

**BOARD OF COOPERATIVE
EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF
ERIE COUNTY**

FINANCIAL STATEMENTS

JUNE 30, 2017

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

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INDEPENDENT AUDITORS' REPORT

The Board of Education
Board of Cooperative Educational Services
First Supervisory District of Erie County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of Board of Cooperative Educational Services First Supervisory District of Erie County (BOCES) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 remaining fund information of BOCES as of June 30, 2017, and the respective changes in financial position and budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2017, BOCES adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and other required supplementary information as listed in the table of contents be presented to supplement the 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 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 financial statements, and other knowledge we obtained during our audit of the 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise BOCES' basic financial statements. The accompanying supplementary information as listed in the table of contents, including the schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information including the schedule of expenditures of federal awards is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 supplementary information including the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 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 December 13, 2017 on our consideration of BOCES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 BOCES' internal control over financial reporting and compliance.

Lumsden & McCormick, LLP

December 13, 2017

BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY
Management's Discussion and Analysis
June 30, 2017
Unaudited

Introduction

Management's Discussion and Analysis (MD&A) of Board of Cooperative Educational Services First Supervisory District of Erie County (BOCES) provides an overview of BOCES' financial activities and performance for the year ended June 30, 2017. The information contained in the MD&A should be considered in conjunction with the information presented as part of BOCES' financial statements that follow. This MD&A, the financial statements, and notes thereto are essential to obtaining a full understanding of BOCES' financial position and results of operations. BOCES' financial statements have the following components: (1) government-wide financial statements, (2) governmental fund financial statements, (3) reconciliations between the government-wide and governmental fund financial statements, (4) agency fund statements, (5) notes to the financial statements, and (6) supplementary information.

The government-wide financial statements are designed to provide readers with a broad overview of BOCES' finances in a manner similar to a private-sector business. In 2017, BOCES adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The results of this statement include recognizing a total OPEB liability and related deferred outflows and deferred inflows of resources. The cumulative effect of implementing this required change in accounting principle resulted in a restatement of beginning net position as detailed in Note 2 to the financial statements. The comparative data in the MD&A for 2016 has not been restated.

The statement of net position presents information on all of BOCES' assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the net difference reported as net position. The statement of activities presents information showing how BOCES' net position changed during each 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 the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future periods. The government-wide financial statements present information about BOCES as a whole. All of the activities of BOCES are considered to be governmental activities.

Governmental fund financial statements focus on near-term inflows and outflows of resources, as well as on balances of resources available at the end of the year. Such information may be useful in evaluating BOCES' near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of BOCES' near-term financing decisions. The reconciliation portion of the financial statements facilitates the comparison between governmental funds and governmental activities.

Agency funds are used to account for resources held for the benefit of parties outside BOCES. Agency funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support BOCES' programs. The notes to the financial statements provide additional information that is essential for a full understanding of the government-wide and governmental fund financial statements.

Supplementary information further explains and supports the financial statements and includes information required by generally accepted accounting principles and the New York State Department of Education.

Condensed Statement of Net Position	2017	2016	Change	
			\$	%
Current assets	\$ 48,088,000	\$ 44,001,000	\$ 4,087,000	9.3%
Net pension asset	-	17,784,000	(17,784,000)	-100.0%
Capital assets	73,188,000	68,540,000	4,648,000	6.8%
Total assets	121,276,000	130,325,000	(9,049,000)	-6.9%
Deferred outflows of resources	25,888,000	19,671,000	6,217,000	31.6%
Long-term liabilities	48,753,000	44,687,000	4,066,000	9.1%
Other liabilities	31,857,000	27,791,000	4,066,000	14.6%
Total liabilities	80,610,000	72,478,000	8,132,000	11.2%
Deferred inflows of resources	2,270,000	8,087,000	(5,817,000)	-71.9%
Net position				
Net investment in capital assets	51,409,000	52,533,000	(1,124,000)	-2.1%
Restricted	8,877,000	8,536,000	341,000	4.0%
Unrestricted	3,998,000	8,362,000	(4,364,000)	52.2%
Total net position	\$ 64,284,000	\$ 69,431,000	\$ (5,147,000)	-7.4%

Net position amounted to \$64,284,000 and \$69,431,000 as of June 30, 2017 and 2016. The largest portion of BOCES' net position reflects its investment in capital assets consisting of land, buildings and improvements, and technology and equipment, less related amounts owed on installment purchase agreements. BOCES uses capital assets to provide services to students and component and non-component districts; consequently, these assets are not available for future spending.

BOCES' net position includes resources that are subject to external restrictions on how they may be used. These reserves are set aside for specific purposes governed by statutory law and commissioner's regulations and include the employee benefit accrued liability reserve, which must be used to pay future accumulated sick and vacation time earned, the retirement contribution reserve, which is used for contributions to the New York State and Local Employees' Retirement System (ERS), and reserves for unemployment and workers' compensation insurance.

Current assets increased \$4,087,000 (increase of \$1,276,000 or 3.0% in 2016). These balances consist of cash and receivables from other governments and third parties. The changes in individual account balances reflect timing of cash flows and the impact of BOCES' current year operating results. Capital assets increased \$4,648,000 (increase of \$3,807,000 or 5.9% in 2016) due to technology and equipment purchases in excess of depreciation expense and disposals.

The increase in long-term liabilities of \$4,066,000 (increase of \$13,350,000 or 42.6% in 2016) is due to an increase in installment purchase agreements of \$15,393,000 offset by installment purchase payments of \$9,622,000 and an increase in the total OPEB liability of \$2,693,000 due to the required recognition of GASB 75. Other liabilities increased \$4,066,000 (\$25,000 increase in 2016) due to the timing of payments at year end which resulted in an increase in accounts payable.

Changes of assumptions in the New York State Teachers' Retirement System (TRS), specifically reducing the discount rate from 8.0% to 7.5%, changed the 2016 net pension asset of \$17,784,000 to a liability of \$1,841,000. This change accompanied by a decrease in the net pension liability for the New York State and Local Employees' Retirement System (ERS) of \$6,358,000 resulted in a total net pension liability decrease of \$4,517,000.

Changes in deferred outflows and deferred inflows of resources reflect changes in pension activity at the State level which is required to be reflected on BOCES' financial statements. Deferred outflows of resources include contributions required to be paid by BOCES to the State pension systems after the measurement date, and as such are not included in current net pension position. Deferred outflows of resources and deferred inflows of resources also reflect variances from actuarial assumptions, actual results of investment earnings compared to projected earnings, and changes of assumptions. BOCES has no control or authority over these transactions.

Condensed Statement of Activities	2017	2016	Change	
			\$	%
Revenues				
Charges for services	\$ 157,898,000	\$ 146,351,000	\$ 11,547,000	7.9%
Operating grants and contributions	11,242,000	13,346,000	(2,104,000)	-15.8%
Capital grants and contributions	400,000	400,000	-	0.0%
Interest	37,000	15,000	22,000	146.7%
Gain (loss) on disposal of assets	(95,000)	27,000	(122,000)	-451.9%
Total revenue	169,482,000	160,139,000	9,343,000	5.8%
Expenses				
Administration	6,758,000	6,388,000	370,000	5.8%
Occupational education	25,083,000	24,034,000	1,049,000	4.4%
Instruction for special education	22,940,000	23,305,000	(365,000)	-1.6%
Itinerant services	7,844,000	7,893,000	(49,000)	-0.6%
General instruction	6,611,000	6,218,000	393,000	6.3%
Instructional support	44,500,000	30,966,000	13,534,000	43.7%
Other services	58,404,000	53,207,000	5,197,000	9.8%
Total expenses	172,140,000	152,011,000	20,129,000	13.2%
Change in net position	(2,658,000)	8,128,000	(10,786,000)	-132.7%
Net position - beginning	69,431,000	61,303,000	8,128,000	13.3%
Restatement - GASB 75	(2,489,000)			
Net position - ending	\$ 64,284,000	\$ 69,431,000	\$ (5,147,000)	-7.4%

BOCES' revenues increased by \$9,343,000 (5.0% or \$7,685,000 increase in 2016). Fluctuations in revenue categories are the result of districts choosing to enlist more or less services and purchase more or less equipment from BOCES. These decisions are made annually based on equipment needs and whether BOCES-provided or district-provided services are deemed to be more cost effective by each district. Operating grants and contributions decreased \$2,104,000 (increase of \$729,000 or 5.8% in 2016) due to a decrease in federal grants, specifically the Race-to-the-Top incentive grants. Charges for services increased \$11,547,000 (increase of \$6,765,000 or 4.8% in 2016) mainly as a result of increases in services requested by component and non-component districts, specifically computer management and occupational education services.

Total expenses on a full accrual basis increased \$20,129,000 (increase of \$13,280,000 or 9.6% in 2016). The increase in expenses is due in part to an increase in services requested by the component and non-component districts. In addition, depreciation expense allocated to the expense categories increased \$1,693,000 due to the number of technology purchases in the past year. BOCES recognized \$9,120,000 of pension expense in 2017 (\$4,891,000 in 2016) due to the decrease in the discount rate by TRS. Pension expense is allocated across all expense categories as a function of payroll.

Financial Analysis of BOCES' Funds

Total fund balances for the governmental funds increased from \$16,210,000 to \$16,230,000 as described below:

- BOCES' general fund revenue increased \$12,476,000 or 8.6% and general fund expenditures increased \$13,811,000 or 10.1% (\$1,695,000 or 1.3% increase in 2016) and (\$8,966,000 or 6.6% increase in 2016) mainly due to an increase in services provided to component and non-component districts related to occupational education and computer management services.
- Revenue in the special aid fund decreased \$1,955,000 or 9.8% (increase of \$135,000 or 0.7% in 2016) due to the phase out of the Race-to-the-Top federal grant.
- Payroll increased \$309,000 or 0.5% (increase of \$1,728,000 or 3.1% in 2016). Rate increases as stipulated by collective bargaining agreements and the hiring of new employees were offset by retirements prior to the start of 2017.
- BOCES refunded \$6,423,000 in general fund surplus to the component districts in 2017 compared to \$5,375,000 in 2016, and increased reserves by \$341,000 compared to \$1,837,000 in the prior year.

General Fund Budgetary Highlights

The final budgeted revenue equaled \$157,011,000 due to adjustments BOCES made throughout the year. Actual revenue totaled \$157,782,000 resulting in a positive variance of \$771,000. The final general fund expenditure budget was \$160,814,000, which is \$5,993,000 or 3.7% more than actual expenditures and carryover encumbrances. The largest variances were in other services, itinerant services, and instructional support.

Capital Assets

	2017	2016
Land	\$ 300,000	\$ 300,000
Construction in progress	574,000	251,000
Buildings and improvements	36,190,000	35,985,000
Technology and equipment	126,192,000	107,806,000
	<u>163,256,000</u>	<u>144,342,000</u>
Accumulated depreciation	(90,068,000)	(75,802,000)
	<u>\$ 73,188,000</u>	<u>\$ 68,540,000</u>

Current year additions of \$21,548,000, which consisted mainly of technology purchases, were offset by depreciation expense and disposals of \$16,900,000.

Debt

At June 30, 2017, BOCES had \$21,779,000 of outstanding installment purchase agreements, with \$8,250,000 due within one year (\$16,008,000 outstanding in 2016). Outstanding compensated absences were \$11,670,000 (\$11,551,000 in 2016) with \$1,167,000 estimated to be paid within one year.

Additional information on BOCES' long-term liabilities can be found in the notes to the financial statements.

Current Financial Issues and Concerns

BOCES continues to strive to achieve financial stability in the face of national and state financial uncertainty. School districts are faced with their own financial challenges which may result in fluctuations in the requests for BOCES services. Management monitors program budgets throughout the year and reduces services and cuts costs based on revenue projections and the requests of school districts.

Contribution rates to TRS and ERS remain high. The higher than perhaps required funding rates put a strain on budgets and monies available for educational needs.

Contacting BOCES' Financial Management

This financial report is designed to provide our citizens, investors, creditors, and component districts with a general overview of BOCES' finances and to demonstrate BOCES' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deanna Schettine, Business Administrator, Erie 1 BOCES, 355 Harlem Road, West Seneca, New York 14224.

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

Statement of Net Position

June 30, 2017

(With comparative totals as of June 30, 2016)

	2017	2016
Assets		
Cash	\$ 12,971,546	\$ 14,735,012
Due from school districts	17,146,389	10,876,921
Accounts receivable	1,764,799	1,331,585
State and federal aid receivable	15,406,682	15,837,317
Due from fiduciary funds	798,327	1,220,258
Net pension asset	-	17,783,588
Capital assets (Note 5)	163,256,692	144,341,891
Accumulated depreciation	(90,068,267)	(75,801,534)
Total assets	121,276,168	130,325,038
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	25,496,698	19,670,624
Deferred outflows of resources related to OPEB	391,212	-
Total deferred outflows of resources	25,887,910	19,670,624
Liabilities		
Accounts payable	4,839,586	1,399,539
Accrued liabilities	691,778	1,175,090
State aid due to school districts	12,816,089	13,024,279
Refunds to component school districts	8,757,774	7,085,553
Due to retirement systems	4,269,825	4,644,929
Due to other governments	243,937	243,970
Unearned revenue	238,472	217,772
Long-term liabilities		
Due within one year:		
Installment purchase agreements	8,249,520	6,660,671
Compensated absences	1,167,000	1,155,000
Due beyond one year:		
Installment purchase agreements	13,529,741	9,346,940
Compensated absences	10,503,000	10,396,000
Net pension liability	12,122,678	16,640,085
Total OPEB liability	3,181,640	488,475
Total liabilities	80,611,040	72,478,303
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	2,200,637	8,086,749
Deferred inflows of resources related to OPEB	68,784	-
Total deferred inflows of resources	2,269,421	8,086,749
Net Position		
Net investment in capital assets	51,409,164	52,532,746
Restricted	8,877,006	8,535,700
Unrestricted	3,997,447	8,362,164
Total net position	\$ 64,283,617	\$ 69,430,610

See accompanying notes.

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

Statement of Activities

For the year ended June 30, 2017

(With summarized comparative totals for June 30, 2016)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2017	2016
Governmental activities						
Administration	\$ 6,758,166	\$ 6,094,340	\$ -	\$ 400,000	\$ (263,826)	\$ (126,552)
Occupational education	25,083,034	16,253,401	7,671,025	-	(1,158,608)	(1,455,982)
Instruction for special education	22,940,310	17,833,792	3,294,577	-	(1,811,941)	(1,664,796)
Itinerant services	7,843,861	7,401,788	-	-	(442,073)	(640,087)
General instruction	6,611,149	5,967,554	-	-	(643,595)	(536,297)
Instructional support	44,499,744	50,827,086	276,302	-	6,603,644	7,875,018
Other services	58,403,834	53,520,145	-	-	(4,883,689)	4,633,738
	<u>\$ 172,140,098</u>	<u>\$ 157,898,106</u>	<u>\$ 11,241,904</u>	<u>\$ 400,000</u>	<u>(2,600,088)</u>	<u>8,085,042</u>
General revenues						
					36,634	15,470
					(94,980)	27,071
					<u>(58,346)</u>	<u>42,541</u>
Change in net position						
					(2,658,434)	8,127,583
Net position - beginning						
					69,430,610	61,303,027
					(2,488,559)	
					<u>66,942,051</u>	<u>61,303,027</u>
Net position - beginning, as restated (Note 2)						
Net position - ending						
					<u>\$ 64,283,617</u>	<u>\$ 69,430,610</u>

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

Balance Sheet - Governmental Funds

June 30, 2017

(with summarized comparative totals as of June 30, 2016)

	General	Special Aid	Capital Projects	Total Governmental Funds	
				2017	2016
Assets					
Cash	\$ 12,594,466	\$ 191,947	\$ 185,133	\$ 12,971,546	\$ 14,735,012
Due from school districts	16,820,507	325,882	-	17,146,389	10,876,921
Accounts receivable	249,585	1,515,214	-	1,764,799	1,331,585
State and federal aid receivable	12,817,168	2,589,514	-	15,406,682	15,837,317
Due from other funds	1,644,434	-	-	1,644,434	1,993,045
Total assets	\$ 44,126,160	\$ 4,622,557	\$ 185,133	\$ 48,933,850	\$ 44,773,880
Liabilities and Fund Balances					
Accounts payable	\$ 4,407,420	\$ 432,166	\$ -	\$ 4,839,586	\$ 1,399,539
Accrued liabilities	580,317	111,461	-	691,778	1,175,090
State aid due to school districts	12,816,089	-	-	12,816,089	13,024,279
Refunds to component school districts	8,757,774	-	-	8,757,774	7,085,553
Due to retirement systems	4,269,825	-	-	4,269,825	4,644,929
Due to other funds	-	836,944	9,163	846,107	772,787
Due to other governments	-	243,937	-	243,937	243,970
Unearned revenue	35,000	203,472	-	238,472	217,772
Total liabilities	30,866,425	1,827,980	9,163	32,703,568	28,563,919
Fund Balances					
Restricted:					
Employee benefit accrued liability	6,718,817	-	-	6,718,817	6,044,319
Workers' compensation	548,232	-	-	548,232	372,147
Retirement contribution	859,816	-	-	859,816	1,087,596
Unemployment insurance	750,141	-	-	750,141	1,031,638
Assigned:					
Other purposes	4,382,729	2,794,577	175,970	7,353,276	7,674,261
Total fund balances	13,259,735	2,794,577	175,970	16,230,282	16,209,961
Total liabilities and fund balances	\$ 44,126,160	\$ 4,622,557	\$ 185,133	\$ 48,933,850	\$ 44,773,880

See accompanying notes.

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position**

June 30, 2017

Total fund balances - governmental funds \$ 16,230,282

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 as assets in governmental funds. 73,188,425

BOCES' proportionate share of net pension liabilities as well as pension-related deferred outflows and deferred inflows of resources are recognized on the government-wide statements and include:

Deferred outflows of resources related to pensions	25,496,698	
Net pension liability	(12,122,678)	
Deferred inflows of resources related to pensions	<u>(2,200,637)</u>	11,173,383

BOCES' total OPEB liability as well as OPEB-related deferred outflows and deferred inflows of resources are recognized on the government-wide statements and include:

Deferred outflows of resources related to OPEB	391,212	
Total OPEB liability	(3,181,640)	
Deferred inflows of resources related to OPEB	<u>(68,784)</u>	(2,859,212)

Certain liabilities are not due and payable currently and therefore are not reported as liabilities of the governmental funds. These liabilities are:

Installment purchase agreements	(21,779,261)	
Compensated absences	<u>(11,670,000)</u>	(33,449,261)

Net position - governmental activities \$ 64,283,617

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds**

For the year ended June 30, 2017
(with summarized comparative totals for June 30, 2016)

	General	Special Aid	Capital Projects	Total Governmental Funds	
				2017	2016
Revenues					
Charges to components	\$ 83,610,272	\$ 2,368,767	\$ -	\$ 85,979,039	\$ 80,117,824
Charges to non-components and other BOCES	69,534,287	81,957	-	69,616,244	61,912,339
Charges for services	155,789	4,346,260	-	4,502,049	4,322,377
Capital contributions from components	-	-	400,000	400,000	400,000
Use of money and property	103,728	-	394	104,122	39,297
Sale of property and compensation for loss	221,733	-	-	221,733	212,220
Miscellaneous	4,156,169	144,245	-	4,300,414	5,976,831
State sources	-	9,366,706	-	9,366,706	8,478,756
Federal sources	-	1,730,953	-	1,730,953	4,239,949
Total revenues	157,781,978	18,038,888	400,394	176,221,260	165,699,593
Expenditures					
Administration	6,087,446	-	-	6,087,446	5,741,478
Occupational education	15,682,958	7,671,025	-	23,353,983	22,327,336
Instruction for special education	17,696,593	3,294,577	-	20,991,170	20,067,412
Itinerant services	7,065,613	-	-	7,065,613	7,098,716
General instruction	5,957,383	-	-	5,957,383	5,612,957
Instructional support	46,927,459	4,823,969	-	51,751,428	40,292,709
Other services	51,020,650	3,009,744	-	54,030,394	56,239,721
Capital outlay	-	-	15,933,966	15,933,966	8,195,216
Total expenditures	150,438,102	18,799,315	15,933,966	185,171,383	165,575,545
Excess revenues (expenditures)	7,343,876	(760,427)	(15,533,572)	(8,950,123)	124,048
Other financing sources (uses)					
Equipment from installment purchases	-	-	15,393,327	15,393,327	7,826,255
Refunds to component school districts	(6,422,883)	-	-	(6,422,883)	(6,698,893)
Total other financing sources (uses)	(6,422,883)	-	15,393,327	8,970,444	1,127,362
Net change in fund balances	920,993	(760,427)	(140,245)	20,321	1,251,410
Fund balances - beginning	12,338,742	3,555,004	316,215	16,209,961	14,958,551
Fund balances - ending	\$ 13,259,735	\$ 2,794,577	\$ 175,970	\$ 16,230,282	\$ 16,209,961

See accompanying notes.

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the Statement of Activities**

For the year ended June 30, 2017

Total net change in fund balances - governmental funds	\$ 20,321
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. In the statement of activities, the cost of the assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation expense and disposals.	4,648,068
Capital assets acquired through installment purchase agreements are reported as other financing sources in the governmental funds but increase long-term liabilities in the statement of net position.	(15,393,327)
Principal payments on installment purchase agreements are reported as expenditures in the governmental funds and as a reduction of debt in the statement of net position.	9,621,677
Pension expense is recognized when paid on the fund statement of revenues, expenditures, and changes in fund balance and actuarially determined on the statement of activities. These differences are:	
2017 TRS and ERS contributions	7,568,645
2017 ERS accrued contribution	1,023,390
2016 ERS accrued contribution	(1,025,793)
2017 TRS net pension expense	(3,095,931)
2017 ERS net pension expense	<u>(6,024,306)</u>
	(1,553,995)
OPEB expense is recognized when paid on the fund statement of revenues, expenditures, and changes in fund balances and actuarially determined on the statement of activities.	117,822
In the statement of activities, compensated absences expenses are measured by the amounts earned during the year. In the governmental funds these expenditures are reported as paid.	<u>(119,000)</u>
Change in net position - governmental activities	<u>\$ (2,658,434)</u>

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Statement of Revenues, Expenditures, and Changes in
Fund Balance Budget (Non-GAAP) and Actual - General Fund**

For the year ended June 30, 2017

	Budgeted Amounts		Actual	Encumbrances	Variance with
	Original	Final	(Budgetary Basis)		Final Budget Over/(Under)
Revenues					
Charges to components	\$ 71,907,592	\$ 89,422,103	\$ 83,610,272		\$ (5,811,831)
Charges to non-components and other BOCES	49,904,646	67,365,997	69,534,287		2,168,290
Charges for services	10,000	10,000	155,789		145,789
Use of money and property	170,000	170,000	103,728		(66,272)
Sale of property and compensation for loss	-	-	221,733		221,733
Miscellaneous	43,000	43,000	4,156,169		4,113,169
Total revenues	122,035,238	157,011,100	157,781,978		770,878
Expenditures					
Administration	6,232,236	6,681,332	6,087,446	143,477	(450,409)
Occupational education	16,566,240	16,940,444	15,682,958	782,580	(474,906)
Instruction for special education	17,070,516	18,247,154	17,696,593	97,160	(453,401)
Itinerant services	7,473,664	7,912,765	7,065,613	148,642	(698,510)
General instruction	4,524,788	6,275,454	5,957,383	9,813	(308,258)
Instructional support	29,277,970	48,345,555	46,927,459	793,599	(624,497)
Other services	44,692,866	56,411,438	51,020,650	2,407,458	(2,983,330)
Total expenditures	125,838,280	160,814,142	150,438,102	4,382,729	(5,993,311)
Excess revenues (expenditures)	(3,803,042)	(3,803,042)	7,343,876	(4,382,729)	6,764,189
Other financing sources (uses)					
Carryover encumbrances	3,803,042	3,803,042	-		(3,803,042)
Refunds to component school districts	-	-	(6,422,883)		6,422,883
Total other financing sources (uses)	3,803,042	3,803,042	(6,422,883)		(10,225,925)
Excess revenues (expenditures) and other financing sources (uses)	\$ -	\$ -	\$ 920,993	\$ (4,382,729)	\$ (3,461,736)

See accompanying notes.

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

Statement of Fiduciary Net Position

June 30, 2017

	<u>Agency</u>
Assets	
Cash	\$ 934,556
Liabilities	
Due to governmental funds	\$ 798,327
Extraclassroom activities balances	10,463
Agency liabilities	125,766
Total liabilities	<u>\$ 934,556</u>

BOARD OF COOPERATIVE EDUCATIONAL SERVICES FIRST SUPERVISORY DISTRICT OF ERIE COUNTY

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Reporting Entity

Board of Cooperative Educational Services First Supervisory District of Erie County (BOCES) is governed by Education and other laws of the State of New York (the State). BOCES is an independent entity governed by an elected Board consisting of 7 members. BOCES' Superintendent is the chief executive officer and the President of the Board serves as the chief fiscal officer. The Board is responsible for and controls all activities related to public school education within BOCES. Board members have decision-making authority, the power to designate management, the ability to influence operations, and the primary accountability for fiscal matters.

Boards of Cooperative Educational Services were established by 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 boards of cooperative educational services to provide vocational and special education. Boards of cooperative educational services are voluntary, cooperative associations 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 19 school districts in the State's First Supervisory District of Erie County:

Akron	Cleveland Hill	Lancaster
Alden	Depew	Lackawanna
Amherst	Frontier	Sweet Home
Cheektowaga	Grand Island	Tonawanda
Cheektowaga-Maryvale	Kenmore-Town of Tonawanda	West Seneca
Cheektowaga-Sloan	Hamburg	Williamsville
Clarence		

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

BOCES receives funding from local, state, and federal sources and must comply with requirements of these funding sources. However, BOCES is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America nor does it contain any component units. School districts maintain autonomous boards, budgets, and operations and are therefore not considered component units of BOCES.

The financial statements of 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 BOCES' accounting policies are described below.

Public Entity Risk Pools

BOCES participates in and administers the NY44 Health Benefits Plan Trust and the Erie #1 Self-Funded Workers' Compensation Consortium, which are public entity risk pools. These plans are designed to provide health insurance and workers' compensation coverage for participating entities. These activities are further discussed in Note 10.

Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display financial activities of the overall BOCES, except for fiduciary activities. Eliminations have been made to minimize double counting of internal activities. These statements are required to distinguish between *governmental* and *business-type* activities of BOCES. Governmental activities generally are financed through state aid, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. BOCES does not maintain any business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of BOCES' governmental activities.

- Direct expenses are those that are specifically associated with a program or are clearly identifiable to a particular function. Indirect expenses relate to the administration and support of BOCES' programs, including personnel, overall administration, and finance. All indirect expenses, including employee benefits, are allocated directly to functional areas on both the government-wide and governmental fund statements.
- Program revenues include (a) charges paid primarily by component school districts for goods or services and administrative support, (b) grants and contributions that are restricted to meeting the operational requirements of a particular program, and (c) capital grants and contributions limited to the purchase or construction of specific capital assets. Revenues that are not classified as program revenues, including interest earnings, property transactions, and miscellaneous income, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about BOCES' funds, including fiduciary funds. Separate statements for each fund category - *governmental and fiduciary* - are presented. The emphasis of the fund financial statements is on major governmental funds, each displayed in a separate column.

BOCES reports the following major funds:

- *General fund.* This is BOCES' primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
- *Special aid fund.* This fund is used to account for the proceeds of specific revenue sources – other than expendable trusts or major capital projects – such as federal, state, and local grants and awards that are restricted, committed, or assigned to expenditure for specific purposes. Either governments or other third parties providing the grant funds impose these restrictions.

BOCES also elected to display the following as a major fund:

- *Capital projects fund.* This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

BOCES reports the following fiduciary fund:

- *Agency fund.* This fund accounts for assets held by BOCES as agent for various student groups and clubs, payroll, and employee third-party withholdings. The agency fund is custodial in nature and does not involve measurement of results of operations.

The financial statements include certain prior year summarized comparative information in total but not by separate governmental activities and major funds. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with BOCES' financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Basis of Accounting and Measurement Focus

The government-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 flows take place. Nonexchange transactions, in which BOCES receives value directly without giving equal value in exchange, include grants and donations. Revenue is recognized in the period the service is rendered. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds 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. BOCES considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year end. Expenditures are recorded when the related fund liability is incurred, except for claims and judgments and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset purchases are reported as expenditures in governmental funds. Changes to reserves and refunds to component school districts are reported as other financing sources.

Under the terms of grant agreements, revenues are recognized to the extent of program expenditures. Amounts received in advance of the expenditures are considered unearned and reported as revenue when the expense is incurred.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Budget Process, Amendments, and Encumbrances

§1950 §4(b) of the Education Law requires adoption of a final budget no later than May 15th of the ensuing year. BOCES administration prepares a proposed administrative, capital, and program budget, as applicable, for approval by members of BOCES' Board for the general fund.

A tentative administrative budget is provided to the component districts for adoption by resolution. Approval of the tentative administrative budget requires the approval of a majority vote of component school boards.

Annual appropriations are adopted and employed for control of the general fund. These budgets are adopted on a GAAP basis under the modified accrual basis of accounting. Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations authorized for the current year may be increased by the planned use of specific restricted, committed, and assigned fund balances and subsequent budget amendments approved by the Board as a result of new revenue sources related to expanded services requested by component districts.

Major capital expenditures are subject to individual project budgets based on the cost of the project and charges to components rather than annual appropriations. For the capital projects fund, these budgets do not lapse at year end and are carried over to the completion of the project.

Encumbrance accounting is used to assure budgetary control over commitments related to unperformed (executory) contracts for goods or services outstanding at the end of each year. Encumbrances are budgetary expenditures in the year committed and again in the subsequent period when the expenditure is paid. All budget appropriations that are unencumbered lapse at the end of the fiscal year. Encumbrances outstanding at year end are presented for GAAP-related purposes as committed or assigned fund balances and do not constitute expenditures or liabilities. At July 1, encumbrances carried forward from the prior year are reestablished as budgeted appropriations.

Capital Assets

Capital assets are reported at actual or estimated historical cost based on appraisals. Contributed assets are recorded at fair value at the time received. Depreciation is provided in the government-wide statements over estimated useful lives using the straight-line method. Maintenance and repairs are expensed as incurred; significant improvements are capitalized.

Capitalization thresholds for determining which asset purchases are added to capital accounts and the estimated useful lives of capital assets are:

	Capitalization Policy	Estimated Useful Life
Buildings and improvements	\$ 50,000	15-20 years
Equipment	\$ 5,000	5-25 years
Technology	\$ 299	5 years

Short-Term Debt

BOCES may issue revenue anticipation notes (RANs), which are short-term debt obligations secured by the future collection of revenues. These notes are recorded as a liability in the fund receiving the proceeds from the issuance of the notes. RANs represent liabilities that will be extinguished by the use of expendable, available resources of the fund.

Refunds to Component School Districts

Education Law requires that the net cost of operating a board of cooperative educational services be allocated to the component school districts in each fiscal year. Accordingly, the general fund of the fund financial statements must result in a matching of the total service expenditures and revenues charged to each school district based upon their pro-rata share of services. At the end of each fiscal year, BOCES will accrue an amount to be returned to the school districts so that the operations of the general fund break even after funding and use of reserves. This amount is included in other financing sources and uses on the accompanying statement of revenues, expenditures, and changes in fund balances – governmental funds. The net amount is accrued as a liability on the government-wide and fund statements, as it is payable with currently available financial resources.

Pensions

BOCES participates in the New York State Teachers' Retirement System (TRS) and the New York State and Local Employees' Retirement System (ERS) (the Systems) as mandated by State Law. The Systems recognize benefit payments when due and payable in accordance with benefit terms; investment assets are reported at fair value. On the government-wide statements, BOCES recognizes the net pension asset (liability), deferred outflows and deferred inflows of resources, pension expense (revenue), and information about and changes in the fiduciary net position on the same basis as reported by the respective defined benefit pension plans.

Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of unpaid accumulated sick and vacation time. The liability has been calculated using the vesting method, in which leave amounts for both employees currently eligible to receive payments and those expected to become eligible to receive such payments are included. Sick pay is accrued on the basis of negotiated contracts with administrative and employee groups which provide for the payment of accumulated sick time or the option of converting this vested amount to provide for payment of health insurance at retirement until exhausted.

The government-wide financial statements reflect the entire liability, while in the governmental funds financial statements, only the amount of matured liabilities is accrued based on expendable available financial resources.

Equity Classifications

Government-Wide Statements

- *Net investment in capital assets* – consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any related debt obligations attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets if their use is constrained to a particular purpose. Restrictions are imposed by external organizations such as component districts, federal or state laws, or provisions of enabling legislation.
- *Unrestricted* – the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position and therefore are available for general use by BOCES.

Governmental Fund Statements

BOCES considers unrestricted resources to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, unless the use of the restricted amount was appropriated in the current year's budget. Within unrestricted fund balance, BOCES considers committed, assigned, then unassigned resources to have been spent when an expenditure is incurred for which amounts in any of those fund balance classifications could be used.

Restricted fund balances generally result from reserves created by the State of New York Legislature and included in General Municipal Law or State Education Law as authorized for use by the Board of Education. Certain reserves may require Board action for their establishment and/or use. Earnings on invested resources are required to be added to the various reserves.

Committed fund balances, if any, are authorized by the Board of Education as recommended by BOCES' management prior to the end of the fiscal year, although funding of the commitment may be established subsequent to year end. Assigned fund balances include amounts encumbered at year end. Additionally, the Board of Education has given BOCES' management the authority to assign fund balances for specific purposes that are neither restricted nor committed. Nonspendable fund balances represent resources that cannot be spent as they are not expected to be converted to cash and include inventory.

Fund balance restrictions consist of the following reserves:

- *Employee benefit accrued liability* – is used to account for the payment of accumulated vacation and sick time due upon termination of an employee's services. It is 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.
- *Workers' compensation* – is used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this program.
- *Retirement contribution* – is used to finance retirement contributions payable to ERS.
- *Unemployment insurance* – is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants as BOCES has elected to use the benefit reimbursement method.

Interfund Balances

The operations of BOCES include transactions between funds including resources for cash flow purposes. These interfund receivables and payables are repaid within one year. Permanent transfers of funds include transfers to provide financing or other services.

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

Interfund receivables and payables are netted on the accompanying governmental funds balance sheet as the right of legal offset exists. It is BOCES' practice to settle these amounts at the net balances due between funds.

2. Change in Accounting Principle

Effective July 1, 2016, BOCES adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB), which supersedes GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement addresses accounting and financial reporting for other postemployment benefits offered by BOCES and requires various note disclosures (Note 9) and required supplementary information. As a result, beginning of year net position has been restated as follows:

Net position previously reported, July 1, 2016	\$ 69,430,610
OPEB previously reported	488,475
Total OPEB liability	(2,977,034)
Amounts paid by BOCES subsequent to the measurement date	-
Net position as restated	<u>\$ 66,942,051</u>

Information on beginning of year deferred outflows and deferred inflows of resources, and all information for the prior year, is not available and therefore such amounts have not been restated.

3. Cash

Cash management is governed by State laws and as established in BOCES' written policies. Cash resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Policies permit the Treasurer to use demand accounts and certificates of deposit. Invested resources are limited to obligations of the United States Treasury and its Agencies, repurchase agreements, and obligations of the State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit 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 school districts.

Custodial credit risk is the risk that, in the event of a bank failure, BOCES' deposits may not be returned to it. At June 30, 2017, BOCES' bank deposits were fully collateralized by FDIC coverage and securities held by the pledging institutions' trust departments or agents or in an undivided security interest in pooled assets in BOCES' name.

4. Interfund Transactions – Fund Financial Statements

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 1,644,434	\$ -
Special aid	-	836,944
Capital projects	-	9,163
Fiduciary	-	798,327
	<u>\$ 1,644,434</u>	<u>\$ 1,644,434</u>

The general fund provides cash flow to the various other funds; these amounts are repaid in the subsequent year when funds are received from the State after final expenditure reports have been submitted and approved or when payroll withholdings and retiree dental and health insurance premiums have been paid.

5. Capital Assets

	July 1, 2016	Increases	Retirements/ Reclassifications	June 30, 2017
Non-depreciable capital assets:				
Land	\$ 299,968	\$ -	\$ -	\$ 299,968
Construction in progress	251,522	539,780	(216,818)	574,484
Total non-depreciable assets	551,490	539,780	(216,818)	874,452
Depreciable capital assets:				
Buildings and improvements	35,984,571	-	205,630	36,190,201
Technology and equipment	107,805,830	21,008,722	(2,622,513)	126,192,039
Total depreciable assets	143,790,401	21,008,722	(2,416,883)	162,382,240
Less accumulated depreciation:				
Buildings and improvements	20,660,280	927,292	-	21,587,572
Technology and equipment	55,141,254	15,656,429	(2,316,988)	68,480,695
Total accumulated depreciation	75,801,534	16,583,721	(2,316,988)	90,068,267
Total depreciable assets, net	67,988,867	4,425,001	(99,895)	72,313,973
	\$ 68,540,357	\$ 4,964,781	\$ (316,713)	\$ 73,188,425

Depreciation expense has been allocated to the following functions: administration \$671,012, occupational education \$1,730,386, instruction for special education \$1,951,391, itinerant services \$778,834, general instruction \$656,674, instructional support \$5,171,098, and other services \$5,624,326.

As of June 30, 2017, net investment in capital assets consists of the following:

Capital assets, net of accumulated depreciation	\$ 73,188,425
Installment purchase agreements	(21,779,261)
	\$ 51,409,164

6. Short-Term Debt

During 2017, BOCES issued and redeemed RANs of \$4,500,000 carrying interest at 1.01%. There were no short-term debt obligations outstanding at June 30, 2017.

7. Long-Term Liabilities

	July 1, 2016	Increases	Decreases	June 30, 2017	Amount Due in One Year
Installment purchase agreements	\$ 16,007,611	\$ 15,393,327	\$ 9,621,677	\$ 21,779,261	\$ 8,249,520
Compensated absences	11,551,000	119,000	-	11,670,000	1,167,000
	\$ 27,558,611	\$ 15,512,327	\$ 9,621,677	\$ 33,449,261	\$ 9,416,520

The future minimum payments for the installment purchase agreements as of June 30, 2017 are as follows:

<u>Years ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 8,249,520	\$ 310,810
2019	6,312,906	187,829
2020	3,867,581	118,011
2021	2,677,215	32,239
2022	634,160	7,708
2023	37,879	376
	<u>\$ 21,779,261</u>	<u>\$ 656,973</u>

Since the use of the assets is assigned to component and non-component districts, BOCES does not keep detailed activity of the cost and accumulated depreciation applicable to these installment purchases.

Lease Obligations

BOCES leases property from component and non-component school districts and administrative offices from a third party under the terms of various operating leases. Rental expense for all operating leases amounted to \$1,115,351 for classrooms and \$1,372,344 for administrative offices for the year ended June 30, 2017. Future minimum rentals to be paid for all operating leases are:

<u>Years ending June 30,</u>	<u>Classrooms</u>	<u>Administrative Offices</u>
2018	\$ 1,215,471	\$ 1,385,520
2019	1,613,395	1,398,948
2020	745,924	1,412,652
2021	751,834	1,426,620
2022	243,560	1,440,876
2023-2026	-	5,244,300
	<u>\$ 4,570,184</u>	<u>\$ 12,308,916</u>

8. Pension Plans

Plan Descriptions

BOCES participates in the following cost-sharing, multiple employer, public employee retirement systems:

- TRS is administered by the New York State Teachers' Retirement Board and provides benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. TRS issues a publicly available financial report that contains financial statements and required supplementary information. The report may be obtained from the New York State Teachers' Retirement System at www.nystrs.org.
- ERS provides retirement benefits as well as death and disability benefits. New York State Retirement and Social Security Law governs obligations of employers and employees to contribute and provide benefits to employees. ERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained from the New York State and Local Retirement System at www.osc.state.ny.us/retire.

Benefits: The Systems provide retirement, disability, and death benefits for eligible members, including automatic cost of living adjustments. In general, retirement benefits are determined based on an employee's individual circumstances using a pension factor, an age factor, and final average salary. The benefits vary depending on the individual's employment tier. Pension factors are determined based on tier and an employee's years of service, among other factors.

Contribution Requirements: No employee contribution is required for those hired prior to July 1976. The Systems require employee contributions of 3% of salary for the first 10 years of service for those employees who joined the Systems from July 1976 through December 2009. Participants hired on or after January 1, 2010 through March 31, 2012 are required to contribute 3.5% (TRS) or 3% (ERS) of compensation throughout their active membership in the Systems. Participants hired on or after April 1, 2012 are required to contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. Pursuant to Article 11 of Education Law, an actuarially determined contribution rate is established annually for TRS by the New York State Teachers' Retirement Board. This rate was 11.72% for 2017. For ERS, the Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by BOCES to the pension accumulation fund. For 2017, these rates ranged from 9.4% - 21.8%.

The amount outstanding and payable to TRS for the year ended June 30, 2017 was \$3,125,896. A liability to ERS of \$1,023,390 is accrued based on BOCES' legally required contribution for employee services rendered from April 1, 2017 through June 30, 2017.

Net Pension Asset (Liability), Pension Expense, and Deferred Outflows and Deferred Inflows of Resources

At June 30, 2017, BOCES reported net pension liabilities of \$1,841,283 and \$10,281,395 for its proportionate share of the TRS and ERS net pension liabilities, respectively.

The TRS net pension asset was measured as of June 30, 2016, and the total pension liability was determined by an actuarial valuation as of June 30, 2015, with update procedures applied to roll forward the net pension position to June 30, 2016. BOCES' proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to TRS's total actuarially determined employer contributions for the fiscal year ended on the measurement date. At June 30, 2016, BOCES' proportion was 0.171915%, an increase of 0.000702% from its proportion measured as of June 30, 2016.

The ERS net pension liability was measured as of March 31, 2017, and the total pension liability was determined by an actuarial valuation as of April 1, 2016. BOCES' proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to ERS's total actuarially determined employer contributions for the fiscal year ended on the measurement date. At the March 31, 2017 measurement date, BOCES' proportion was 0.1094205%, an increase of 0.0057458% from its proportion measured as of March 31, 2016.

For the year ended June 30, 2017, BOCES recognized net pension expense of \$9,120,237 on the government-wide statements (TRS expense of \$3,095,931 and ERS expense of \$6,024,306). At June 30, 2017, BOCES reported deferred outflows and deferred inflows of resources as follows:

	TRS		ERS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 598,152	\$ 257,642	\$ 1,561,288
Changes of assumptions	10,489,118	-	3,512,501	-
Net difference between projected and actual earnings on pension plan investments	4,140,171	-	2,053,611	-
Changes in proportion and differences between BOCES' contributions and proportionate share of contributions	423,369	41,197	471,000	-
BOCES' contributions subsequent to the measurement date	3,125,896	-	1,023,390	-
	\$ 18,178,554	\$ 639,349	\$ 7,318,144	\$ 1,561,288

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

Years ending June 30,	TRS	ERS
2018	\$ 1,331,631	\$ 2,080,949
2019	1,331,631	2,080,949
2020	4,547,003	1,881,105
2021	3,546,607	(1,309,537)
2022	1,654,175	-
Thereafter	2,002,262	-
	\$ 14,413,309	\$ 4,733,466

Actuarial Assumptions

For TRS, the actuarial assumptions used in the June 30, 2015 valuation, with update procedures used to roll forward the total pension liability to June 30, 2016, were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2014. These assumptions are:

Inflation – 2.5%

Salary increases – Based on TRS member experience, dependent on service, ranging from 1.90%-4.72%

Projected Cost of Living Adjustments (COLA) – 1.5% compounded annually

Investment rate of return – 7.5% compounded annually, net of investment expense, including inflation

Mortality – Based on TRS member experience, with adjustments for mortality improvements based on Society of Actuaries' Scale MP-2014, applied on a generational basis

Discount rate – 7.5%

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

For ERS, the actuarial assumptions used in the April 1, 2016 valuation, with update procedures used to roll forward the total pension liability to March 31, 2017, were based on the results of an actuarial experience study for the period April 1, 2010 to March 31, 2015. These assumptions are:

Inflation – 2.5%

Salary increases – 3.8%

COLA – 1.3% annually

Investment rate of return – 7.0% compounded annually, net of investment expense, including inflation

Mortality – Society of Actuaries’ Scale MP-2014

Discount rate – 7.0%

The long-term expected rate of return on ERS pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected return, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Investment Asset Allocation

Best estimates of arithmetic real rates of return for each major asset class and the Systems’ target asset allocations as of the applicable valuation dates are summarized as follows:

Asset Class	TRS		ERS	
	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	37%	6.1%	36%	4.6%
International equities	18%	7.3%	14%	6.4%
Private equities	7%	9.2%	10%	7.8%
Real estate	10%	5.4%	10%	5.8%
Inflation-indexed bonds	-	-	4%	1.5%
Domestic fixed income securities	17%	1.0%	-	-
Global fixed income securities	2%	0.8%	-	-
Bonds and mortgages	8%	3.1%	17%	1.3%
Short-term	1%	0.1%	1%	(0.3)%
Other	-	-	8%	4.0%-5.9%
	100%		100%	

Discount Rate

The discount rate projection of cash flows assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those 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.

The following presents BOCES' proportionate share of its net pension position calculated using the discount rate of 7.5% (TRS) and 7.0% (ERS) and the impact of using a discount rate that is 1% higher or lower than the current rate.

	1.0% Decrease	At Current Discount Rate	1.0% Increase
BOCES' proportionate share of the TRS net pension asset (liability)	\$ (24,023,717)	\$ (1,841,283)	\$ 16,764,180
BOCES' proportionate share of the ERS net pension asset (liability)	\$ (32,836,738)	\$ (10,281,395)	\$ 8,789,105

9. Postemployment Benefits Other than Pensions (OPEB)

Plan Description

BOCES maintains a single-employer defined benefit healthcare plan (the Plan) providing for continuation of medical insurance benefits for retired District Superintendents and their spouses. The Plan is also open to all eligible employees and provides continued insurance through the conversion of sick time or by payment of monthly premiums by retirees through participation in BOCES' policies. BOCES thereby provides an implicit rate subsidy on behalf of eligible employees. Eligibility for benefits is based on covered employees who retire from BOCES at age 55 or older and have met vesting requirements. The Plan has no assets, does not issue financial statements, and is not a trust.

At June 30, 2017, employees covered by the Plan include:

Active employees	798
Inactive employees or beneficiaries currently receiving benefits	222
Inactive employees entitled to but not yet receiving benefits	-
	<u>1,020</u>

Total OPEB Liability

BOCES's total OPEB liability of \$3,181,640 was measured as of March 31, 2017 and was determined by an actuarial valuation as of June 30, 2017.

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:

Healthcare cost trend rates – based on the National Health Expenditure Projections 2009-2025 for short-term rates and the Society of Actuaries Getzen Long-Term Healthcare Cost Trend Resource Model v2016_a (updated September 2016) for long-term rates, initially 5.3%, rising to 6.3% in 2019 and an ultimate rate of 4.17% after 2070

Salary increases – 3.31%

Mortality – 2015 TRS mortality rates for active members for all active employees; 2015 TRS mortality base rates for service and deferred annuitants and beneficiaries; fully generational using Mortality Improvement Scale MP-2016 for retirees and surviving spouses

Discount rate – 3.80% based on the Fidelity Municipal Go AA 20-Year Bond rate as of the measurement date

Inflation rate – 2.2%

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at June 30, 2016	\$ 2,977,034
Changes for the year:	
Service cost	60,067
Interest	91,267
Changes of benefit terms	-
Differences between expected and actual experience	444,078
Changes of assumptions or other inputs	(78,079)
Benefit payments	<u>(312,727)</u>
Net changes	<u>204,606</u>
Balance at June 30, 2017	<u>\$ 3,181,640</u>

The following presents the sensitivity of BOCES' total OPEB liability to changes in the discount rate, including what BOCES' total OPEB liability would be if it were calculated using a discount rate that is 1% higher or lower than the current discount rate:

	1.0% Decrease (2.80%)	Discount Rate (3.80%)	1.0% Increase (4.80%)
Total OPEB liability	\$ (3,396,354)	\$ (3,181,640)	\$ (2,988,784)

The following presents the sensitivity of BOCES' total OPEB liability to changes in the healthcare cost trend rates, including what BOCES' total OPEB liability would be if it were calculated using a discount rate that is 1% higher or lower than the current healthcare cost trend rates:

	Healthcare Cost		
	1.0% Decrease (4.30% to 3.17%)	Trend Rate (5.30% to 4.17%)	1.0% Increase (6.30% to 5.17%)
Total OPEB liability	\$ (2,957,960)	\$ (3,181,640)	\$ (3,435,479)

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

For the year ended June 30, 2017, BOCES recognized OPEB expense of \$194,905. At June 30, 2017, BOCES reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 391,212	\$ -
Changes of assumptions or other inputs	-	68,784
	<u>\$ 391,212</u>	<u>\$ 68,784</u>

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

<u>Years ending June 30,</u>	
2018	\$ 43,571
2019	43,571
2020	43,571
2021	43,571
2022	43,571
Thereafter	<u>104,573</u>
	<u>\$ 322,428</u>

10. Risk Management

General Liability

BOCES purchases commercial insurance for various risk of loss due to torts, theft, damage, errors and omissions, and natural disasters. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Health Insurance

BOCES administers and participates in the NY44 Health Benefits Plan Trust (the Plan). The Plan has been established to administer a health insurance program to lower the costs of such coverage to the 57 participating members as of June 30, 2016 (the most recent information available).

BOCES has transferred all risk to the Plan. Plan members pay monthly premium equivalents based upon a pro-rata share of expenditures. All funds received are pooled and administered as a common fund. Refunds are not made nor additional assessments charged other than the annual premium equivalent. If the Plan's assets were to be exhausted, members would be equally responsible for the remaining liabilities.

The Plan has published its own financial report for the year ended June 30, 2016, which can be obtained from BOCES' administrative offices.

Workers' Compensation

BOCES also administers and participates in the Erie #1 Self-Funded Workers' Compensation Consortium (the Plan). The Plan administers a workers' compensation insurance fund pursuant to Article 5 of the Workers' Compensation Law to finance the liability and risk related to workers' compensation claims and to lower the costs of coverage to the participating members. The Plan includes seven participating members as of June 30, 2016 (the most recent information available).

BOCES and the participating school districts have transferred partial risk to the Plan. Plan members pay monthly premium equivalents based upon a pro-rata share of expenditures. All funds received are pooled and administered as a common fund. Plan members could be subjected, however, to pro-rata supplemental assessments in the event that the plan's assets are not adequate to meet claims. No such supplemental assessments have been required in the previous three years.

The Plan has published its own financial report for the year ended June 30, 2016, which can be obtained from BOCES' administrative offices.

11. Commitments and Contingencies

Grants

BOCES receives financial assistance from federal and state agencies in the form of grants. The expenditure of grant funds generally requires compliance with the terms and conditions specified in the agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of BOCES. Based on prior experience, management expects such amounts to be immaterial.

Encumbrances

Significant outstanding encumbrances in the general fund as of June 30, 2017 include \$2,715,000 for technology services and equipment.

12. Subsequent Events

In July 2017, BOCES issued a RAN totaling \$5,000,000, carrying interest at 2.25%, and maturing in March 2018.

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Required Supplementary Information
Schedule of BOCES' Proportionate Share of the Net Pension Position
New York State Teachers' Retirement System**

As of the measurement date of June 30,	2016	2015	2014	2013
BOCES' proportion of the net pension position	0.171915%	0.171213%	0.185514%	0.192114%
BOCES' proportionate share of the net pension asset (liability)	\$ (1,841,283)	\$ 17,783,588	\$ 20,665,137	\$ 1,264,599
BOCES' covered payroll	\$ 26,528,228	\$ 25,715,118	\$ 27,396,758	\$ 28,140,574
BOCES' proportionate share of the net pension position as a percentage of its covered payroll	6.94%	69.16%	75.43%	4.49%
Plan fiduciary net position as a percentage of the total pension liability	99.01%	110.46%	111.48%	100.70%

Data prior to 2013 is unavailable.

The following is a summary of changes of assumptions:

	2016	2015
Inflation	2.5%	3.0%
Salary increases	1.90%-4.72%	4.0%-10.9%
Cost of living adjustments	1.5%	1.625%
Investment rate of return	7.5%	8.0%
Discount rate	7.5%	8.0%
Society of Actuaries' mortality scale	MP-2014	AA

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Required Supplementary Information
Schedule of BOCES' Contributions
New York State Teachers' Retirement System**

June 30,	2017	2016	2015	2014	2013
Contractually required contribution	\$ 3,125,896	\$ 3,517,643	\$ 4,507,860	\$ 4,451,973	\$ 3,331,844
Contribution in relation to the contractually required contribution	(3,125,896)	(3,517,643)	(4,507,860)	(4,451,973)	(3,331,844)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
BOCES' covered payroll	\$ 26,671,468	\$ 26,528,228	\$ 25,715,118	\$ 27,396,758	\$ 28,140,574
Contributions as a percentage of covered payroll	<u>11.72%</u>	<u>13.26%</u>	<u>17.53%</u>	<u>16.25%</u>	<u>11.84%</u>

Data prior to 2013 is unavailable.

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Required Supplementary Information
Schedule of BOCES' Proportionate Share of the Net Pension Position
New York State and Local Employees' Retirement System**

As of the measurement date of March 31,	2017	2016	2015
BOCES' proportion of the net pension position	0.1094205%	0.1036747%	0.1027231%
BOCES' proportionate share of the net pension liability	\$ 10,281,395	\$ 16,640,085	\$ 3,470,238
BOCES' covered payroll	\$ 28,854,972	\$ 25,915,969	\$ 26,669,954
BOCES' proportionate share of the net pension position as a percentage of its covered payroll	35.63%	64.21%	13.01%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.70%	97.90%

Data prior to 2015 is unavailable.

The following is a summary of changes of assumption:

	2016	2015
Inflation	2.5%	2.7%
Salary increases	3.8%	4.9%
Cost of living adjustments	1.3%	1.4%
Investment rate of return	7.0%	7.5%
Discount rate	7.0%	7.5%

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Required Supplementary Information
Schedule of BOCES' Contributions
New York State and Local Employees' Retirement System**

June 30,	2017	2016	2015	2014	2013
Contractually required contribution	\$ 4,442,749	\$ 4,761,288	\$ 5,074,862	\$ 5,227,193	\$ 4,622,786
Contribution in relation to the contractually required contribution	(4,442,749)	(4,761,288)	(5,074,862)	(5,227,193)	(4,622,786)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
BOCES' covered payroll	\$ 28,854,972	\$ 25,915,969	\$ 26,669,954	\$ 25,668,478	\$ 24,880,829
Contributions as a percentage of covered payroll	15.40%	18.37%	19.03%	20.36%	18.58%

Data prior to 2013 is unavailable.

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Required Supplementary Information
Schedule of Changes in BOCES'
Total OPEB Liability and Related Ratios**

June 30, 2017

Total OPEB liability - beginning	<u>\$ 2,977,034</u>
Changes for the year:	
Service cost	60,067
Interest	91,267
Changes of benefit terms	-
Differences between expected and actual experience	444,078
Changes of assumptions or other inputs	(78,079)
Benefit payments	<u>(312,727)</u>
Net change in total OPEB liability	<u>204,606</u>
Total OPEB liability - ending	<u>\$ 3,181,640</u>
Covered-employee payroll	<u>\$ 44,853,975</u>
Total OPEB liability as a percentage of covered-employee payroll	<u>7.1%</u>

Data prior to 2017 is unavailable.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Supplementary Information
Analysis of General Fund Account A431 - School Districts (Fund Basis)**

For the year ended June 30, 2017

July 1, 2016 - net debit balance	\$ 3,746,776
Debits:	
Billings to school districts	153,144,559
Refund of balances due to school districts	5,375,419
Encumbrances - June 30, 2017	4,382,729
E-rate - June 30, 2016	1,710,134
E-rate - June 30, 2017 paid prior to year end	433,762
Funding of reserves	341,306
Total debits	165,387,909
Credits:	
Collections from school districts	147,156,381
Adjustment - credits to school districts - revenues in excess of expenditures	7,343,876
Encumbrances - June 30, 2016	3,803,042
E-rate - June 30, 2017	2,768,653
Total credits	161,071,952
June 30, 2017 - net debit balance	\$ 8,062,733
Balance represented by:	
Due from school districts	\$ 16,820,507
Refunds to component school districts	(8,757,774)
	\$ 8,062,733

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Supplementary Information
Schedule of Capital Project Expenditures**

June 30, 2017

Project Title	Original Budget	Revised Budget	Expenditures			Unexpended Balance
			Prior Years	Current Year	Total	
Harkness Masonry - 2014	\$ 62,350	\$ 101,945	\$ 21,544	\$ -	\$ 21,544	\$ 80,401
Potter Masonry - 2014	61,150	127,533	126,674	859	127,533	-
Harkness Roof - 2016	600,000	690,000	34,704	532,273	566,977	123,023
Kenton Windows - 2018	360,000	360,000	-	7,507	7,507	352,493
	<u>\$ 1,083,500</u>	<u>\$ 1,279,478</u>	<u>\$ 182,922</u>	<u>\$ 540,639</u>	<u>\$ 723,561</u>	<u>\$ 555,917</u>

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

**Supplementary Information
Schedule of Expenditures of Federal Awards**

For the year ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grantor Number</u>	<u>Expenditures</u>
U.S. Department of Education:			
Direct Program:			
Student Financial Assistance Cluster:			
Federal Pell Grant Program	84.063	n/a	\$ 946,549
Federal Direct Student Loans	84.268	n/a	1,676,264
Total Student Financial Assistance Cluster			<u>2,622,813</u>
Passed Through New York State Department of Education:			
Career and Technical Education -- Basic Grants to States	84.048	8000-17-0065	387,014
Career and Technical Education -- Basic Grants to States	84.048	8000-17-9005	213,762
English Language Acquisition State Grants	84.365	0293-16-3009	17,598
English Language Acquisition State Grants	84.365	0293-17-3009	84,256
Total U.S. Department of Education			<u>3,325,443</u>
U.S. Department of Labor:			
Passed Through New York State Department of Labor:			
WIOA Dislocated Worker Formula Grants	17.278	C015097	6,844
WIOA Dislocated Worker Formula Grants	17.278	C015311	74,930
Total U.S. Department of Labor			<u>81,774</u>
Total Expenditures of Federal Awards			<u>\$ 3,407,217</u>

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

Notes to Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs administered by the Board of Cooperative Educational Services First Supervisory District of Erie County (BOCES), an entity as defined in Note 1 to BOCES' basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through from other governmental agencies, are included on the Schedule of Expenditures of Federal Awards.

Basis of Accounting

BOCES uses the modified accrual basis of accounting for each federal program, consistent with the fund basis financial statements.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable programs and periods. The amounts reported in these federal financial reports are prepared from records maintained for each program, which are periodically reconciled with BOCES' financial reporting system.

Indirect Costs

BOCES does not use the 10% de minimis indirect cost rate permitted by the Uniform Guidance.

2. Federal Direct Student Loans

Total student loans guaranteed by the U.S. Department of Education issued through BOCES under CFDA Number 84.268 (Federal Direct Student Loans) for the year ended June 30, 2017 were:

Federal Direct Loans	\$ 633,160
Unsubsidized Federal Direct Loans	1,025,749
Federal Direct PLUS Loans	<u>17,355</u>
	<u>\$ 1,676,264</u>

INDEPENDENT AUDITORS' 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

The Board of Education
Board of Cooperative Educational Services
First Supervisory District of Erie County

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 remaining fund information of Board of Cooperative Educational Services First Supervisory District of Erie County (BOCES) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise BOCES' basic financial statements, and have issued our report thereon dated December 13, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item [2016-001] that we consider to be a significant deficiency.

Compliance and Other Matters

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

BOCES' Response to Findings

BOCES' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. BOCES' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 BOCES' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BOCES' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lumsden & McCormick, LLP

December 13, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Education
Board of Cooperative Educational Services
First Supervisory District of Erie County

Report on Compliance for Each Major Federal Program

We have audited Board of Cooperative Educational Services First Supervisory District of Erie County's (BOCES) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of BOCES' major federal programs for the year ended June 30, 2017. BOCES' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of BOCES' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about BOCES' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, BOCES complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Lumsden & McCormick, LLP

December 13, 2017

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

Schedule of Findings and Questioned Costs

For the year ended June 30, 2017

Section I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? Yes [2016-001]

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA #</u>	<u>Amount</u>
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	\$ 946,549
Federal Direct Student Loans	84.268	1,676,264
		<u>\$ 2,622,813</u>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

**BOARD OF COOPERATIVE EDUCATIONAL SERVICES
FIRST SUPERVISORY DISTRICT OF ERIE COUNTY**

Schedule of Findings and Questioned Costs (continued)

For the year ended June 30, 2017

Section II. Financial Statement Findings

2016-001	Condition:	Initial capital asset reports received during fieldwork were incorrect resulting in additional work by BOCES' personnel.
	Criteria:	Controls should be in place to ensure proper financial reporting and completeness of capital asset reports.
	Effect:	Cost and associated accumulated depreciation reported on BOCES' financial statements could be materially misstated.
	Recommendation:	Each month, management should compare the reports printed from the inventory system and asset system in order to timely determine unexpected differences between them and how best to address these differences. In addition, management should reconcile the previous month's ending balance, plus items purchased in the current month, less any disposed items, to the month end balance recorded in the asset system.
	Management's Response:	Management agreed to the recommendation made by the auditors and will begin reconciling capital assets including accumulated depreciation on a monthly basis.

Section III. Federal Award Findings and Questioned Costs

No matters were reported.