

BOARD OF COOPERATIVE EDUCATIONAL SERVICES

SECOND SUPERVISORY DISTRICT

OF MONROE AND ORLEANS COUNTIES

BASIC FINANCIAL STATEMENTS

For Year Ended June 30, 2017

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Members of
American Institute of
Certified Public Accountants
and
New York State Society of
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board Members
Board of Cooperative Educational Services
Second Supervisory District on Monroe and Orleans Counties

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 the Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans Counties, New York, as of and for the year ended June 30, 2017, 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 BOCES' 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 BOCES' 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.

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 Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans Counties, New York, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As described in Note XI to the financial statements, the BOCES adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, an amendment of GASB No. 68. As a result, the beginning net position has been restated.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in BOCES' total OPEB liability and related ratio, schedule of the BOCES proportionate share of the net pension liability, schedule of BOCES contributions, and budgetary comparison information on pages 4 – 11 and 45–49 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 Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans Counties, New York's basic financial statements. The accompanying supplemental information as listed in the table of contents and schedule of expenditures of federal awards, as required by the Uniform Guidance are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplemental information as listed in the table of contents and schedule of expenditures of federal awards, as required by the Uniform Guidance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental information as listed in the table of contents and schedule of expenditures of federal awards, as required by the Uniform Guidance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017 on our consideration of the Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans Counties, New York's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans Counties, New York's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Raymond F. Wager, CPA, P.C." The signature is written in a cursive style with a large initial 'R'.

September 26, 2017

Board of Cooperative Educational Services

Second Supervisory District of Monroe and Orleans Counties, New York

Management's Discussion and Analysis (MD&A)

June 30, 2017

Introduction

Our discussion and analysis of the Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans Counties, New York's (BOCES) financial performance provides an overview of the BOCES' financial activities for the year ended June 30, 2017. It should be read in conjunction with the basic financial statements to enhance understanding of the BOCES financial performance, which immediately follows this section.

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

The BOCES governmental fund financial statements report a combined ending fund balance of \$20,468,724 an increase of \$5,492,021 over the prior year. The increase in fund balance is due primarily to surplus generated in the capital projects fund.

On the government-wide financial statements, the liabilities of the BOCES exceeded assets by \$115,142,185, a decrease of \$10,834,875 over the prior year. This decrease is primarily a result of the capital project fund which has a surplus together with the capitalization of recent construction costs..

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the BOCES' basic financial statements. The BOCES' basic financial statements are comprised of three components: government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains individual fund statements and schedules in addition to the basic financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the BOCES' finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the BOCES' assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the BOCES is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The *governmental activities* of the BOCES include administration, career & tech education, instruction for the handicapped, itinerant services, general instruction, instructional support, other services, and depreciation.

The government-wide financial statements can be found on the pages immediately following this section as the first two pages of the basic financial statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The BOCES, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the BOCES can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the BOCES' near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The BOCES maintains three individual governmental funds; General Fund, Special Aid Fund, and Capital Project Funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for each fund. The BOCES reports the General Fund and Capital Projects Fund as major funds and the Special Aid Fund as a non-major fund.

The BOCES adopts an annual budget for its General Fund. A budgetary comparison statement has been provided for the General Fund within the basic financial statements to demonstrate compliance with the budget.

The *Fiduciary Funds* are used to account for assets held by the BOCES in an agency capacity which accounts for assets held by the BOCES on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are *not* available to support the BOCES' programs.

The financial statements for the governmental and fiduciary funds can be found in the basic financial statement section of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic financial statement section of the report.

Government-Wide Financial Analysis

A comparative analysis of government-wide financial analysis using the full accrual basis of accounting is provided with prior year history.

Net position may serve over time as a useful indicator of the BOCES' financial position. As of June 30, 2017 the BOCES liabilities exceeded the assets by (\$115,142,185) at the close of the year.

Net Position

	<u>Governmental Activities</u>		<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
	<u>2017</u>	<u>2016</u>		
<u>ASSETS:</u>				
Current Assets	\$ 58,611,851	\$ 46,294,290	\$ 12,317,561	26.61%
Capital Assets	24,142,468	13,351,453	10,791,015	80.82%
TOTAL ASSETS	\$ 82,754,319	\$ 59,645,743	\$ 23,108,576	38.74%
<u>DEFERRED OUTFLOW OF RESOURCES:</u>				
Deferred Outflow of Resources	\$ 37,810,277	\$ 10,953,353	\$ 26,856,924	245.19%
<u>LIABILITIES:</u>				
Current Liabilities	\$ 38,025,177	\$ 17,406,510	\$ 20,618,667	118.45%
Long-Term Obligations	185,186,393	173,177,150	12,009,243	6.93%
TOTAL LIABILITIES	\$ 223,211,570	\$ 190,583,660	\$ 32,627,910	17.12%
<u>DEFERRED INFLOW OF RESOURCES:</u>				
Deferred Inflow of Resources	\$ 12,495,211	\$ 5,992,496	\$ 6,502,715	108.51%
<u>NET POSITION:</u>				
Net Investment in Capital Assets	\$ 24,142,468	\$ 13,351,453	\$ 10,791,015	80.82%
Restricted for,				
Capital Projects	6,262,024	-	6,262,024	100.00%
Retirement Contribution	12,362,845	12,571,602	(208,757)	-1.66%
Other Purposes	2,511,053	3,862,483	(1,351,430)	-34.99%
Unrestricted	(160,420,575)	(155,762,598)	(4,657,977)	2.99%
TOTAL NET POSITION	\$ (115,142,185)	\$ (125,977,060)	\$ 10,834,875	-8.60%

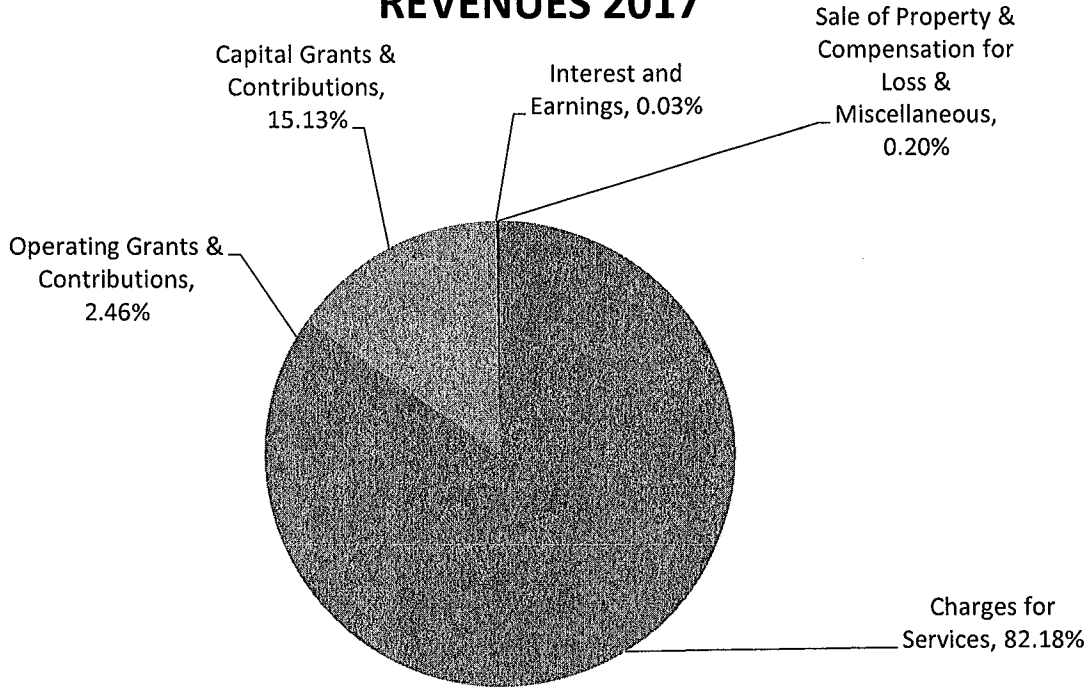
By far, the largest component of the BOCES' net position is reflected in its net investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The BOCES uses these capital assets to provide services to the students and consequently, these assets are not available for future spending.

Changes in Net position:

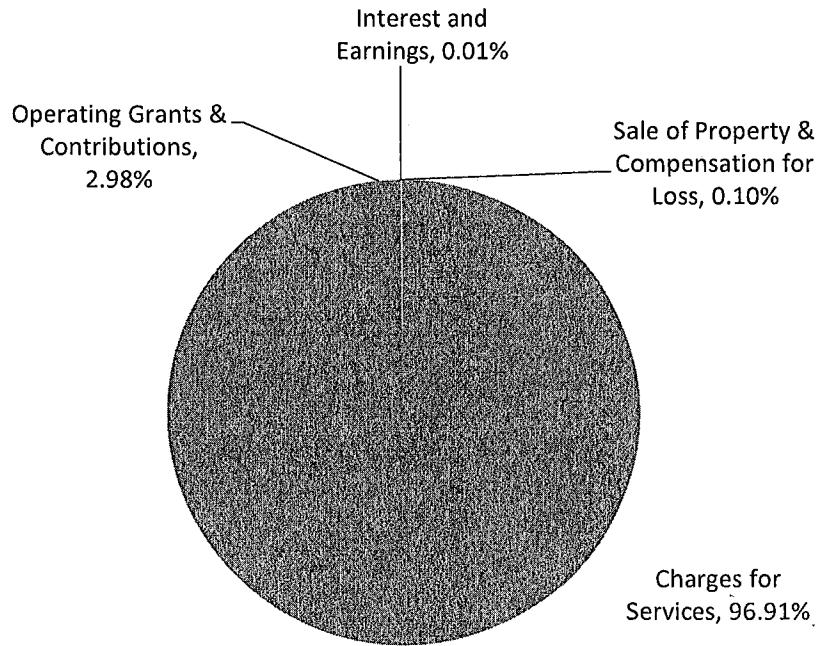
	<u>2017</u>	<u>2016</u>	<u>Total Dollar Change</u>	<u>Total Percentage Change</u>
<u>REVENUES:</u>				
Program Revenues -				
Charges for Services	\$ 92,633,760	\$ 92,601,357	\$ 32,403	0.03%
Operating Grants and Contributions	2,776,634	2,847,364	(70,730)	-2.48%
Capital Grants and Contributions	17,052,016	-	17,052,016	100.00%
Total Program Revenues	\$ 112,462,410	\$ 95,448,721	\$ 17,013,689	17.82%
General Revenues -				
Interest and Earnings	\$ 31,744	\$ 5,235	\$ 26,509	506.38%
Sale of Property and Compensation for Loss	191,820	97,943	93,877	95.85%
Miscellaneous	38,152	1,360	36,792	2705.29%
Total General Revenues	\$ 261,716	\$ 104,538	\$ 157,178	150.35%
TOTAL REVENUES	\$ 112,724,126	\$ 95,553,259	\$ 17,170,867	17.97%
<u>EXPENSES:</u>				
Program Expenses -				
Administration	\$ 7,713,970	\$ 6,876,692	\$ 837,278	12.18%
Career and Tech Education	12,030,179	10,054,345	1,975,834	19.65%
Instruction for the Handicapped	41,242,455	38,235,002	3,007,453	7.87%
Itinerant Services	7,471,987	7,241,095	230,892	3.19%
General Information	4,413,213	3,904,334	508,879	13.03%
Instructional Support	18,270,230	18,988,118	(717,888)	-3.78%
Other Services	10,747,217	10,668,192	79,025	0.74%
TOTAL EXPENSES	\$ 101,889,251	\$ 95,967,778	\$ 5,921,473	6.17%
CHANGES IN NET POSITION	\$ 10,834,875	\$ (414,519)		

Governmental activities increased the BOCES net position by \$10,834,875.

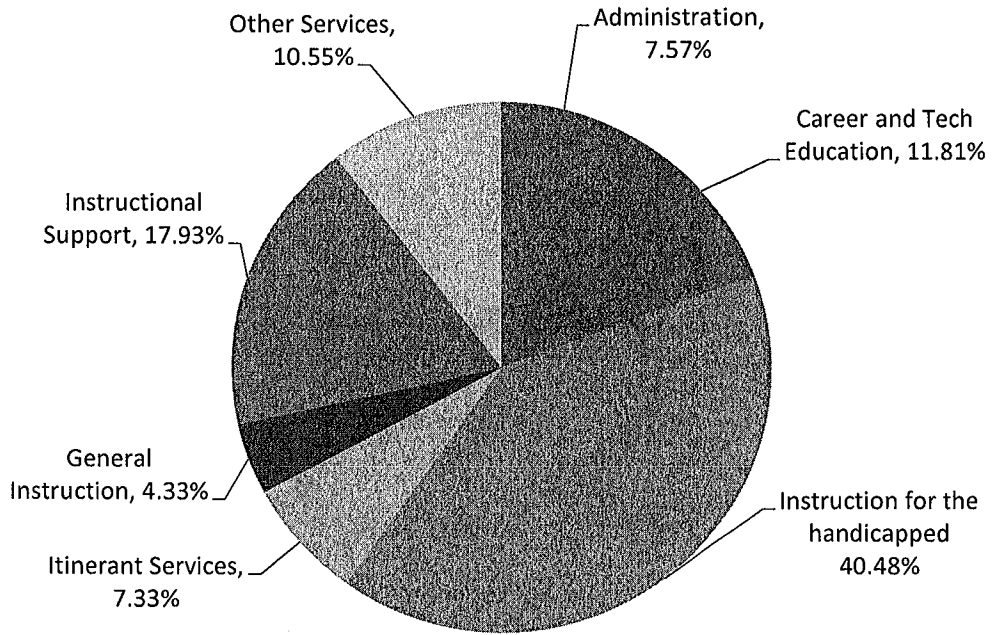
REVENUES 2017



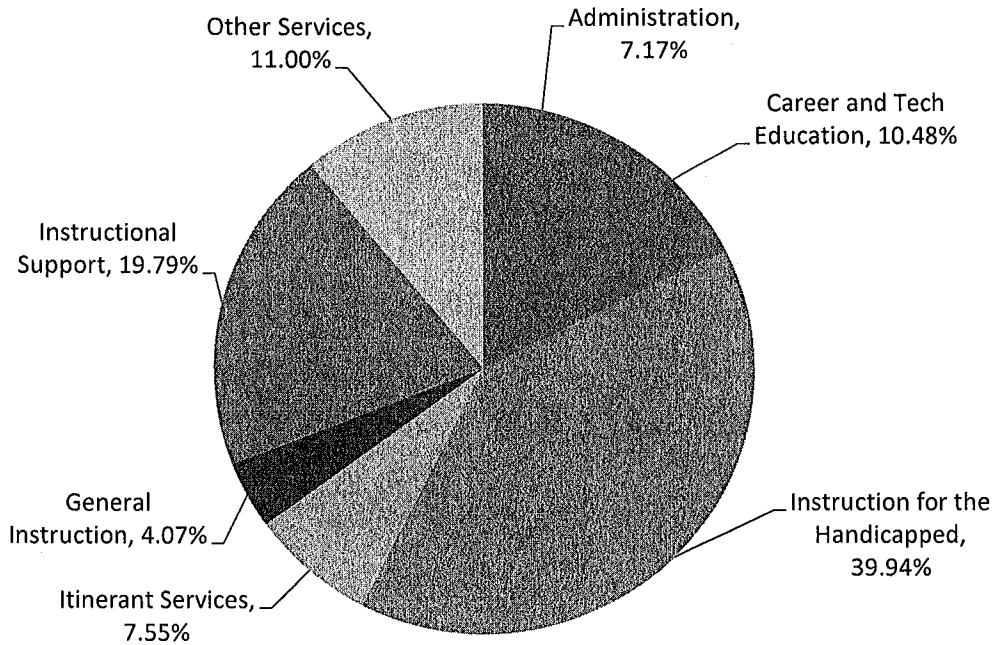
REVENUES 2016



EXPENSES 2017



EXPENSES 2016



Financial Analysis of the BOCES' Funds

The financial performance of the BOCES as a whole is reflected in its governmental funds. As the BOCES completed the year, its governmental funds reported combined fund balances of \$20,468,724 which is more than last year's ending fund balance of \$14,976,703. A summary of the General Fund balance classifications is shown below:

<u>General Fund Balances:</u>	<u>Purpose</u>	<u>2017</u>	<u>2016</u>	<u>Variance</u>
Restricted (reserves detailed on pg. 27)	Amounts constrained to specific purposes.	\$ 14,873,898	\$ 15,170,727	\$ (296,829)
Assigned	Amounts a government intends to use for a specific purpose.	1,899,601	1,022,498	877,103
Total General Fund Balances		<u>\$ 16,773,499</u>	<u>\$ 16,193,225</u>	<u>\$ 580,274</u>

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$11,699,580. This change is attributable to additional requests for services by our component and non-component districts.

Capital Assets

At June 30, 2017 the BOCES has \$24,142,468, net of accumulated depreciation invested in a broad range of capital assets, including land, buildings and improvements, and machinery and equipment. The change in capital assets, net of accumulated depreciation, is reflected below

	<u>2017</u>	<u>2016</u>
Land	\$ 118,702	\$ 118,702
Work in Progress	13,564,588	2,988,268
Buildings and Improvements	6,806,591	5,805,523
Machinery and Equipment	3,652,587	4,438,960
Total Capital Assets	<u>\$ 24,142,468</u>	<u>\$ 13,351,453</u>

More detailed information about the BOCES' capital assets is presented in the notes to the financial statements.

Long-Term Debt

At June 30, 2017, the BOCES had \$185,186,393 in other long-term debt outstanding as follows:

	<u>2017</u>	<u>2016</u>
Net Pension Liability	\$ 6,004,376	\$ 8,335,144
OPEB	178,068,017	163,786,816
Compensated Absences	1,114,000	1,055,190
Total Long-Term Debt	<u>\$ 185,186,393</u>	<u>\$ 173,177,150</u>

More detailed information about the BOCES' long-term liabilities is presented in the notes to the financial statements.

Factors Bearing on the BOCES' Future

It is uncertain how the long term effect of the New York State tax cap will impact the services we provide to participating districts.

The BOCES continues taking steps to contain the rising cost of health insurance benefits by participating in the Rochester Area School Health Plans I and II. The primary objectives of the Plans are to obtain lower premiums for its participants than they could obtain on their own.

Requests for Information

This financial report is designed to provide a general overview of the BOCES' finances for all those with an interest in the BOCES' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Board of Cooperative Educational Services
Second Supervisory District of Monroe and Orleans Counties
Attn: Mr. Steve Roland, Director of Finance
3599 Big Ridge Road
Spencerport, New York 14559**

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES**

Statement of Net Position

June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 36,964,817
Accounts receivable	21,645,504
Due from districts	1,530
Capital Assets:	
Land	118,702
Work in progress	13,564,588
Other capital assets (net of depreciation)	10,459,178
TOTAL ASSETS	<u>\$ 82,754,319</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow of resources	<u>\$ 37,810,277</u>
LIABILITIES	
Accounts payable	\$ 2,421,236
Accrued liabilities	189,981
State aid due to districts	29,723,317
Due to school districts	2,296,023
Due to teachers' retirement system	2,785,124
Due to employees' retirement system	608,771
Overpayments and collections in advance	725
Long-Term Obligations:	
Due in one year	117,950
Due in more than one year	185,068,443
TOTAL LIABILITIES	<u>\$ 223,211,570</u>
DEFERRED INFLOW OF RESOURCES	
Deferred inflow of resources	<u>\$ 12,495,211</u>
NET POSITION	
Net investment in capital assets	\$ 24,142,468
Restricted For:	
Capital projects	6,262,024
Retirement contribution reserve	12,362,845
Other Purposes	2,511,053
Unrestricted	(160,420,575)
TOTAL NET POSITION	<u>\$ (115,142,185)</u>

BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
Statement of Activities and Changes in Net Position
For Year Ended June 30, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in</u> <u>Net Position</u>
		<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
Primary Government -					
Administration	\$ 7,713,970	\$ 7,792,023	\$ -	\$ 17,052,016	\$ 17,130,069
Career & tech education	12,030,179	8,689,917	1,255,928	-	(2,084,334)
Instruction for the handicapped	41,242,455	40,073,994	21,953	-	(1,146,508)
Itinerant services	7,471,987	5,529,236	-	-	(1,942,751)
General instruction	4,413,213	3,236,633	895,214	-	(281,366)
Instructional support	18,270,230	16,865,086	603,539	-	(801,605)
Other services	10,747,217	10,446,871	-	-	(300,346)
Total Primary					
Government	<u>\$ 101,889,251</u>	<u>\$ 92,633,760</u>	<u>\$ 2,776,634</u>	<u>\$ 17,052,016</u>	<u>\$ 10,573,159</u>
 General Revenues:					
Interest and Earnings					\$ 31,744
Sale of property and compensation for loss					191,820
Miscellaneous					38,152
Total General Revenues					<u>\$ 261,716</u>
Changes in Net Position					\$ 10,834,875
Net Position, Beginning of Year (restated)					<u>(125,977,060)</u>
Net Position, End of Year					<u>\$ (115,142,185)</u>

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES**

Balance Sheet

Governmental Funds

June 30, 2017

	General Fund	Capital Projects Fund	Nonmajor Special Aid Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 30,997,310	\$ 5,106,331	\$ 861,176	\$ 36,964,817
Receivables	20,318,593	-	1,326,911	21,645,504
Due from districts	-	-	1,530	1,530
Due from other funds	3,421,480	-	3,306	3,424,786
TOTAL ASSETS	<u>\$ 54,737,383</u>	<u>\$ 5,106,331</u>	<u>\$ 2,192,923</u>	<u>\$ 62,036,637</u>
 LIABILITIES AND FUND BALANCE				
<u>Liabilities</u> -				
Accounts payable	\$ 2,317,621	\$ 490	\$ 103,125	\$ 2,421,236
Accrued liabilities	130,384	-	59,597	189,981
Due to other funds	3,306	-	3,421,480	3,424,786
State aid due to districts	29,723,317	-	-	29,723,317
Due to districts	2,296,023	-	-	2,296,023
Due to TRS	2,785,124	-	-	2,785,124
Due to ERS	608,771	-	-	608,771
Overpayments and collections in advance	725	-	-	725
Compensated Absences	98,613	-	19,337	117,950
TOTAL LIABILITIES	<u>\$ 37,963,884</u>	<u>\$ 490</u>	<u>\$ 3,603,539</u>	<u>\$ 41,567,913</u>
 <u>Fund Balances</u> -				
Restricted	\$ 14,873,898	\$ 6,262,024	\$ -	\$ 21,135,922
Assigned	1,899,601	-	-	1,899,601
Unassigned	-	(1,156,183)	(1,410,616)	(2,566,799)
TOTAL FUND BALANCE	<u>\$ 16,773,499</u>	<u>\$ 5,105,841</u>	<u>\$ (1,410,616)</u>	<u>\$ 20,468,724</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 54,737,383</u>	<u>\$ 5,106,331</u>	<u>\$ 2,192,923</u>	

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

24,142,468

The following long-term obligations are not due and payable in the current period and therefore are not reported in the governmental funds:

OPEB	(178,068,017)
Compensated absences	(996,048)
Deferred outflow of resources - pensions	17,671,899
Deferred outflow of resources - OPEB	20,138,378
Net pension liability	(6,004,378)
Deferred inflow of resources - OPEB	(10,707,899)
Deferred inflow of resources - pensions	(1,787,312)

Net Position of Governmental Activities

\$ (115,142,185)

BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For Year Ended June 30, 2017

	General	Capital	Nonmajor	Total
	Fund	Projects	Special	Governmental
	Fund	Fund	Aid	Funds
	Fund	Fund	Fund	Funds
REVENUES				
Charges for services	\$ 38,333	\$ 17,052,016	\$ 477,523	\$ 17,567,872
Charges to components	75,868,555	-	2,327,329	78,195,884
Chargest to non-components and other BOCES	16,347,541	-	504,292	16,851,833
Interest and earnings	26,212	3,055	-	29,267
Sale of property and compensation for loss	191,820	-	-	191,820
Miscellaneous	1,335,765	-	2,717,730	4,053,495
Interfund revenues	-	352,000	-	352,000
State sources	-	-	1,646,681	1,646,681
Federal sources	-	-	1,129,953	1,129,953
TOTAL REVENUES	\$ 93,808,226	\$ 17,407,071	\$ 8,803,508	\$ 120,018,805
EXPENDITURES				
Administration	\$ 7,804,351	\$ -	\$ -	\$ 7,804,351
Career and tech education	7,125,427	-	3,305,369	10,430,796
Instruction for the handicapped	35,445,343	-	4,543,800	39,989,143
Itinerant services	5,411,905	-	74,198	5,486,103
General instruction	3,231,836	-	873,431	4,105,267
Instructional support	16,528,340	-	697,181	17,225,521
Other services	10,400,613	-	-	10,400,613
Capital outlay	-	11,804,853	-	11,804,853
TOTAL EXPENDITURES	\$ 85,947,815	\$ 11,804,853	\$ 9,493,979	\$ 107,246,647
EXCESS (DEFICIENCY) OF REVENUES				
OVER EXPENDITURES	\$ 7,860,411	\$ 5,602,218	\$ (690,471)	\$ 12,772,158
OTHER CHANGES IN FUND BALANCE				
Surplus to be distributed	\$ (6,983,308)	\$ -	\$ -	\$ (6,983,308)
Net insurance reserve transactions	(296,829)	-	-	(296,829)
FUND BALANCE, BEGINNING OF YEAR	16,193,225	(496,377)	(720,145)	14,976,703
FUND BALANCE, END OF YEAR	\$ 16,773,499	\$ 5,105,841	\$ (1,410,616)	\$ 20,468,724

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
Reconciliation of Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to Statement of Activities
For Year Ended June 30, 2017**

NET CHANGE IN FUND BALANCES -

TOTAL GOVERNMENTAL FUNDS	\$	5,492,021
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The following are the amounts by which capital outlays and additions of assets exceeded depreciation in the current period:

Capital Outlay	\$ 11,804,853	
Addition of Assets, Net	703,666	
Depreciation	<u>(1,717,504)</u>	
		10,791,015

The net OPEB liability does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	(4,850,722)
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(Increase) decrease in proportionate share of net pension asset/liability reported in the Statement of Activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds

Teachers' Retirement System	122,654	
Employees' Retirement System	(648,076)	

In the Statement of Activities, vacation pay, teachers' retirement incentives and judgments and claims are measured by the amount accrued during the year. In the governmental funds, expenditures for these items are measured by the amount actually paid. The following provides the differences of these items as presented in the governmental activities:

Compensated Absences	<u>(72,017)</u>	
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>10,834,875</u>
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BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
Statement of Fiduciary Net Position
June 30, 2017

	Private Purpose Trust	Agency Funds
Assets		
Current Assets		
Cash and cash equivalents	\$ 111,932	\$ 101,924,461
Total Assets	\$ 111,932	\$ 101,924,461
Liabilities		
Current Liabilities		
Accounts payable (general fund)	\$ -	\$ 2,517,249
Student activity balance	-	8,725
Other liabilities - RASHP I	-	18,440,179
Other liabilities - RASHP II	-	62,781,081
Other liabilities - RASWCP	-	17,226,481
Other liabilities	-	950,746
Total liabilities	\$ -	\$ 101,924,461
Net Assets		
Restricted for scholarships	\$ 111,932	
Total Net Assets	\$ 111,932	

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2017

	Private Purpose Trust
Additions	
Interest and earnings	\$ 60
Donations	25,000
Deductions	
Scholarships and other trust expenses	(21,954)
Change in Net Assets	\$ 3,106
Net Assets, Beginning of Year	108,826
Net Assets, End of Year	\$ 111,932

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF
MONROE AND ORLEANS COUNTIES**

Notes To The Basic Financial Statements

June 30, 2017

I. Summary of Significant Accounting Policies:

The financial statements of the Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans Counties, New York (the BOCES) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the BOCES accounting policies are described below.

A. Reporting Entity

The Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans Counties is governed by the laws of New York State. The BOCES is an independent entity governed by an elected Board of Education consisting of nine members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. 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.

The reporting entity of the BOCES is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB Statement 39, *Component Units*. 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.

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

Brockport	Churchville-Chili	Gates Chili
Greece	Hilton	Holley
Kendall	Spencerport	Wheatland-Chili

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

(I.) (Continued)

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 review of certain entities included in the BOCES' reporting entity.

1. Extraclassroom Activity Funds

The extraclassroom activity funds of the BOCES represent funds of the students of the BOCES. The Board of Education exercises general oversight of these funds. The extraclassroom activity funds are independent of the BOCES with respect to its financial transactions, and the designation of student management. The cash and investment balances are reported in the Statement of Fiduciary Net Position – Agency Funds of the BOCES. Separate audited financial statements (cash basis) of the extraclassroom activity funds can be found at the BOCES's business office.

B. Basic Financial Statements

1. BOCES-wide 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, sale of property and equipment, investment revenues and other miscellaneous revenues which consist primarily of refunds from other Districts. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The Statement of Activities presents a comparison between direct expenses and program revenues 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 revenues include 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. Revenues that are not classified as program revenues are presented as general revenues. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas.

2. 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. All remaining governmental funds are aggregated and reported as nonmajor funds.

The BOCES reports the following funds:

(I.) (Continued)

a. **Major Governmental Funds**

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

Capital Projects Fund - Used to account for the financial resources to be used for acquisition, construction, or renovation of capital facilities.

b. **Nonmajor Governmental** - The other funds which are not considered major are aggregated and reported as nonmajor governmental funds as follows:

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. These legal restrictions may be imposed either by governments that provide the funds, or by outside parties.

c. **Fiduciary** - 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 BOCES-wide financial statements, because their resources do not belong to the BOCES, and are not available to be used. There are two classes of fiduciary funds:

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

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

C. **Measurement Focus, Basis of Accounting**

Accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The BOCES-Wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange 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.

(I.) (Continued)

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

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

D. 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.

E. Interfund Transactions

The operations of the BOCES include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowing. 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 revenues to provide financing or other services.

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

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.

Refer to Note VII for a detailed disclosure by individual fund for interfund receivables and payables.

F. 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, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses/expenditures 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.

(I.) (Continued)

G. Cash and Cash Equivalents

The BOCES' cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and Districts.

H. Receivables

Receivables are shown net of an allowance for uncollectible accounts, when applicable.

No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

I Inventory and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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 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.

J. Capital Assets

In the BOCES-wide financial statements, capital assets are accounted for at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$5,000 is used to report capital assets. The range of estimated useful lives by type of assets is as follows:

<u>Class</u>	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	\$ 50,000	SL	15-50 Years
Machinery and Equipment	\$ 5,000	SL	5-25 Years

(I.) (Continued)

The investment in infrastructure type assets have not been segregated for reporting purposes since all costs associated with capital projects are consolidated and reported as additions to buildings and improvements.

K. Unearned Revenue

The BOCES reports unearned revenues on its Statement of Net Position and its Balance Sheet. On the Statement of Net Position, unearned revenue arises when resources are received by the BOCES before it has legal claim to them, as when grant monies are received prior to incurrence of qualifying expenditures. In subsequent periods, when the BOCES has legal claim to resources, the liability for unearned revenue is removed and revenue is recognized.

L. 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 four items that qualify for reporting in this category. First is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the BOCES-wide Statement of Net Position. This represents the effect of the net change in the BOCES's proportion of the collective net pension asset or liability and difference during the measurement period between the BOCES's contributions and its proportion share of total contributions to the pension systems not included in pension expense. The third item is the BOCES contributions to the pension systems (TRS and ERS Systems) and OPEB subsequent to the measurement date. The fourth item relates to OPEB reporting in the BOCES-wide Statement of Net Position. This represents the effect of the net change in the actual and expected experience.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The BOCES has four items that qualify for reporting in this category. First arises only under a modified accrual basis of accounting and is reported as unavailable revenue-property taxes. The second item is related to pensions reported in the BOCES-wide Statement of Net Position. This represents the effect of the net change in the BOCES's proportion of the collective net pension liability (ERS System) and difference during the measurement periods between the BOCES's contributions and its proportion share of total contributions to the pension systems not included in pension expense. The third item is revenues from grants received that have met all other eligibility requirements except those related to time restrictions. The fourth item is related to OPEB reported in the BOCES-wide Statement of Net Position. This represents the effect on the net changes of assumptions or other inputs.

(I.) (Continued)

M. Vested Employee Benefits

1. Compensated Absences

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

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

The BOCES employees are granted vacation 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.

Consistent with GASB Statement 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 BOCES-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year end.

In the funds statements only the amount of matured liabilities is accrued within the General Fund based upon expendable and available financial resources. These amounts are expensed on a pay-as-you-go basis.

N. Other Benefits

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

In addition to providing pension benefits, the BOCES provides post-employment health coverage to retired employees in accordance with the provision of various employment contracts in effect at the time of retirement. Substantially all of the BOCES' employees may become eligible for these benefits if they reach normal retirement age while working for the BOCES. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits may be shared between the BOCES and the retired employee. The BOCES recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

O. Accrued Liabilities and Long-Term Obligations

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

(I.) (Continued)

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.

P. Equity Classifications

1. BOCES-Wide Statements

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

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

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

On the Statement of Net Position the following balances represent the restricted for other purposes:

	<u>Total</u>
Unemployment	\$ 412,268
Insurance	1,162,193
Employee Benefits Accrued Liability	295,840
CTE Capital Reserve	<u>640,752</u>
Total Net Position - Restricted for Other Purposes	<u>\$ 2,511,053</u>

c. Unrestricted Net Position - reports the balance of net position that does not meet the definition of the above two classifications and is deemed to be available for general use by the BOCES.

2. Fund Statements

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

a. Nonspendable 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.

b. Restricted Fund Balances – 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. All encumbrances of funds other than the general fund are classified as restricted fund balance. The BOCES has established the following restricted fund balances:

Capital Reserve - CTE - shall be used to purchase only technologically advanced equipment to be used for instruction in State-Approved CTE sequences, courses or curricula. Funding amounts not to exceed the greater of 20% of the BOCES current year CTE services budget, or \$500,000 may be retained in this fund at the end of each school year for future expenditures, provided that the total amount retained does not exceed \$2,000,000. The reserve was funded \$107,000 during the year, and the balance at June 30, 2017, is \$640,752. This reserve is accounted for in the General Fund.

Unemployment Insurance Reserve - as allowed by General Municipal Law Section 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.

Retirement Contribution Reserve - as allowed by General Municipal Law Section 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.

Insurance Reserve - as allowed by General Municipal Law Section 6-n, is used to pay liability, casualty and other types of losses, except losses incurred for which the following types of insurance may be purchased: life, accident, health, annuities, fidelity and surety, credit, title residual value and mortgage guarantee. In addition, this reserve may not be used for any purpose for which a special reserve maybe established pursuant to law (for example, for unemployment compensation insurance). The reserve may be established by Board action, and funded by budgetary appropriation, or such other funds as may be legally appropriated. There is no limit on the amount that may be accumulated in the Insurance Reserve, however, the annual contribution to this reserve may not exceed the greater of \$33,000 or 5% of the budget. Settled or compromised claims up to \$25,000 may be paid from the reserve without judicial approval. The reserve is accounted for in the General Fund.

Employee Benefit Accrued Liability Reserve - as allowed by General Municipal Law Section 6-p, is used to reserve funds for the payment of accrued employee benefits due to 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.

(I.) (Continued)

Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments of expenditures are recorded for budgetary control purposes in order to reserve applicable appropriations, is employed as a control in preventing over-expenditure of established appropriations. Open encumbrances are reported as restricted fund balance in all funds other than the General Fund and the School Lunch Fund, since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

Restricted fund balances include the following:

General Fund -	
CTE - Capital Reserve	\$ 640,752
Employee Benefit Accrued Liability	295,840
Insurance	1,162,193
Retirement Contribution	12,362,845
Unemployment Insurance	412,268
Capital Fund -	
Capital Projects	6,262,024
Total Restricted Funds	\$ 21,135,922

c. **Committed** - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the school districts highest level of decision making authority, i.e., the Board. The BOCES has no committed fund balances as of June 30, 2017.

d. **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 represent purchase commitments made by the BOCES’ purchasing agent through their authorization of a purchase order prior to year end. The BOCES assignment is based on the functional level of expenditures.

Significant encumbrances for the general fund, management has determined that amounts in excess of \$120,000 are considered significant and are summarized below:

- Career and Technical Education \$386,012
- Instructional Support \$1,037,045
- Other Services \$239,588

Assigned fund balances include the following:

General Fund - Encumbrances	\$ 1,799,601
General Fund - Retiree Health	100,000
Total Assigned Fund Balance	\$ 1,899,601

(I.) (Continued)

- e. **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.

3. **Order of Use of Fund Balance**

The BOCES' policy is to apply expenditures against nonspendable 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, nonspendable 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, the remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

Q. **New Accounting Standards**

The BOCES has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable. At June 30, 2017, the BOCES implemented the following new standards issued by GASB:

The GASB has issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 57, and Amendments to Certain Provisions of GASB Statements 67 and 68*, effective for the year ended June 30, 2017.

GASB has issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective for the year ending June 30, 2017.

The GASB has issued Statement No. 77, *Tax Abatement Disclosures*, effective for the year ended June 30, 2017.

The GASB has issued Statement No. 80, *Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14*, effective for the year ended June 30, 2017.

The GASB has issued Statement No. 82, *Pension Issues-an amendment of GASB No. 67, No. 68, and No. 73*, effective for the year ended June 30, 2017.

R. **Future Changes in Accounting Standards**

GASB has issued Statement 84, *Fiduciary Activities*, which will effective for the periods beginning after December 15, 2018.

GASB has issued Statement 85, *Omnibus 2017*, which will be effective for the periods beginning after June 15, 2017.

GASB has issued Statement 86, *Certain Debt Extinguishment Issues*, which will be effective for the periods beginning after June 15, 2017.

(I.) (Continued)

GASB has issued Statement 87, *Leases*, which will be effective for the periods beginning after December 15, 2019.

The BOCES will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

II. Restatement of Net Position

For the fiscal year ended June 30, 2017, the BOCES implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The BOCES' net position has been restated as follows:

	Districtwide Statements
	Governmental Activities
Net position beginning of year, as previously stated	\$ 5,652,923
Increase to OPEB liability	<u>(131,629,983)</u>
Net position beginning of year, as restated	<u>\$ (125,977,060)</u>

III. Changes in Accounting Principles

For the fiscal year ended June 30, 2017, the BOCES implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of the statement requires BOCES to report Other Postemployment Benefits (OPEB) liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB. See Note II for the financial statement impact of implementation of the Statements.

IV. Stewardship, Compliance and Accountability:

By its nature as a local government unit, the BOCES is subject to various federal, state and local laws and contractual regulations. An analysis of the BOCES's compliance with significant laws and regulations and demonstration of its stewardship over BOCES resources follows.

A. Budgetary Information

Section 1950 §4(b) of the Education Law required adoption of a final budget by no later than May 15, of the ensuing year.

BOCES administration prepares a proposed administrative, capital and program budget, as applicable, for approval by members of the BOCES board for the general fund.

Appropriations for educational services are adopted at the program level and lapse at the end of each fiscal year.

(IV.) (Continued)

A tentative administrative budget is provided to the component BOCES 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.

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year. The Special Revenue Funds have not been included in the budget and actual comparison because they do not have legally authorized (appropriated) budgets.

The BOCES Board can approve budget revisions based upon requests for additional services and surplus revenues.

V. Cash and Cash Equivalents

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:

Uncollateralized	\$	-
Collateralized with securities held by the pledging financial institution		92,325,196
Collateralized within Trust department or agent		46,960,983
Total	\$	<u>139,286,179</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. Restricted cash as of year end included \$21,135,922 within the governmental funds and \$111,932 in the fiduciary funds.

VI. Receivables

Receivables at June 30, 2017 for individual major funds and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

<u>Description</u>	<u>Governmental Activities</u>		
	<u>General Fund</u>	<u>Special Aid Fund</u>	<u>Total</u>
Accounts Receivable	\$ 2,716,216	\$ 473,680	\$ 3,189,896
Due From State and Federal	17,602,377	853,231	18,455,608
Total	\$ <u>20,318,593</u>	\$ <u>1,326,911</u>	\$ <u>21,645,504</u>

BOCES management has deemed the amounts to be fully collectible.

VII. Interfund Receivables and Payables

Interfund Receivables and Payables at June 30, 2017, were as follows:

	Interfund	
	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 3,421,480	\$ 3,306
Special Aid Fund	3,306	3,421,480
Total government activities	<u>\$ 3,424,786</u>	<u>\$ 3,424,786</u>

Interfund receivables and payables between governmental activities are eliminated on the Statement of Net Position. The BOCES typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are not necessarily expected to be repaid within one year.

Transfers are used to finance certain special aid programs and support capital project expenditures.

VIII. Changes In Capital Assets

A summary of changes in capital assets follows:

<u>Type</u>	<u>Balance 7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2017</u>
<u>Governmental Activities:</u>				
<u>Capital assets that are not depreciated -</u>				
Land	\$ 118,702	\$ -	\$ -	\$ 118,702
Work in progress	2,988,268	11,804,853	(1,228,533)	13,564,588
<i>Total Nondepreciable</i>	<u>\$ 3,106,970</u>	<u>\$ 11,804,853</u>	<u>\$ (1,228,533)</u>	<u>\$ 13,683,290</u>
<u>Capital assets that are depreciated -</u>				
Buildings and improvements	\$ 12,164,103	\$ 1,228,533	\$ -	\$ 13,392,636
Machinery and equipment	12,275,625	733,583	(385,516)	12,623,692
<i>Total Depreciable</i>	<u>\$ 24,439,728</u>	<u>\$ 1,962,116</u>	<u>\$ (385,516)</u>	<u>\$ 26,016,328</u>
<u>Less accumulated depreciation -</u>				
Buildings and improvements	\$ 6,358,580	\$ 227,465	\$ -	\$ 6,586,045
Machinery and equipment	7,836,665	1,490,039	(355,599)	8,971,105
<i>Total accumulated depreciation</i>	<u>\$ 14,195,245</u>	<u>\$ 1,717,504</u>	<u>\$ (355,599)</u>	<u>\$ 15,557,150</u>
<i>Total capital assets depreciated, net of accumulated depreciation</i>	<u>\$ 10,244,483</u>	<u>\$ 244,612</u>	<u>\$ (29,917)</u>	<u>\$ 10,459,178</u>
Total Capital Assets	<u>\$ 13,351,453</u>	<u>\$ 12,049,465</u>	<u>\$ (1,258,450)</u>	<u>\$ 24,142,468</u>

Depreciation expense for the period was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
Administration	\$ 14,898
Career and Tech Education	1,614,354
Instruction for the Handicapped	73,776
Instructional Support	14,476
Total Depreciation Expense	<u>\$ 1,717,504</u>

IX. Long-Term Obligations

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

<u>Governmental Activities:</u>	<u>Balance</u>			<u>Balance</u>	<u>Due Within</u>
	<u>7/1/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2017</u>	<u>One Year</u>
<u>Other Liabilities -</u>					
Net Pension Liability	\$ 8,335,144	\$ -	\$ 2,330,768	\$ 6,004,376	\$ -
OPEB	163,786,816	14,281,201	-	178,068,017	-
Compensated Absences	1,055,190	58,810	-	1,114,000	117,950
Total Long-Term Obligations	<u>\$ 173,177,150</u>	<u>\$ 14,340,011</u>	<u>\$ 2,330,768</u>	<u>\$ 185,186,393</u>	<u>\$ 117,950</u>

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences.

X. Pension Plans

A. General Information

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

B. Provisions and Administration

A 10 member Board of Trustees of the New York State Teachers' Retirement Board administers TRS. TRS provides benefits to plan members and beneficiaries as authorized by the Education Law and the New York State Retirement and Social Security Law (NYSRSSL). Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in TRS. Once a public employer elects to participate in the system, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. TRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained by writing to NYRS, 10 Corporate Woods Drive, Albany, New York 12211-2395 or by referring to the TRS Comprehensive Annual Financial report, which can be found on the System's website at www.nystrs.org.

ERS provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. NYSRSSL govern obligations of employers and employees to contribute, and benefits to employees. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The BOCES also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Office of the State Comptroller, 110 State Street, Albany, New York 12244 or by referring to the ERS Comprehensive Annual Report, which can be found at www.osc.state.ny.us/retire/publications/index.php.

C. Funding Policies

The Systems are noncontributory except for employees who joined after July 27, 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 3.0 to 3.5 percent of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education Law. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31. The BOCES paid 100% of the required contributions as billed by the TRS and ERS for the current year.

The BOCES's share of the required contributions, based on covered payroll paid for the BOCES's year ended June 30, 2017:

<u>Contributions</u>	<u>ERS</u>	<u>TRS</u>
2017	\$ 2,098,702	\$ 2,785,124

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions

At June 30, 2017, the BOCES reported the following asset/(liability) for its proportionate share of the net pension asset/(liability) for each of the Systems. The net pension asset/(liability) was measured as of March 31, 2017 for ERS and June 30, 2016 for TRS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The BOCES's proportion of the net pension asset/(liability) was based on a projection of the BOCES's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS and ERS Systems in reports provided to the BOCES.

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
Net pension assets/(liability)	\$ (4,534,710)	\$ (1,469,666)
District's portion of the Plan's total net pension asset/(liability)	0.048261%	0.137219%

For the year ended June 30, 2017, the BOCES recognized pension expenses of \$2,676,844 for ERS and \$2,355,845 for TRS. At June 30, 2017 the BOCES's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

(X.) (Continued)

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences between expended and actual experience	\$ 113,636	\$ -	\$ 688,621	\$ 477,431
Changes of assumptions	1,549,223	8,372,167	-	-
Net difference between projected and actual earnings on pension plan investments	905,765	3,304,587	-	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	339,814	-	119,689	501,571
Subtotal	<u>\$ 2,908,438</u>	<u>\$ 11,676,754</u>	<u>\$ 808,310</u>	<u>\$ 979,002</u>
District's contributions subsequent to the measurement date	608,771	2,477,936	-	-
Grand Total	<u>\$ 3,517,209</u>	<u>\$ 14,154,690</u>	<u>\$ 808,310</u>	<u>\$ 979,002</u>

BOCES contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year</u>	<u>ERS</u>	<u>TRS</u>
2017	\$ -	\$ 947,059
2018	937,587	947,059
2019	937,587	3,513,493
2020	825,201	2,715,001
2021	(600,248)	1,204,506
Thereafter	-	1,370,635
Total	<u>\$ 2,100,127</u>	<u>\$ 10,697,753</u>

E. Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
Actuarial valuation date	April 1, 2016	June 30, 2015
Interest rate	7.00%	7.50%
Salary scale	3.80%	4.01% - 10.91%
Decrement tables	April 1, 2010- March 31, 2015 System's Experience	July 1, 2009- June 30, 2014 System's Experience
Inflation rate	2.50%	2.50%
COLA's	1.30%	1.50%

(X.) (Continued)

For ERS, annuitant mortality rates are based on Society of Actuaries Scale MP-2014 System's experience with adjustments for mortality improvements based on MP-2017. For TRS, annuitant mortality rates are based on plan member experience adjustments for mortality improvements based on Society of Actuaries Scale AA.

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

<u>Long Term Expected Rate of Return</u>		
	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
<u>Asset Type -</u>		
Cash	-0.25%	-
Inflation-index bonds	1.50%	-
Domestic equity	4.55%	6.10%
International equity	6.35%	7.30%
Real estate	5.80%	5.40%
Alternative investments	0.00%	9.20%
Domestic fixed income securities	0.00%	1.00%
Global fixed income securities	0.00%	0.80%
Bonds/mortgages	1.31%	3.10%
Short-term	0.00%	0.01%
Private equity	7.75%	-
Absolute return strategies	4.00%	-
Opportunistic portfolios	5.89%	-
Real assets	5.54%	-

F. Discount Rate

The discount rate used to calculate the total pension liability was 7% for ERS and 7.5% for TRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems' 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.

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

The following presents the BOCES's proportionate share of the net pension liability calculated using the discount rate of 7% for ERS and 7.5% for TRS, as well as what the BOCES's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1-percentagepoint lower (6% for ERS and 6.5% for TRS) or 1-percentagepoint higher (8% for ERS and 8.5% for TRS) than the current rate :

(X.) (Continued)

	1% Decrease	Current Assumption	1% Increase
<u>ERS</u>	<u>(6.0%)</u>	<u>(7.0%)</u>	<u>(8.0%)</u>
Employer's proportionate share of the net pension asset (liability)	\$ (14,482,964)	\$ (4,534,710)	\$ 3,876,521
<u>TRS</u>	<u>(6.5%)</u>	<u>(7.5%)</u>	<u>(8.5%)</u>
Employer's proportionate share of the net pension asset (liability)	\$ (19,175,164)	\$ (1,469,668)	\$ 13,380,773

H. Pension Plan Fiduciary Net Position

The components of the current year net pension asset/(liability) of the employers as of the respective valuation dates, were as follows:

	(In Thousands)	
	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
Employers' total pension liability	\$ 177,400,586	\$ 108,577,184
Plan net position	168,004,363	107,506,142
Employers' net pension asset/(liability)	<u>\$ (9,396,223)</u>	<u>\$ (1,071,042)</u>
Ration of plan net position to the employers' total pension asset/(liability)	94.70%	99.01%

I. Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Accrued retirement contributions as of June 30, 2017 represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017 amounted to \$608,771.

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017 are paid to the System in September, October and November 2017 through a state aid intercept. Accrued retirement contributions as of June 30, 2017 represent employee and employer contributions for the fiscal year ended June 30, 2017 based on paid TRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2017 amounted to \$2,785,124.

XI. Postemployment Benefits

A. General Information About the OPEB Plan

Plan Description – The BOCES’s defined benefit OPEB plan, provides OPEB for all permanent full-time general and public safety employees of the BOCES. The plan is a single-employer defined benefit OPEB plan administered by the BOCES. 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 and life insurance benefits for retirees and their dependents. The benefit terms are dependent on which contract each 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 March 31, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	673
Active Employees	<u>783</u>
Total	<u><u>1,456</u></u>

B. Total OPEB Liability

The BOCES’s total OPEB liability of \$178,068,017 was measured as of March 31, 2017, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs – The total OPEB liability in the June 30, 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	N/A
Salary Increases	3.31 percent, average, including inflation
Discount Rate	3.8 percent
Healthcare Cost Trend Rates	5.2 percent for 2017, decreasing to an ultimate rate of 3.8% after 2050
Retirees' Share of Benefit-Related Costs	100 percent of projected health insurance premiums for most retirees

The discount rate was based on tax exempt, high quality 20-year tax exempt general obligation municipal bond yield or index rate.

Mortality rates were based on the 2015 New York Teachers Retirement System mortality base rates for service and deferred annuitants and beneficiaries, fully generational using Mortality Improvement Scale MP-2016 for retirees and surviving spouses.

(XI.) (Continued)

C. Changes in the Total OPEB Liability

Balance at June 30, 2016	<u>\$ 163,786,816</u>
<u>Changes for the Year -</u>	
Service cost	\$ 4,020,103
Interest	5,473,843
Changes of benefit terms	-
Differences between expected and actual experience	21,019,166
Changes in assumptions or other inputs	(11,823,305)
Benefit payments	<u>(4,408,606)</u>
Net Changes	<u>\$ 14,281,201</u>
Balance at June 30, 2017	<u>\$ 178,068,017</u>

Changes of benefit terms reflect updated premium information and other retirement and healthcare cost trend rate changes.

Changes of assumptions and other inputs reflect a change in the discount rate from 4.0 percent in 2016 to 3.35 percent effective July 1, 2016, and 3.8% for June 30, 2017.

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's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.8 percent) or 1-percentage-point higher (4.8 percent) than the current discount rate:

	1% Decrease	Discount	1% Increase
	<u>(2.8%)</u>	Rate	<u>(4.8%)</u>
		<u>(3.8%)</u>	
Total OPEB Liability	\$ 211,615,333	\$ 178,068,017	\$ 151,819,674

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's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (3.6 percent) or 1-percentage-point higher (5.6 percent) than the current healthcare cost trend rate:

	1% Decrease	Healthcare	1% Increase
	4.30%	Cost Trend Rates	6.30%
	Decreasing	5.30%	Decreasing
	to <u>3.17%</u>	Decreasing	to <u>5.17%</u>
		to <u>4.17%</u>	
Total OPEB Liability	\$ 147,005,292	\$ 178,068,017	\$ 221,471,058

(XI.) (Continued)

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

For the year ended June 30, 2017, the BOCES recognized OPEB expense of \$9,259,328. At June 30, 2017, the BOCES reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expensed and actual experience	\$ 19,036,226	\$ -
Changes of assumptions	-	10,707,899
Contributions after measurement date	1,102,152	-
Total	<u>\$ 20,138,378</u>	<u>\$ 10,707,899</u>

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

<u>Year</u>	
2018	\$ 867,534
2019	867,534
2020	867,534
2021	867,534
2022	867,534
Thereafter	<u>3,990,657</u>
Total	<u>\$ 8,328,327</u>

XII. Risk Management

A. General Information

The BOCES is exposed to various risks of loss related to injuries to employees, theft, damages, natural disasters, etc. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

(XII.) (Continued)

B. Health Plan

The BOCES incurs costs related to the Rochester Area School Health Plan (Plan I and Plan II) sponsored by the Board of Cooperative Educational Services, Second Supervisory district of Monroe and Orleans Counties and its component districts. The Plans objectives are to formulate, develop and administer a program of insurance to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Membership in the Plans may be offered to any Monroe County Districts with the unanimous approval of the Board of Directors. Voluntary withdrawal from the Plans may be effective only once annually on the last day of the Plans year as may be established by the Board of Directors. Notice of Intention to Withdraw must be given in writing to the Chairman of the Board of Directors and the Treasurer not less than thirty days prior to the end of the Plans year. Plan members bear an equal proportionate share of the Plans' assets and claim liabilities. Pursuant to the Municipal Cooperative Agreement the Plans are a risk sharing pool and all monies paid to the Treasurer shall be pooled and administered as a common fund. No refunds shall be made to a participant and no assessments are charged to a participant other than the annual premium equivalent. If surplus funds exist at the end of any fiscal year, the distribution of such funds shall be determined by the Board of Directors.

1. Plan I

This Plan's members include seventeen districts and two BOCES bearing an equal proportionate share of the Plan's assets and claim liabilities.

This Plan purchases, on an annual basis, stop-loss insurance policies to limit its exposure for claims paid within any one fiscal year.

This Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in a exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made. During the year ended June 30, 2017, the BOCES incurred premiums or contribution expenditures totaling \$1,081,810.

This Plan is audited on an annual basis and is available at the BOCES administrative offices. The most recent audit available for the year ended December 31, 2016, revealed that the Plan was fully funded.

2. Plan II

The Plan members include seventeen districts and two BOCES bearing an equal proportionate share of the Plan's assets and claim liabilities.

The Plan arrangement includes a pooling point to limit its exposure. The pooling point provides additional protection in the form of an experience credit in the subsequent year.

(XII.) (Continued)

The insurer will determine whether there is a deficit or a surplus for the Plan year. If a deficit occurs in a Plan year, the Insurer will fund payment of the deficit. If there is a surplus in the Plan year, the surplus may not be applied to off-set a deficit in a subsequent Plan year or Plan years. If a surplus occurs in a Plan year that follows the year in which a deficit occurred, the surplus may be applied to fund the deficit.

Any medical claims expenses that are not paid by the Insurer (either with Plan money representing the net premium or with the Insurer's money if a deficit occurred) during the term of the agreement with the Insurer, will be the financial responsibility of the Plan. If the Insurer is processing medical claims expenses during part or all of the 12-month period referred to above , it will pay those medical claims expenses provided that the Plan provides adequate funding for the medical claims expenses.

The administrative services that will be provided by the Insurer during the 12-month period referred to above will be provided for an additional charge determined by first dividing the Insurer administrative fee paid in the last Plan year by the total of the medical claims expenses paid during the last Plan year to determine an administrative cost percentage (the "Admin Percentage"). Then, for each medical claims expense paid during the subsequent 12-month period, the Plan will pay the Insurer an additional charge determined by multiplying the amount of the medical claims expense by the admin percentage. During the year ended June 30, 2017, the BOCES incurred premiums or contribution expenditures totaling \$11,578,360.

The Plan is audited on an annual basis and is available at the BOCES administrative offices. The most recent audit available for the year ended December 31, 2016 revealed that the Plan is fully funded.

C. Workers' Compensation

The BOCES incurs costs related to the Rochester Area School Workers' Compensation Plan (Plan) sponsored by the Board of Cooperative Educational Services, Second Supervisory District of Monroe and Orleans Counties and its component districts. The Plan's objectives are to furnish workers' compensation benefits to participating districts at a significant cost savings. Membership in the Plan may be offered to any component district of the Monroe #1 and Monroe #2 BOCES with the approval of the Board of Directors. Voluntary withdrawal from the Plan may be effective only once annually on the last day of the Plan year as may be established by the Board of Director. Notice of Intention to Withdraw must be given in writing to the Chairman of the Board of Directors and the Treasurer not less than one year prior to the end of the Plan year.

Plan membership is currently comprised of seventeen districts and two BOCES. If a surplus of participants' assessments exists after the close of a Plan year, the Board may retain from such surplus an amount sufficient to establish and maintain a claim contingency fund. Surplus funds in excess of the amount transferred to or included in such contingency fund shall be applied in reduction of the next annual assessment or to the billing of Plan participants. All monies paid to the Treasurer by participants shall be commingled and administered as a common fund. No refunds shall be made to a participant and no assessments are charged to a participant other than the annual premium equivalent. However, if it appears to the Board of Directors that the liabilities of the Plan will exceed its cash assets, after taking into account any "excess insurance", the Board shall determine the amount needed to meet such deficiency and shall assess such amount against all participants pro-rata per enrollee.

(XII.) (Continued)

The Plan purchases, on an annual basis, stop-loss insurance policies to limit its exposure for claims paid.

The Plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claims costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported.

Adjustments to claims liabilities are charged or credited to expenses in the periods in which they are made. During the year ended June 30, 2017, the BOCES incurred premiums or contribution expenditures totaling \$427,554.

The Plan is audited on an annual basis and is available at the BOCES administrative offices. The most recent audit available for the year ended June 30, 2016, revealed that the Plan was underfunded.

D. Dental Coverage

The BOCES self insures for dental coverage for its employees. The BOCES uses a third party administrator who is responsible for processing claims and estimating liabilities. The BOCES does not carry excess insurance coverage relative to this Plan. The BOCES records expenditures as claims are presented for payment in accordance with the BC/BS schedule of allowances. Liabilities are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

A reconciliation of the claims recorded for 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Beginning liabilities	\$ 381,131	\$ 279,338
Incurred claims	768,437	808,194
Claims payments	(712,141)	(675,902)
Administrative fee payments	(35,385)	(30,499)
Ending liabilities	<u>\$ 402,042</u>	<u>\$ 381,131</u>

The following statistical information is presented:

<u>Year</u>	<u>Contribution Revenue</u>	<u>Actual Claim Expense</u>
2017	\$ 733,051	\$ 712,141
2016	\$ 777,695	\$ 675,902
2015	\$ 728,800	\$ 657,673
2014	\$ 665,797	\$ 625,531
2013	\$ 596,346	\$ 601,237
2012	\$ 630,103	\$ 718,199
2011	\$ 620,660	\$ 648,720
2010	\$ 595,266	\$ 658,887
2009	\$ 547,366	\$ 660,483
2008	\$ 548,864	\$ 654,744
2007	\$ 520,527	\$ 598,605

(XII.) (Continued)

E. Unemployment

BOCES employees are entitled to coverage under the New York State Unemployment Insurance Law. The BOCES has elected to discharge its liability to the New York State Unemployment Insurance Fund (the Fund) by the benefit reimbursement method, a dollar-for-dollar reimbursement to the fund for benefits paid from the fund to former employees. The BOCES has established a self insurance fund to pay these claims. The claim and judgment expenditures of this program for the 2016-17 fiscal year totaled \$80,205. The balance of the fund at June 30, 2017 was \$412,268 and is recorded in the General Fund as an Unemployment Insurance Reserve. In addition, as of June 30, 2017, no loss contingencies existed or were considered probable or estimable for incurred but not reported claims payable.

XIII. Commitments and Contingencies

A. Litigation

There is one pending civil rights case filed against the District in which the outcome and any potential liability cannot be determined at this time. Also, a consultant has served BOCES with notice of claim after the consultant was served for breach of contract regarding the workers' compensation consortium. The outcome cannot be determined at this time.

B. Grants

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

XIV. Lease Commitments and Leased Assets

A. The BOCES leases various property and equipment under the terms of various non-cancelable leases. Rental expense for the various property and equipment was \$128,720.

Minimum annual rentals for each of the remaining years of the lease are as follows:

Year Ending		
	<u>June 30,</u>	<u>Amount</u>
	2018	\$ 132,455
	2019	\$ 120,967
	2020	\$ 66,915
	2021	\$ 64,831
	2022	\$ 62,104

B. The BOCES leases space under the terms of various non-cancelable leases. Rental expense for this space was \$2,118,206.

(XIV.) (Continued)

Minimum annual rentals for each of the remaining years of the lease are as follows:

Year Ending	
<u>June 30,</u>	<u>Amount</u>
2018	\$ 1,689,617
2019	1,256,248
2020	1,267,031
2021	734,108
2022	744,413
2023-25	<u>1,335,143</u>
Total	<u>\$ 7,026,560</u>

XV. Related Parties-Foundation

The Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans Counties has a relationship with the Monroe 2- Orleans Educational Foundation, Inc. whose purpose is to provide financial support for the educational programs of the Monroe 2- Orleans Board of Cooperative Educational Services including, but not limited to (1) non-budgetary funding acceptable to the BOCES and (2) educational and enrichment activities of the BOCES. The Board shall consist of not less than three or more than twenty one director's representative from the following: (1) Board of Education member from a component district, (2) Alumni of Monroe 2 – Orleans BOCES, (3) Individuals interested in supporting the objectives of the Foundation, (4) Individuals representative of the communities served by Monroe 2 – Orleans BOCES and (5) parents.

The Foundation does have an annual audit. The last audit completed was for the year ended June 30, 2016, and is on file at the administrative offices of the BOCES.

Required Supplemental Information
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
Schedule of Changes in the BOCES's Total OPEB Liability and Related Ratio
(Unaudited)
For Year Ended June 30, 2017

TOTAL OPEB LIABILITY	
	<u>2017</u>
Service cost	\$ 4,020,103
Interest	5,473,843
Differences between expected and actual experiences	21,019,166
Changes of assumptions or other inputs	(11,823,305)
Benefit payments	<u>(4,408,606)</u>
Net Change in Total OPEB Liability	\$ 14,281,201
Total OPEB Liability - Beginning	\$ <u>163,786,816</u>
Total OPEB Liability - Ending	\$ <u><u>178,068,017</u></u>
Covered Employee Payroll	\$ 31,415,006
Total OPEB Liability as a Percentage of Covered Employee Payroll	566.82%

Required Supplementary Information
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
Schedule of the BOCES's Proportionate Share of the Net Pension Liability
(Unaudited)
For Year Ended June 30, 2017

<u>NYSERS Pension Plan</u>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (assets)	0.0483%	0.0519%	0.0519%
Proportionate share of the net pension liability (assets)	\$ (4,534,710)	\$ (8,335,144)	\$ (1,754,768)
Covered-employee payroll	\$ 13,996,062	\$ 13,907,066	\$ 13,850,711
Proportionate share of the net pension liability (assets) as a percentage of its covered-employee payroll	32.400%	59.935%	12.669%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.70%	97.90%
<u>NYSTRS Pension Plan</u>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability (assets)	0.1372%	0.1327%	0.1248%
Proportionate share of the net pension liability (assets)	\$ (1,469,668)	\$ (13,779,918)	\$ (13,903,062)
Covered-employee payroll	\$ 21,503,618	\$ 21,174,208	\$ 19,928,448
Proportionate share of the net pension liability (assets) as a percentage of its covered-employee payroll	6.835%	65.079%	69.765%
Plan fiduciary net position as a percentage of the total pension liability	99.01%	110.46%	111.48%

Required Supplementary Information
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
Schedule of the BOCES's Proportionate Share of the Net Pension Liability
Schedule of BOCES Contributions
(Unaudited)
For Year Ended June 30, 2017

NYSERS Pension Plan Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 2,098,702	\$ 2,472,280	\$ 2,684,230
Contributions in relation to the contractually required contribution	<u>(2,098,702)</u>	<u>(2,472,280)</u>	<u>(2,684,230)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 13,996,062	\$ 13,907,066	\$ 13,850,711
Contributions as a percentage of covered-employee payroll	14.99%	17.78%	19.38%

NYSTRS Pension Plan Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contributions	\$ 2,807,700	\$ 3,493,457	\$ 2,995,913
Contributions in relation to the contractually required contribution	<u>(2,807,700)</u>	<u>(3,493,457)</u>	<u>(2,995,913)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 21,503,618	\$ 21,174,208	\$ 19,928,448
Contributions as a percentage of covered-employee payroll	13.06%	16.50%	15.03%

Required Supplemental Information
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund
(Unaudited)
For Year Ended June 30, 2017

<u>REVENUES</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Current Year's Revenues</u>	<u>Variance Favorable (Unfavorable)</u>
Administration 001-002	\$ 8,589,393	\$ 7,891,380	\$ 7,914,912	\$ 23,532
Career and Tech Education 100-199	7,602,249	7,714,931	7,717,458	2,527
Instruction for Handicapped 200-299	34,699,647	37,113,453	36,150,865	(962,588)
Itinerant 300-399	9,262,292	9,284,051	8,955,145	(328,906)
General Instruction 400-499	3,101,787	3,480,286	3,218,816	(261,470)
Instructional Support 500-599	12,111,663	19,453,078	18,884,958	(568,120)
Other Services 600-699	8,491,955	11,033,760	10,966,072	(67,688)
TOTAL REVENUES	<u>\$ 83,858,986</u>	<u>\$ 95,970,939</u>	<u>\$ 93,808,226</u>	<u>\$ (2,162,713)</u>

Required Supplemental Information
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund
(Unaudited)
For Year Ended June 30, 2017

<u>EXPENDITURES</u>	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Current Year's Expenditures</u>	<u>Encumbrances</u>	<u>Variance Favorable (Unfavorable)</u>
Administration 001-002	\$ 8,589,393	\$ 7,891,380	\$ 7,804,351	\$ 23,386	\$ 63,643
Career and Tech Education					
100-199	7,602,249	7,714,931	7,125,427	386,012	203,492
Instruction for Handicapped					
200-299	34,699,647	37,113,453	35,445,343	46,249	1,621,861
Itinerant 300-399	9,262,292	9,284,051	5,411,905	53,885	3,818,261
General Instruction					
400-499	3,101,787	3,480,286	3,231,836	13,436	235,014
Instructional Support					
500-599	12,111,663	19,453,078	16,528,340	1,037,045	1,887,693
Other Services					
600-699	<u>8,491,955</u>	<u>11,033,760</u>	<u>10,400,613</u>	<u>239,588</u>	<u>393,559</u>
TOTAL EXPENDITURES	<u>\$ 83,858,986</u>	<u>\$ 95,970,939</u>	<u>\$ 85,947,815</u>	<u>\$ 1,799,601</u>	<u>\$ 8,223,523</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,860,411</u>		

Note to Required Supplementary Information:

A reconciliation is not necessary since encumbrances are presented in a separate column on this schedule.

BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
Analysis of Account A431 - School Districts
For Year Ended June 30, 2017

	2017
July 1, 2016 - DEBIT (CREDIT) BALANCE	\$ (949,354)
DEBITS:	
Billings to school districts	\$ 92,216,096
Refund of balances made to school districts	5,872,245
Encumbrances - June 30, 2017	1,799,601
Total Debits	\$ 99,887,942
TOTAL	\$ 98,938,588
 CREDITS:	
Collections from school districts	\$ 92,451,702
Adjustment - credits to school districts - revenues in excess of expenditures	7,860,629
Other Adjustments - Refunds	(218)
Encumbrances - June 30, 2016	922,498
Total Credits	\$ 101,234,611
 JUNE 30, 2017 - DEBIT (CREDIT) BALANCE	 \$ (2,296,023)

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES**

SCHEDULE OF CAPITAL PROJECTS FUND

PROJECT EXPENDITURES AND FINANCING RESOURCES

JUNE 30, 2017

<u>Project Title</u>	<u>Original Appropriation</u>	<u>Revised Appropriation</u>	<u>Expenditures</u>			<u>Unexpended Authorization</u>	<u>Methods of Financing</u>			<u>Fund Balance</u>
			<u>Prior Year's</u>	<u>Current Year</u>	<u>Total</u>		<u>Local Sources</u>	<u>District Billings</u>	<u>Total</u>	
CTE - North Renovation 2012-2013	\$ 1,200,000	\$ 1,200,000	\$ 986,064	\$ -	\$ 986,064	\$ 213,936	\$ 1,200,000	\$ -	\$ 1,200,000	\$ 213,936
CTE - North Renovation 2013-2014	352,000	352,000	191,407	-	191,407	160,593	352,000	-	352,000	160,593
CTE - South Renovation 2013-2014	145,000	145,000	51,062	-	51,062	93,938	145,000	-	145,000	93,938
CTE - North Renovation 2015-16	12,984,000	12,984,000	1,759,735	4,351,729	6,111,464	6,872,536	-	9,496,244	9,496,244	3,384,780
CTE - South Renovation 2015-16	6,163,600	6,163,600	-	401,056	401,056	5,762,544	-	1,659,886	1,659,886	1,258,830
Administration renovation addition	10,083,500	10,083,500	-	7,052,068	7,052,068	3,031,432	-	5,895,885	5,895,885	(1,156,183)
Unassigned	-	-	-	-	-	-	1,149,947	-	1,149,947	1,149,947
Total	\$ 30,928,100	\$ 30,928,100	\$ 2,988,268	\$ 11,804,853	\$ 14,793,121	\$ 16,134,979	\$ 2,846,947	\$ 17,052,015	\$ 19,898,962	\$ 5,105,841

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
SECOND SUPERVISORY DISTRICT OF MONROE AND ORLEANS COUNTIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Grantor / Pass - Through Agency</u>	<u>CFDA</u>	<u>Grantor</u>	<u>Pass-Through</u> <u>Agency</u>	<u>Total</u>
<u>Federal Award Cluster / Program</u>	<u>Number</u>	<u>Number</u>	<u>Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education:</u>				
<u>Direct Programs:</u>				
<u>Student Financial Assistance Program Cluster -</u>				
Federal Pell Grant Program	84.063	N/A	N/A	\$ 278,135
Federal Direct Student Loans	84.268	N/A	N/A	352,335
<i>Total Student Financial Assistance Program Cluster</i>				\$ 630,470
Total Direct Programs				\$ 630,470
<u>Indirect Programs:</u>				
<u>Passed Through NYS Education Department -</u>				
<u>Special Education Cluster -</u>				
Regional Spec. Ed. Tech. Asst. Support	84.027	N/A	C012210	\$ 140,178
IDEA Part B Discretionary	84.027	N/A	0031-17-0017	201,476
<i>Total Special Education Cluster</i>				\$ 341,654
VATEA II - Perkins Grant	84.048	N/A	8000-17-0044	132,476
ARRA - Ed. For Homeless Children and Youth	84.196	N/A	0212-17-3012	21,953
Total Indirect Programs				\$ 496,083
Total U.S. Department of Education				\$ 1,126,553
<u>U.S. Department of Agriculture:</u>				
<u>Indirect Programs:</u>				
<u>Passed through NYS Office of Temporary and Disability Insurance -</u>				
Food Stamp Employment and Training	10.561	N/A	C021546	\$ 3,400
Total U.S. Department of Agriculture				\$ 3,400
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 1,129,953

Raymond F. Wager, CPA, P.C.
Certified Public Accountants

Shareholders:

Raymond F. Wager, CPA
Thomas J. Lauffer, CPA
Thomas C. Zuber, CPA

Members of
American Institute of
Certified Public Accountants
and
New York State Society of
Certified Public Accountants

**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***

Independent Auditors' Report

To the Board Members
Board of Cooperative Educational Services
Second Supervisory District of Monroe and Orleans Counties, New York

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 Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans, Counties, New York, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans, Counties, New York's basic financial statements, and have issued our report thereon dated September 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans, Counties, New York's internal control over financial reporting 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 Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans, Counties, New York's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans, Counties, New York's 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 BOCES 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board of Cooperative Educational Services Second Supervisory District of Monroe and Orleans Counties, New York's 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 BOCES' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BOCES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



September 26, 2017