Law requires adoption of a final budget by no later than May 15 of the ensuing year.

The BOCES administration prepares a proposed administrative, capital and program budget, as applicable for approval by the members of the Board of Education for the general fund, the only fund with a legally adopted budget. The budget is adopted annually on a basis consistent with accounting principles generally accepted in the United States of America. A tentative administrative budget is provided to the component districts for adoption by resolution. Approval of the tentative administrative budget requires the approval of a majority of the component school boards actually voting. During the current year, the administrative budget was approved by a majority of its voting component school boards. Appropriations are adopted at the program line item level. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year and any appropriated reserve funds. Appropriations established by adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations lapse at the fiscal year end. Supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted.

The following supplemental appropriations occurred during the year:

Administration	\$ (551,655)
Occupational Instruction	996,709
Instruction for special education	12,735,768
Itinerant services	438,216
General instruction	987,867
Instruction support	6,457,239
Other services	1,958,839
Internal services	1,274,662
Transfers to other funds	4,161,584
	<u>\$ 28,459,229</u>

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the BOCES' voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

Encumbrance Accounting

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.

4. CASH

Custodial credit risk is the risk that in the event of a bank failure, the BOCES' deposits may not be returned to it. While the BOCES does not have a specific policy for custodial credit risk, New York State statutes govern the BOCES' investment policies, as discussed previously in these Notes.

The BOCES' aggregate bank balances (disclosed in the financial statements), included balances not covered by depository insurance at year-end, collateralized as follows:

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash and cash equivalents, including trust funds	<u>\$ 65,414,202</u>	<u>\$ 60,925,695</u>
Collateralized with securities held by the pledging financial institution's trust department or agent in the BOCES' name	\$ 64,414,202	
Covered by FDIC insurance	<u>1,000,000</u>	
Total	<u>\$ 65,414,202</u>	

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes.

Cash on deposit for extraclassroom activity funds	<u>\$ 7,398</u>
Cash in reserves - general fund	<u>\$ 17,223,412</u>
Cash in reserves - Capital fund	<u>\$ 6,140,768</u>

5. CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2018, were as follows:

	July 1, 2017			June 30, 2018
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Governmental activities				
Capital assets that are not depreciated:				
Land	\$ 817,707	\$ -	\$ -	\$ 817,707
Construction in progress	<u>515,877</u>	<u>3,235,867</u>	<u>-</u>	<u>3,751,744</u>
Total non-depreciable historical cost	<u>1,333,584</u>	<u>3,235,867</u>	<u>-</u>	<u>4,569,451</u>
Capital assets that are depreciated:				
Buildings and improvements	87,061,798	2,768,087	-	89,829,885
Furniture and equipment	<u>41,949,193</u>	<u>7,390,109</u>	<u>(3,244,974)</u>	<u>46,094,328</u>
Total depreciable historical cost	<u>129,010,991</u>	<u>10,158,196</u>	<u>(3,244,974)</u>	<u>135,924,213</u>
Less accumulated depreciation:				
Buildings and improvements	29,214,437	1,532,942	-	30,747,379
Furniture and equipment	<u>25,420,191</u>	<u>7,313,638</u>	<u>(3,244,974)</u>	<u>29,488,855</u>
Total accumulated depreciation	<u>54,634,628</u>	<u>8,846,580</u>	<u>(3,244,974)</u>	<u>60,236,234</u>
Total depreciable cost, net	<u>74,376,363</u>	<u>1,311,616</u>	<u>-</u>	<u>75,687,979</u>
Total capital assets, net	<u>\$ 75,709,947</u>	<u>\$ 4,547,483</u>	<u>\$ -</u>	<u>\$ 80,257,430</u>

Depreciation expense for the year ended June 30, 2018, was allocated to specific functions as follows:

Administration	\$ 507,805
Occupational instruction	1,452,372
Instruction for special education	4,433,506
Itinerant services	21,640
General instruction	434,050
Instruction support	1,414,681
Other services	<u>582,526</u>
Total	<u>\$ 8,846,580</u>

6. LONG-TERM LIABILITIES

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

	(Restated) Beginning <u>Balance</u>	<u>Issued</u>	<u>Redeemed</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
Government activities					
Other long-term debt:					
Installment Purchase Debt	\$ 7,364,582	\$ 6,140,700	\$ 3,833,915	\$ 9,671,367	\$ 3,467,020
Capital Leases	447,553	-	229,134	218,419	185,433
Compensated absences	12,764,586	-	53,175 (A)	12,711,411	-
Net pension liability	11,783,536	-	8,785,049 (A)	2,998,487	-
Workers' Compensation	7,126,429	1,276,145	1,609,713	6,792,861	-
Other postemployment benefits	<u>405,534,628</u>	<u>19,224,666</u>	<u>10,015,302</u>	<u>414,743,992</u>	<u>-</u>
Total other long-term debt	<u>\$445,021,314</u>	<u>\$ 26,641,511</u>	<u>\$ 24,526,288</u>	<u>\$447,136,537</u>	<u>\$ 3,652,453</u>

(A) Additions and deletions to compensated absences OPEB and net pension liability are shown net because it is impractical to determine these amounts separately.

Interest expense related to long-term debt amounted to \$179,968.

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 \$22,656,147 at June 30, 2018 and total accumulated depreciation for these assets was \$12,824,513 at year end.

The BOCES' installment purchase debt agreements are payable in 60 monthly installments or less and bear interest ranging from 1.25% to 2.644%.

The following is a summary of maturities at June 30, 2018:

<u>At fiscal year end June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 3,467,020	\$ 143,198
2020	2,830,161	90,158
2021	2,113,646	46,786
2022	1,132,032	15,648
2023	<u>128,508</u>	<u>1,144</u>
Total	<u>\$ 9,671,367</u>	<u>\$ 296,934</u>

6. LONG-TERM LIABILITIES (Continued)

The BOCES' capital leases are payable in 60 monthly installments or less and bear interest rates of 0 – 2.8%.

The following is a schedule of minimum lease payments as of June 30, 2018:

<u>At fiscal year end June 30,</u>	<u>Principal</u>	
2019	\$	185,433
2020		31,950
2021		1,036
Thereafter		<u>-</u>
Total	\$	<u>218,419</u>

See Note 10 for more detailed information on the Workers' Compensation long-term debt.

7. INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the statement of net position.

	<u>Interfund</u>		<u>Interfund</u>	
	<u>Receivable</u>	<u>Payable</u>	<u>Revenue</u>	<u>Expenditure</u>
General fund	\$ 12,235,996	\$ 3,967,954	\$ 2,068,550	\$ 7,781,298
Special aid fund	-	5,196,695	156,361	2,146,076
School lunch fund	-	990,577	915,000	4,170
Capital fund	3,967,954	38,774	6,791,633	-
Trust and agency	<u>-</u>	<u>6,009,950</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 16,203,950</u>	<u>\$ 16,203,950</u>	<u>\$ 9,931,544</u>	<u>\$ 9,931,544</u>

The BOCES typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues.

All interfund payables are expected to be repaid within one year.

8. PENSION PLANS

New York State Employee Retirement System

The BOCES participates in the New York State and Local Employees' Retirement System (ERS) also referred to as New York State and Local Retirement System (the System). This is a cost-sharing multiple-employer retirement system, providing 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), established to hold all net assets and record changes in plan net position allocated to the System. System benefits are established under the provisions of the New York Retirement and Social Security Law (NYSRSSL). Once an 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.

Contributions

The system is noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27th, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 who generally contribute 3 percent of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

	<u>ERS</u>
2018	\$ 4,360,400
2017	\$ 4,421,824
2016	\$ 5,018,066

Chapter 260 of the Laws of 2004 of the State of New York allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- For State fiscal year (SFY) 2004-05, the amount in excess of 7 percent of employees' covered pensionable salaries, with the first payment of those pensions' costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5 percent of employees' covered pensionable salaries.
- For SFY 2007-08, the amount in excess of 10.5 percent of the employee's covered pensionable salaries.

This law requires all participating employers to make payments on the current basis, while bonding or amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 2005 through 2008.

8. PENSION PLANS (Continued)

New York State Employee Retirement System (Continued)

Chapter 57 of the Laws of 2010 of the State of New York allows local employers to amortize a portion of their retirement bill for 10 years in accordance with the following stipulations:

- For state fiscal year 2010-11, the amount in excess of the graded rate of 9.5 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.
- For subsequent State fiscal years, the graded rate will increase or decrease by up to one percent depending on the gap between the increase or decrease in the System's average rate and the previous graded rate.
- For subsequent State fiscal years in which the System's average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

This law requires participating employers to make payments on the current basis while amortizing existing unpaid amounts relating to the System's fiscal years when the local employer opts to participate in the program.

All amounts due were remitted in full to the New York Employee Retirement System. No portion of the BOCES' retirement bill was amortized or bonded as of June 30, 2018.

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

At June 30, 2018, the BOCES reported a liability of \$2,998,487 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2018, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The BOCES' proportion of the net pension liability was based on a projection of the BOCES' long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2018, the BOCES' proportion was 0.0929059 percent, which was a decrease from its proportion measured June 30, 2017 of 0.0936120 percent.

8. PENSION PLANS (Continued)

New York State Employee Retirement System (Continued)

For the year ended June 30, 2018, the BOCES recognized pension expense of \$4,191,611. At June 30, 2018, the BOCES reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 1,069,463	\$ 883,764
Changes of Assumptions	1,988,244	-
Net difference between projected and actual earnings on pension plan investments	4,355,064	8,596,460
Changes in proportion and differences between the BOCES, contributions and proportionate share of contributions	1,510,228	82,434
Contributions subsequent to the measurement date	1,316,273	-
	<u>\$ 10,239,272</u>	<u>\$ 9,562,658</u>

The BOCES recognized \$1,316,273 as deferred outflow of resources related to pensions resulting from contributions made subsequent to the measurement date of March 31, 2018 which will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan's Year Ended March 31:		
2019	\$	1,208,479
2020		916,286
2021		(1,905,714)
2022		<u>(858,710)</u>
	\$	<u>(639,659)</u>

Actuarial Assumptions

The total pension liability at March 31, 2018 was determined by using an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018.

The actuarial valuation used the following actuarial assumptions:

Actuarial cost method	Entry age normal
Inflation	2.50%
Salary scale	3.8 percent indexed by service
Projected COLAs	1.3% compounded annually
Decremets	Developed from the Plan's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014
Investment Rate of Return	7.0% compounded annually, net of investment expenses

8. PENSION PLANS (Continued)

New York State Employee Retirement System (Continued)

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 return, net of investment expenses 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Type</u>	<u>Target Allocations in %</u>	<u>Long-Term expected real rate of return in %</u>
Domestic equity	36.0	4.55
International equity	14.0	6.35
Private equity	10.0	7.50
Real estate	10.0	5.55
Absolute return strategies	2.0	3.75
Opportunistic portfolio	3.0	5.68
Real asset	3.0	5.29
Bonds and mortgages	17.0	1.31
Cash	1.0	(0.25)
Inflation indexed bonds	4.0	1.25
	<u>100%</u>	

Discount Rate

The discount rate used to calculate the total pension liability was 7.0%. 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 determined. Based upon the assumptions, the Plan'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.

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

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

	<u>1 % Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
Proportionate Share of Net Pension liability	<u>\$ 22,867,357</u>	<u>\$ 2,998,487</u>	<u>\$ (13,657,511)</u>

8. PENSION PLANS (Continued)

Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of the employers as of March 31, 2018, were as follows:

	Pension Plan's Fiduciary Net Position
Total pension liability	\$183,400,590,000
Net position	(180,173,145,000)
Net pension liability (asset)	<u>\$ 3,227,445,000</u>
Fiduciary net position as a percentage of total pension liability	98.2%

New York State Teachers' Retirement System

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

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

Contributions

The System is noncontributory for the employees who joined prior to July 27, 1976. For employees who joined the System after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary, except that employees in the System more than ten years are no longer required to contribute. For employees who joined after January 1, 2010 and prior to April 1, 2012, contributions of 3.5% are paid throughout their active membership.

For employees who joined after April 1, 2012, required contributions of 3.5% of their salary are paid until April 1, 2013 and they then contribute 3% to 6% of their salary throughout their active membership. Pursuant to Article 11 of the Education Law, the New York State Teachers' Retirement Board establishes rates annually for NYSTRS.

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

	<u>TRS</u>
2018	\$ 5,369,275
2017	\$ 5,707,503
2016	\$ 7,841,106

8. **PENSION PLANS** (Continued)

New York State Teachers' Retirement System (Continued)

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

At June 30, 2018, the BOCES reported an asset of \$2,048,832 for its proportionate share of net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by the actuarial valuation as of that date. The BOCES' proportion of the net pension liability was based on a projection of the BOCES' long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2018 the BOCES' proportion was 0.269548 percent, which was a decrease from its proportion measured June 30, 2017 of 0.278938 percent.

For the year ended June 30, 2018, the BOCES recognized pension expense of \$5,365,874. At June 30, 2018 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
	<u>Resources</u>	<u>Resources</u>
Differences between expected and actual experience	\$ 1,685,685	\$ 798,816
Changes of Assumptions	20,847,266	-
Net difference between projected and actual earnings on pension plan investments	-	4,825,592
Changes in proportion and differences between the BOCES' contributions and proportionate share of contributions	1,219,691	-
Contributions subsequent to the measurement date	<u>4,136,587</u>	<u>-</u>
	<u>\$ 27,889,229</u>	<u>\$ 5,624,408</u>

The BOCES recognized \$4,136,587 as a deferred outflows of resources related to pensions resulting from the BOCES' contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability/(asset) in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan's Year Ended June 30:	
2018	\$ 688,990
2019	5,730,414
2020	4,161,880
2021	1,194,711
2022	4,150,397
Thereafter	<u>2,201,842</u>
	<u>\$ 18,128,234</u>

8. PENSION PLANS (Continued)

New York State Teachers' Retirement System (Continued)

Actuarial Assumptions

The total pension liability at the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. These actuarial valuations used the following actuarial assumptions:

Inflation	2.50%
Projected Salary Increases	Rates of increase differ based on service. They have been calculated based upon recent NYSTRS member experience.

<u>Service</u>	<u>Rate</u>
5	4.72%
15	3.46%
25	2.37%
35	1.90%

Projected COLAs	1.5% compounded annually
Investment Rate of Return	7.25% compounded annually, net of pension plan investment expense, including inflation.

Annuitant mortality rates are based on plan member experience, with adjustments for mortality improvements based on Society of Actuaries Scale MP2014, applied on a generational basis. Active member mortality rates are based on plan member experience.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2014.

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 Systems target asset allocation as of the valuation date of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Type</u>	<u>Target Allocator in %</u>	<u>Long-term expected real rate of return in %</u>
Domestic equity	35.0	5.9
International equity	18.0	7.4
Real estate	11.0	4.3
Alternative investments	8.0	9.0
Domestic fixed income securities	16.0	1.6
Global fixed income securities	2.0	1.3
High yield Fixed Income Securities	1.0	3.9
Mortgages	8.0	2.8
Short-term	1.0	0.6
	<u>100%</u>	

8. PENSION PLANS (Continued)

New York State Teachers' Retirement System (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.25 percent. 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 plan employers 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.

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

The following presents the net pension liability (asset) of the BOCES calculated using the discount rate of 7.25 percent, as well as what the BOCES' net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1 % Decrease <u>(6.25%)</u>	Current Assumption <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Proportionate Share of Net Pension liability	<u>\$ 35,295,309</u>	<u>\$ (2,048,832)</u>	<u>\$ (33,322,697)</u>

Pension Plan Fiduciary Net Position

The components of the current-year net pension (asset) of the plan as June 30, 2017, were as follows:

	Pension Plan's Fiduciary Net Position
Total pension liability	<u>\$114,708,261,032</u>
Net position	<u>(115,468,360,316)</u>
Net pension liability (asset)	<u>\$ (760,099,284)</u>
Fiduciary net position as a percentage of total pension liability	100.66%

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

The BOCES provides certain other postemployment benefits (predominately health insurance) for retired employees of the BOCES. The BOCES administers the Other Postemployment Benefits Plan (the OPEB Plan) as a single-employer defined benefit Other Postemployment Benefit Plan (OPEB). Eligibility for retirement and participation in the OPEB plan is based on meeting a criteria of minimum age and/or years of service requirements. Employees must be a minimum age of 55 and have a minimum of 10 or 20 years of service based on employee unit and date of hire.

Article 11 of the State Compiled Statutes grants the authority to establish and amend the benefit terms and financing requirements to the BOCES Board. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The BOCES provides healthcare benefits for retirees and their dependents. The benefits terms are dependent on which contract the employee falls under. The specifics of each contract are on file at the BOCES offices and are available upon request.

Employees Covered by Benefit Terms

At July 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries	
currently receiving benefits	804
Active employees	1,081
Total participants	<u>1,885</u>

Total OPEB Liability

The BOCES' total OPEB liability of \$414,743,992 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	8.0 percent
Payroll Growth	3.0 percent
Discount Rate	3.5 percent as of July 1, 2017
Healthcare Cost Trend Rates	8.0 percent for 2018, decreasing 0.5 percent per year to an ultimate rate of 5.0 percent for 2025 and later years Retirees'
Share of Benefit-Related Costs	Medical coverage, including prescription drugs as part of the medical plan, is funded on a fully insured basis. Neither dental, vision, nor life insurance benefits are subsidized in retirement. The BOCES does not reimburse for the Part D premium. Contribution rates are based on employee class and date of retirement.
Cost Method	Entry Age Normal as a Percentage of Payroll

The selected discount rate is based on an average of three 20-year bond indices (e.g., Bond Buyer-20 Bond GO, S&P Municipal Bond 20 Year High Grade Rate Index, Fidelity GA AA 20 Years) as of June 30, 2018.

9. OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Mortality rates were based on the RP 2014 Healthy Male and Female Tables which were based on the Employee and Healthy Annuitant Tables for both pre & post retirements projected with mortality improvements using Projection Scale AA for 3.50 years.

Changes in the Total OPEB Liability

Balance at June 30, 2017, as restated	<u>\$405,534,628</u>
Changes for the Year:	
Service cost	5,206,222
Interest	14,018,444
Changes of benefit terms	-
Changes in assumptions or other inputs	-
Differences between expected and actual experience	-
Benefit payments	<u>(10,015,302)</u>
Net changes	<u>9,209,364</u>
Balance at June 30, 2018	<u><u>\$414,743,992</u></u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the BOCES, as well as what the BOCES' total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease (2.50%)	Current Discount (3.50%)	1% Increase (4.50%)
Total OPEB Liability	<u>\$ 508,005,361</u>	<u>\$ 414,743,992</u>	<u>\$ 345,799,018</u>

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the BOCES, as well as what the BOCES' total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rate:

	Healthcare		
	1% Decrease (7.00%)	Current Discount (8.00%)	1% Increase (9.00%)
Total OPEB Liability	<u>\$ 340,060,792</u>	<u>\$ 414,743,992</u>	<u>\$ 522,206,181</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the BOCES recognized OPEB expense of \$19,224,666. At June 30, 2018, the BOCES did not report any deferred outflows of resources or deferred inflows of resources related to OPEB.

10. RISK MANAGEMENT

The BOCES is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. 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 two years.

Workers' Compensation Plan

The BOCES has established a self-insured plan for risks associated with workers' compensation claims. The plan establishes claims' liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) which have been reported but not settled, and of claims which have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the nature of the case. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims.

Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims' liabilities does not necessarily result in an exact amount. Claims' liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates which reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data which reflect past inflation and on other factors which are considered to be appropriate modifiers of past experience. Adjustments to claims' liabilities are charged or credited to expense in the periods in which they are made.

Claims activity is summarized below:

	<u>June 30, 2018</u>
Unpaid Claims at Beginning of Year	\$ 7,126,429
Incurred Claims and Claim Adjustment Expense	1,276,145
Claim Payments	<u>(1,609,713)</u>
Unpaid Claims at year end	<u>\$ 6,792,861</u>

The BOCES budget includes approximately \$1 million in 2018/19 to fund payments resulting from the above claims. In addition, BOCES has funded a reserve for workers' compensation claims in the amount of approximately \$2.9 million.

11. FUND BALANCES

Portions of fund balances are reserved and not available for current expenses or expenditures as reported in the governmental funds balance sheet.

12. SPLIT DOLLAR LIFE INSURANCE POLICIES

The BOCES has provided life insurance policies with split dollar provisions for certain of its current and former employees. The split dollar provisions provide for the reimbursement of all but the first year's previously paid premiums upon the demise of the insured or if the policy is cashed in prior to death.

At June 30, 2018, there were 47 policies in force with total premiums receivable in the amount of \$650,317. The corresponding revenue to this receivable will be recognized in the year that the premiums are refunded.

13. CONTINGENCIES AND COMMITMENTS

Other Contingencies

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.

The BOCES has various commitments with contractors for the completion of capital projects.

14. ACCOUNTING PRONOUNCEMENT ISSUED NOT YET IMPLEMENTED

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefore. The BOCES is required to adopt the provisions of this Statement for the year ending June 30, 2020.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement apply to the financial statements of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The BOCES is required to adopt the provisions of this Statement for the year ending June 30, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus*. This Statement establishes practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The BOCES is required to adopt the provisions of this Statement for the year ending June 30, 2019.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement establishes consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The BOCES is required to adopt the provisions of this Statement for the year ending June 30, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement establishes accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The BOCES is required to adopt the provisions of this Statement for the year ending June 30, 2021.

The BOCES has not assessed the impact of these statements on its future financial statements.

15. SUBSEQUENT EVENTS

On July 19, 2018, the BOCES entered into an installment agreement with TD Equipment Finance for equipment for \$963,000 at an interest rate of 2.915% for four years.

On July 19, 2018, the BOCES entered into an installment agreement with TD Equipment Finance for equipment for \$410,000 at an interest rate of 3.01% for five years.

The equipment items purchased through these agreements were needed in order to provide technology services requested by various school districts.

16. CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

The BOCES adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Statement No. 75 established standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to certain postemployment benefits. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Accordingly, Beginning Net Position and Other Postemployment Benefits on the Statement of Net Position were adjusted as noted in the following table:

	<u>District-Wide Statement of Net Position</u>	
	<u>Other Postemployment Benefits</u>	<u>Net Position</u>
Balance at June 30, 2017, as previously reported	\$ <u>133,505,685</u>	\$ <u>(35,826,570)</u>
Restatement of beginning balance - Adoption of GASB Statement No. 75		
Increase to liability	<u>272,028,943</u>	<u>(272,028,943)</u>
Balance at June 30, 2017, as restated	\$ <u><u>405,534,628</u></u>	\$ <u><u>(307,855,513)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

WESTERN SUFFOLK BOCES

SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Budgetary Actual</u>
REVENUE				
Administration	\$ 6,965,462	\$ 6,973,962	\$ 6,840,286	\$ (133,676)
Occupational instruction	28,955,022	29,442,232	29,259,269	(182,963)
Instruction for special education	84,344,217	100,596,700	94,012,437	(6,584,263)
Itinerant services	139,406	577,622	257,032	(320,590)
General instruction	8,530,612	9,506,349	8,792,573	(713,776)
Instruction support	22,645,094	27,025,240	27,955,992	930,752
Other services	9,118,742	11,067,407	10,636,560	(430,847)
Internal services	<u>50,000</u>	<u>336,748</u>	<u>477,975</u>	<u>141,227</u>
Total revenues	160,748,555	185,526,260	178,232,124	(7,294,136)
OTHER FINANCING SOURCES				
Transfers in	<u>11,291,210</u>	<u>12,707,441</u>	<u>2,068,550</u>	<u>(10,638,891)</u>
Total revenues and other sources	<u>\$ 172,039,765</u>	<u>\$ 198,233,701</u>	<u>\$ 180,300,674</u>	<u>\$ (17,933,027)</u>

(Continued)

WESTERN SUFFOLK BOCES

SCHEDULE OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018

EXPENDITURES	Original Budget	Final Budget	Actual	Encumbrances	Variance with Budgetary Actual and Encumbrances
Administration	\$ 13,290,475	\$ 12,738,820	\$ 12,839,690	\$ 6,000	\$ (106,870)
Occupational instruction	28,842,042	29,838,751	26,483,610	8,852	3,346,289
Instruction for special education	83,777,533	96,513,301	80,566,630	30,538	15,916,133
Itinerant services	139,405	577,621	257,393	-	320,228
General instruction	8,172,925	9,160,792	8,129,827	10,147	1,020,818
Instruction support	20,574,819	27,032,058	24,876,887	143,184	2,011,987
Other services	9,118,990	11,077,829	10,684,024	-	393,805
Internal services	<u>2,310,919</u>	<u>3,585,581</u>	<u>2,482,160</u>	<u>450,987</u>	<u>652,434</u>
 Total expenditures	 166,227,108	 190,524,753	 166,320,221	 649,708	 23,554,824
 OTHER FINANCING USES					
Return of surplus	-	-	6,265,168	-	(6,265,168)
Transfers to other funds	<u>3,547,370</u>	<u>7,708,954</u>	<u>7,781,298</u>	<u>-</u>	<u>(72,344)</u>
 Total other uses	 <u>3,547,370</u>	 <u>7,708,954</u>	 <u>14,046,466</u>	 <u>-</u>	 <u>(6,337,512)</u>
 Total expenditures and other uses	 <u>\$ 169,774,478</u>	 <u>\$ 198,233,707</u>	 <u>\$ 180,366,687</u>	 <u>\$ 649,708</u>	 <u>\$ 17,217,312</u>
 NET CHANGE IN FUND BALANCES			 (66,013)		
FUND BALANCE - beginning of year			 <u>17,559,917</u>		
FUND BALANCE - end of year			 <u>\$ 17,493,904</u>		

WESTERN SUFFOLK BOCES

**SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET) (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN										
Proportion of the net pension liability (asset)	0.0929059%	0.0936120%	0.0951623%	0.0964208%						
Proportionate share of the net pension liability (asset)	\$ 2,998.4	\$ 8,796.0	\$ 15,273.8	\$ 3,257.3						
Covered-employee payroll	\$ 30,295.4	\$ 30,359.5	\$ 29,444.8	\$ 28,491.9						
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.90%	28.97%	51.87%	11.43%						
Plan fiduciary net position as a percentage of the total pension liability (asset)	98.20%	94.70%	90.70%	97.20%						

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
NEW YORK STATE TEACHERS' RETIREMENT SYSTEM PLAN										
Proportion of the net pension liability (asset)	0.2695480%	0.2789380%	0.2839600%	0.3003090%						
Proportionate share of the net pension liability (asset)	\$ (2,048.8)	\$ 2,987.5	\$ (29,494.4)	\$ (33,452.6)						
Covered-employee payroll	\$ 42,210.1	\$ 42,715.3	\$ 42,654.6	\$ 44,360.3						
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-4.85%	6.99%	-69.15%	-75.41%						
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.40%	99.01%	0.00%	110.48%						

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

WESTERN SUFFOLK BOCES

**SCHEDULE OF CONTRIBUTIONS - PENSION PLANS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM PLAN										
Contractually required contribution	\$ 4,360.4	\$ 4,421.8	\$ 5,018.1	\$ 5,371.7						
Contributions in relation to the contractually required contribution	<u>4,360.4</u>	<u>4,421.8</u>	<u>5,018.1</u>	<u>5,371.7</u>						
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -						
Covered-employee payroll	\$ 30,295.4	\$ 30,359.5	\$ 29,444.8	\$ 28,491.9						
Contributions as a percentage of covered-employee payroll	14.39%	14.56%	17.04%	18.85%						

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)									
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
NEW YORK STATE TEACHERS' RETIREMENT SYSTEM PLAN										
Contractually required contribution	\$ 5,369.2	\$ 5,707.5	\$ 7,841.1	\$ 5,006.2						
Contributions in relation to the contractually required contribution	<u>5,369.2</u>	<u>5,707.5</u>	<u>7,841.1</u>	<u>5,006.2</u>						
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -						
Covered-employee payroll	\$ 30,295.3	\$ 42,715.3	\$ 42,654.6	\$ 44,360.3						
Contributions as a percentage of covered-employee payroll	17.72%	13.36%	18.38%	11.29%						

Information for the periods prior to implementation of GASB 68 is unavailable and will be completed for each year going forward as they become available.

WESTERN SUFFOLK BOCES

**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

	Last 10 Fiscal Years (Dollar amounts displayed in thousands)											
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	
Total OPEB Liability												
Service cost	\$ 5,206.2											
Interest	14,018.5											
Changes of benefit terms	-											
Differences between expected and actual experience	-											
Changes in assumptions	-											
Benefit payments	(10,015.3)											
Total change in total OPEB liability	9,209.4											
Total OPEB liability - beginning	405,534.6											
Total OPEB liability - ending	\$ 414,744.0											
Covered-employee payroll	\$ 62,206.6											
Total OPEB liability as a percentage of covered employee payroll	666.72%											

Information for the periods prior to implementation of GASB 75 is unavailable and will be completed for each year going forward as they become available.

Notes to schedule:

Changes of assumptions. Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following reflects the discount rate used each period:

Discount rate	3.50%	4.00%
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Information for the periods prior to implementation of GASB 75 is unavailable and will be completed for each year going forward as they become available.

The actuarial cost method has been updated from Projected Unit Credit to Entry Age Normal, which caused an increase in liabilities. Change in demographics and valuation assumptions (e.g., increase in plan costs, mortality assumptions, discount rate assumptions, etc.) since the prior valuation also contributed to the increase.

Plan Assets. No assets are accumulated in a trust that meets the criteria in GASB 75, paragraph 4, to pay related benefits:

- Contributions from the employer and any nonemployer contributing entities, and earnings thereon, must be irrevocable.
- Plan assets must be dedicated to providing OPEB to Plan members in accordance with the benefit terms.
- Plan assets must be legally protected from the creditors of the employer, nonemployer contributing entities, the Plan administrator, and Plan members.

SUPPLEMENTARY INFORMATION (UNAUDITED)

WESTERN SUFFOLK BOCES

SCHEDULE OF ACCOUNT A431 - SCHOOL DISTRICTS (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2018

July 1, 2017 - Debit (Credit) balance	\$ (14,068,083)
Debits	
Billings to school districts	160,277,778
Refund of balances due school districts	3,686,710
Encumbrances - June 30, 2018	649,708
Other adjustments	10,783,434
Total debits	<u>175,397,630</u>
Credits	
Collections from school districts	155,265,122
Adjustment - credits to school districts	833,788
Revenues in excess of expenditures	6,199,158
Encumbrances - June 30, 2017	513,552
Other adjustments	10,585,631
Total credits	<u>173,397,251</u>
June 30, 2018 - Debit (Credit) balance	<u>\$ (12,067,704)</u>

Due from school districts	\$ 18,484,042
Due to component districts - return of surplus	<u>(30,551,746)</u>
	<u>\$ (12,067,704)</u>

WESTERN SUFFOLK BOCES

**SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

Project Title	Original Budget	Revised Budget	Expenditures			Unexpended Balance
			Prior Years	Current Year	Total	
JEA-Dix Hills - Asbestos Abatement	\$ 3,135,000	\$ 3,819,683	\$ 3,135,000	\$ 352,953	\$ 3,487,953	\$ 331,730
JEA-Melville - Ceiling & Lighting	2,203,000	2,252,814	2,203,000	1,120	2,204,120	48,694
Caleb Smith/Sunken Meadow - Reno/Rep Caleb Smith/Sunken Meadow	104,000	140,486	104,000	-	104,000	36,486
WT Dix Hills - Replace HVAC McGuire I	814,457	1,036,918	814,457	-	814,457	222,461
District Wide - Energy Conservation Projects	4,177,924	6,787,483	4,177,924	1,398,110	5,576,034	1,211,449
WT Dix Hills - Replace HVAC -Jones 1	200,000	389,611	200,000	28	200,028	189,583
JEA Dix Hills - P/A System Renovation	216,698	216,698	216,698	-	216,698	-
Sunken Meadow - Sunken Meadow Renovations	3,983,091	8,197,215	3,983,091	3,235,867	7,218,958	978,257
WT Dix Hills - Bathroom Renovations	-	145,226	-	82,994	82,994	62,232
WT Republic - Fire Alarm Panel Replacement	145,330	145,330	145,330	-	145,330	-
WT Dix Hills - Redesign Ramp/Wall/Repl Stucco	120,000	236,500	120,000	-	120,000	116,500
WT Northport - Elec/Sink/Wall/Cntrl Panel	73,500	75,785	73,500	2,285	75,785	-
JEA Dix Hills - Light/Wall/Door/Ceiling/Bathroom	163,500	228,865	163,500	56,486	219,986	8,879
JEA Melville - Intercom/Gym/Toilet	142,000	142,000	142,000	-	142,000	-
Taukomas - Redundant Power	187,850	187,850	187,850	-	187,850	-
WT Dix Hills - Garage Dr/Door/Fence/Sidewalk	107,500	215,000	107,500	68,000	175,500	39,500
WT Northport - Sono lab Temp/Auto Shop power panels	50,000	52,000	50,000	2,000	52,000	-
WT Northport - Blinds/Staff Rm/Door/ Gates	59,500	219,001	59,500	13,975	73,475	145,526
WT Republic - Exterior Wall LED fixtures	15,000	30,000	15,000	14,738	29,738	262
WT Manor Plains - Doors/Cabinets/Countertops/Bell System	59,000	158,000	59,000	-	59,000	99,000
JEA Melville - Cabinets/Paging/Fence/Bathrooms/Tile	125,000	140,283	125,000	5,775	130,775	9,508
Brennan - Exterior Wall LED/Ballasts/Vent	80,000	120,250	80,000	30,330	110,330	9,920
WT Manor Plains - P/A System Renovation	190,000	247,093	190,000	57,093	247,093	-
WT Northport - Fire Alarm Panel Replacement	225,000	441,262	225,000	203,937	428,937	12,325
WT Dix Hills - Replace Vandal Alarm Systems	75,000	80,198	75,000	3,402	78,402	1,796
WT Dix Hills - Bathroom Renovations	75,000	220,931	75,000	80,725	155,725	65,206
Brennan - Replace Rooftop Fan/Air Handlers	106,950	213,900	106,950	76,743	183,693	30,207
Brennan - Stage Front Remodeling/Repair Stage Flooring	140,875	281,750	140,875	62,000	202,875	78,875
JEA Melville - Install New Casework & Countertops	43,700	187,400	43,700	-	43,700	143,700
SUBTOTAL	\$ 17,018,875	\$ 26,609,532	\$ 17,018,875	\$ 5,748,561	\$ 22,767,436	\$ 3,842,096

(Continued)

WESTERN SUFFOLK BOCES

SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2018

SUBTOTAL	\$ 17,018,875	\$ 26,609,532	\$ 17,018,875	\$ 5,748,561	\$ 22,767,436	\$ 3,842,096
Taukomas - Convert Hot Water Heater to Gas	15,525	22,750	15,525	7,225	22,750	-
WT Manor Plains - Convert Hot Water Heater to Gas	32,775	40,000	32,775	7,225	40,000	-
WT Dix Hills - Design & Install Spray Booth McGuire I	31,508	63,016	31,508	36,660	68,168	(5,152)
WT Northport - Repair/Replace Vents in Façade	20,000	40,000	20,000	-	20,000	20,000
Republic - P/A System Renovation	-	150,750	-	6,579	6,579	144,171
WT Manor Plains - Replace Vandal Alarm Systems	-	40,000	-	11,875	11,875	28,125
Taukomas - Replace Vandal Alarm Systems	-	40,000	-	12,985	12,985	27,015
WT Dix Hills - Roof Replacement	-	400,000	-	21,088	21,088	378,912
WT Dix Hills - Roof Top Replacement	-	120,000	-	-	-	120,000
JEA DH/Taukomas - Asphalt Replacement	-	322,640	-	143,100	143,100	179,540
Administration - Electrical Renovation	-	250,000	-	8,657	8,657	241,343
WT Northport - Replace Concrete Curbs/Walks	-	110,000	-	-	-	110,000
WT Dix Hills - Bathroom Renovations	-	1,950,000	-	-	-	1,950,000
JEA Dix Hills - Floor Tile Replacement	-	170,000	-	-	-	170,000
JEA Melville - Floor Tile Replacement	-	150,000	-	-	-	150,000
WT Dix Hills - Roof Replacement	-	980,000	-	-	-	980,000
Taukomas - Roof Replacement	-	900,000	-	-	-	900,000
Technology 17/18	-	6,311,446	-	6,260,768	6,260,768	50,678
TOTAL	\$ 17,118,683	\$ 38,670,134	\$ 17,118,683	\$ 12,264,723	\$ 29,383,406	\$ 9,286,728

WESTERN SUFFOLK BOCES

**SCHEDULE OF CHANGE FROM ORIGINAL BUDGET TO REVISED BUDGET - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2018**

CHANGE FROM ADOPTED BUDGET TO REVISED BUDGET

Adopted budget	\$ 169,260,926
Add: Prior year's encumbrances	<u>513,552</u>
Original budget	169,774,478
Budget revision: Board resolutions to accept changes in service contracts	<u>28,459,229</u>
Final budget	<u>\$ 198,233,707</u>

WESTERN SUFFOLK BOCES

SCHEDULE OF NET INVESTMENT IN CAPITAL ASSETS (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2018

Capital assets, net	\$ 80,257,430
Deduct:	
Short-term portion of installment purchase debt	3,467,020
Long-term portion of installment purchase debt	6,204,347
Short-term portion of capital leases	185,433
Long-term portion of capital leases	<u>32,986</u>
Net investment in capital assets	<u>\$ 70,367,644</u>

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

November 26, 2018

To the Board of Education of the
Western Suffolk BOCES:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Western Suffolk BOCES (the BOCES), as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the BOCES' basic financial statements, and have issued our report thereon dated November 26, 2018

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the BOCES' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BOCES' internal control. Accordingly, we do not express an opinion on the effectiveness of the BOCES' internal control.

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

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

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(Continued)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the BOCES' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.