

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

**AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTAL SCHEDULES**

JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the President and the Other Members
of the Board of Education of the
Herkimer-Fulton-Hamilton-Otsego Counties
Board of Cooperative Educational Services
Herkimer, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Board of Cooperative Educational Services Sole Supervisory District of Herkimer-Fulton-Hamilton-Otsego Counties ("BOCES"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the BOCES' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 auditors consider 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 aggregate remaining fund information of the Board of Cooperative Educational Services Sole Supervisory District of Herkimer-Fulton-Hamilton-Otsego Counties, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress - other post-employment benefits plan and schedules of local government's proportionate share of the net pension liability and contributions on pages 3 through 11 and pages 46 through 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise BOCES' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supplementary information on pages 50 through 53, as described in the table of contents and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2017, on our consideration of the BOCES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BOCES' internal control over financial reporting and compliance.

WEST & COMPANY CPAs PC

Gloversville, New York
September 22, 2017

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The following is a discussion and analysis of the Herkimer-Fulton-Hamilton-Otsego Counties BOCES' financial performance for the fiscal year ended June 30, 2017. This section is a summary of the BOCES' financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. This section is only an introduction and should be read in conjunction with the BOCES' basic financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Net position decreased 18.0% to a deficit of \$(33,156,487).
- Revenues increased by \$455,125 over the previous year.
- The BOCES continued to offer all programs, without reducing services, while maintaining restricted reserves allowed by law.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *BOCES-wide* financial statements that provide both *short-term* and *long-term* information about the BOCES' *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the BOCES, reporting the BOCES' operations in *more detail* than the BOCES-wide statements.
- The *governmental funds statements* tell how basic services such as career and technical education, general instruction, educational support services and special education were financed in the *short-term* as well as what remains for future spending.
- The *fiduciary funds statements* provide information about the financial relationships in which the BOCES acts solely as a *trustee* or *agent* for the benefit of others, including component school districts.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the BOCES' budget for the year.

BOCES-Wide Statements

The BOCES-wide statements report information about the BOCES as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the BOCES' assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities and Changes in Net Position regardless of when cash is received or paid.

The two BOCES-wide statements report the BOCES' *net position* and how it has changed. Net position – the difference between the BOCES' assets, deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the BOCES' financial health or *position*.

- Over time, increases or decreases in the BOCES' net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the BOCES' overall health, you need to consider additional nonfinancial factors such as changes in enrollment and population shifts in component school districts, the economic climate of businesses within the BOCES' geographic location, changes in services requested by component districts and the condition of BOCES' buildings and other facilities.

In the BOCES-wide financial statements, the BOCES' activities are shown as *governmental activities*. Most of the BOCES' basic services are included here, such as career and technical education, special education, instructional support services and administration. Revenues from component school districts fund these services.

Fund Financial Statements

The fund financial statements provide more detailed information about the BOCES' funds, focusing on its most significant or "major" funds – not the BOCES as a whole. Funds are accounting devices the BOCES uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The BOCES establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The BOCES has two kinds of funds:

- **Governmental Funds:** Most of the BOCES' basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the BOCES' programs. Because this information does not encompass the additional long-term focus of the BOCES-wide statements, additional information at the bottom of the governmental funds' balance sheets explains the relationship (or differences) between them.
- **Fiduciary Funds:** The BOCES is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and the student activities funds. The BOCES is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. The BOCES excludes these activities from the BOCES-wide financial statements because it cannot use these assets to finance its operations.

Figure A-1: Major Features of the BOCES-Wide and Fund Financial Statements

Figure A-1 summarizes the major features of the BOCES' financial statements including the portion of the BOCES' activities they cover and the types of information they contain.

		Fund Financial Statements	
	BOCES-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire BOCES (except fiduciary funds)	The daily operating activities of the BOCES, such as instruction and special education	Instances in which the BOCES administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none">• Statement of net position• Statement of activities	<ul style="list-style-type: none">• Balance sheet• Statement of revenues, expenditures, and changes in fund balances	<ul style="list-style-type: none">• Statement of fiduciary net position• Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows of resources/liability/deferred inflows of resources information	All assets, deferred outflows of resources, liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities and deferred inflows of resources (if any), both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

FINANCIAL ANALYSIS OF THE BOCES AS A WHOLE

Figures A-2 and A-3 highlight the BOCES' Net Position and the Changes in Net Position during the fiscal years ended June 30, 2017 and 2016.

Net Position decreased by \$2,395,685 prior to transfer of surplus to school districts of \$2,661,558.

Table A-2: Condensed Statement of Net Position

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Percentage Change (Incr.;-Decr.)
ASSETS				
Current and other assets	\$ 15,602,245	\$ 13,368,825	\$ 2,233,420	16.7%
Capital assets	15,461,400	21,882,776	(6,421,376)	-29.3%
Total Assets	31,063,645	35,251,601	(4,187,956)	-11.9%
DEFERRED OUTFLOWS OF RESOURCES				
Pensions	6,533,736	3,067,528	3,466,208	113.0%
Total Deferred Outflows of Resources	6,533,736	3,067,528	3,466,208	113.0%
LIABILITIES				
Current liabilities	12,712,189	10,550,599	2,161,590	20.5%
Long-term liabilities	57,580,366	53,605,787	3,974,579	7.4%
Total Liabilities	70,292,555	64,156,386	6,136,169	9.6%
DEFERRED INFLOWS OF RESOURCES				
Pensions	461,313	2,261,987	(1,800,674)	-79.6%
Total Deferred Inflows of Resources	461,313	2,261,987	(1,800,674)	-79.6%
NET POSITION				
Net investment in capital assets	6,761,400	6,668,138	93,262	1.4%
Restricted	2,692,011	2,663,189	28,822	1.1%
Unrestricted	(42,609,898)	(37,430,571)	(5,179,327)	-13.8%
TOTAL NET POSITION	\$ (33,156,487)	\$ (28,099,244)	\$ (5,057,243)	-18.0%

FINANCIAL HIGHLIGHTS

The BOCES' fiscal year 2017 revenues totaled \$41,103,652 (see Table A-3). Billings/charges to components accounted for most of the BOCES' revenue. The remainder came from fees, interest and earnings, operating grants and other miscellaneous sources.

The total cost of all programs and services totaled \$43,499,337 for fiscal year 2017. These expenses (approximately 88%) predominately support instruction. The BOCES' administrative and business activities accounted for the remainder of the total costs. This calculation includes an allocation of the building lease from administration to instruction.

Net position decreased by \$2,395,685.

Table A-3: Changes in Net Position from Operating Results

	Fiscal Year 2017	Fiscal Year 2016	Percentage Change (Incr.;-Decr.)
<u>REVENUES</u>			
Program revenues			
Charges for services to component schools, other BOCES and miscellaneous local sources	\$ 38,158,808	\$ 37,639,235	1.4%
Grants	2,938,681	3,004,595	-2.2%
Other revenues	6,163	4,697	31.2%
Total Revenues	41,103,652	40,648,527	1.1%
<u>EXPENSES</u>			
Administration	5,237,742	4,943,599	5.9%
Occupational instruction	6,578,563	6,313,811	4.2%
Instruction for special education	8,756,788	7,263,167	20.6%
Itinerant services	4,547,535	4,212,622	8.0%
General instruction	5,094,273	4,573,376	11.4%
Instructional support	6,580,593	6,857,387	-4.0%
Other services	6,193,280	5,918,373	4.6%
Expenditures - School Lunch	188,984	153,377	23.2%
Debt Service - Unallocated Interest	321,579	385,178	-16.5%
Total Expenses	43,499,337	40,620,890	7.1%
CHANGE IN NET POSITION	\$ (2,395,685)	\$ 27,637	-8768.4%

FINANCIAL HIGHLIGHTS

Revenues for the BOCES' governmental activities totaled \$41,103,652 while total expenses equaled \$43,499,337. Before the refund of surplus to School Districts, the decrease in net position for governmental activities was \$2,395,685 in 2017.

Figure A-4: Sources of Revenues for Fiscal Year 2017

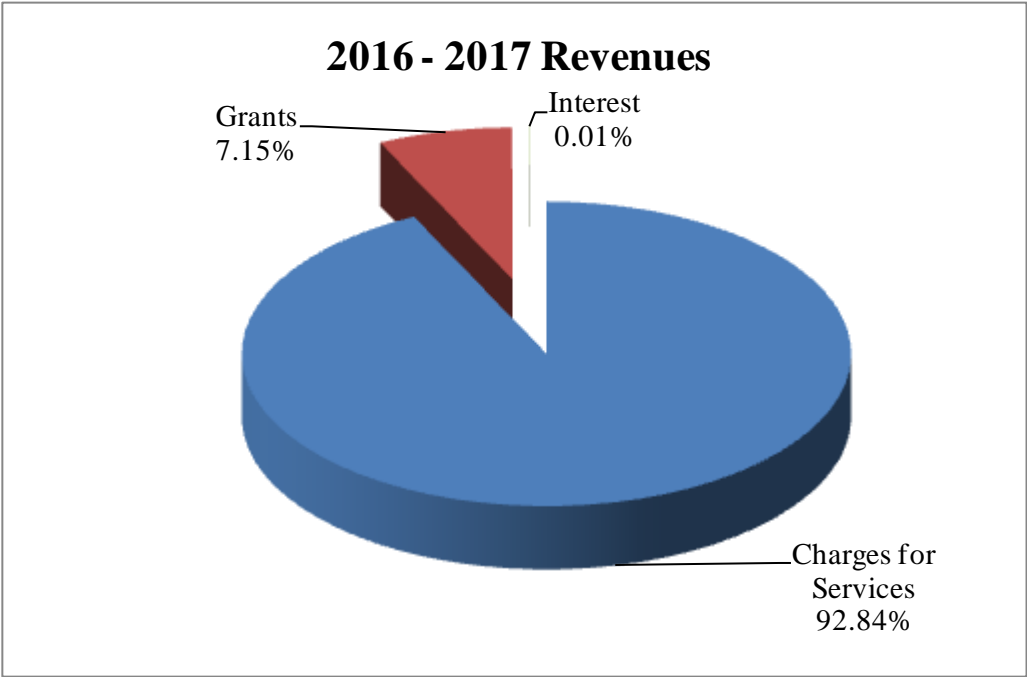
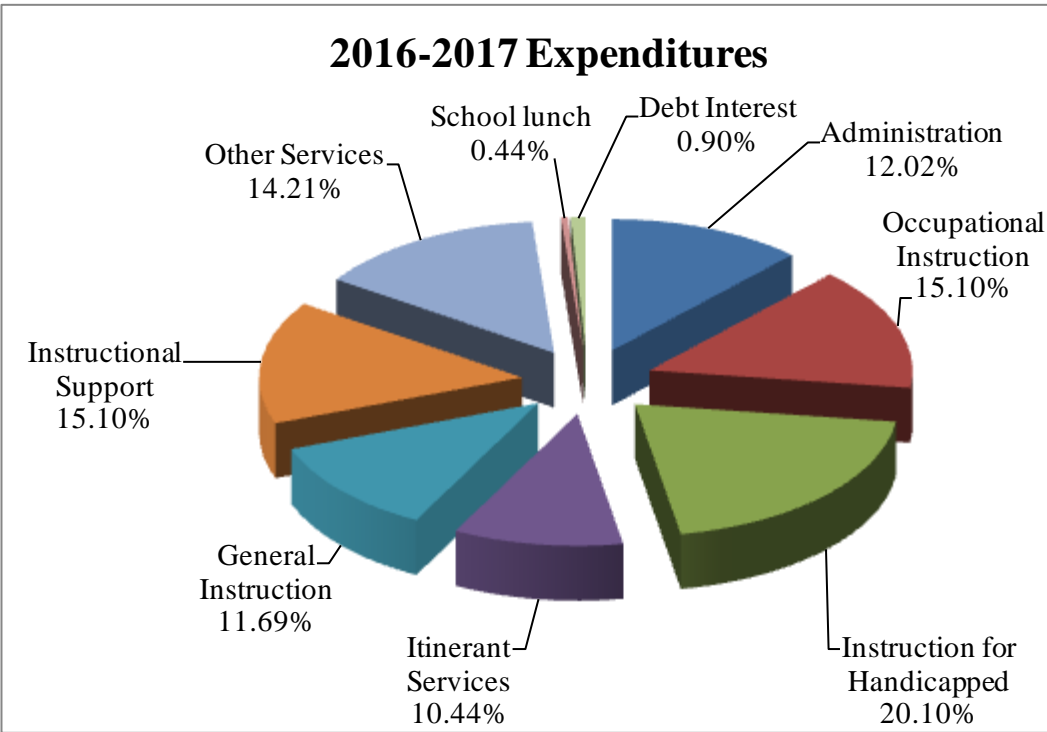


Figure A-5: Expenses for Fiscal Year 2017



GENERAL FUND BUDGETARY HIGHLIGHTS

During the course of the fiscal year, the original budget was amended several times. These budget amendments fell into two categories:

- Amendments and supplemental appropriations to reflect encumbrances carried over from the previous fiscal year.
- Changes made to original program budgets to accommodate increased or decreased levels of services requested by component districts, non-component districts and other BOCES.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The BOCES underwent a complete asset inventory in order to comply with Governmental Accounting Standards Board (GASB) Statement No. 34 reporting requirements. Table A-6 indicates the 2017 and 2016 categories of Capital Assets.

Table A-6: Capital Assets (net of depreciation)

<u>Category</u>	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>	<u>Percentage Change (Incr.;-Decr.)</u>
Land	\$ 176,400	\$ 176,400	0.0%
Buildings and improvements	14,076,254	14,866,925	-5.3%
Furniture and equipment	1,208,746	1,224,813	-1.3%
TOTAL FIXED ASSETS	\$ 15,461,400	\$ 16,268,138	-5.0%

LONG-TERM DEBT

As of June 30, 2017, the BOCES had \$57,189,664 in bonds and other long-term debt outstanding. More detailed information about the BOCES' long-term debt is included in the notes to the basic financial statements.

Table A-7: Long-Term Debt

<u>Category</u>	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>	<u>Percentage Change (Incr.;-Decr.)</u>
Bonds	\$ 8,700,000	\$ 9,600,000	-9.4%
Compensated absences	743,281	798,193	-6.9%
Energy performance contract	575,583	736,677	-21.9%
Other post-employment retirement benefits	47,170,800	41,990,811	12.3%
TOTAL LONG TERM DEBT	\$ 57,189,664	\$ 53,125,681	7.6%

- As of June 30, 2017, the BOCES made an additional accrual of other post-employment benefits (retiree health insurance) as required by GASB 45. The accrual generated an additional liability and an expenditure of \$5,179,989 or 12.3% from 2016 to 2017.

FACTORS BEARING ON THE FUTURE OF BOCES

Career and Technical Education

The demand for Career and Technical Education (CTE) services continue to make this a strong program for the Herkimer BOCES. The CTE program is currently limited only by space.

The total student population in the Herkimer BOCES CTE program has been steady for the past two years. The beginning enrollment in the CTE Program for 2015 and 2016 each showed an increase in number of students enrolled and enrollment in 2017 was the same as 2016.

The tuition charge to each school district is based upon the average of the school district's attendance over the five previous years. This tuition methodology serves to smooth tuition costs due to year to year fluctuation of the number of students enrolled in the Program. The methodology also serves to stabilize and smooth tuition costs over a period of years.

An industry analysis and a discussion with the component school districts led the Natural Resource Management Program to be divided into a Heavy Equipment Operator Program and a Conservation Program. 2015-2016 was the first year that the new divided program. The division of the program was a popular one with students who wished to concentrate on one area.

A similar review of the Health Science program led to the addition of an EKG Certification and a Phlebotomy Certification being added to the program. Also, a more rigorous chemistry block was added to the Health Science program in order to assist students in achieving academic standards.

The Program continues to re-evaluate the makeup of its services to students and to component school districts in order to provide students with a foundation for them to either go on in school or to enter the workforce.

Special Education Services

The Herkimer BOCES special education programs continue to be strong programs. The increased number of students attending the programs and the realignment of costs has created a stable tuition rate for the component districts. With the 2018 school year, the number of enrolled students has increased five years in a row, a total of 35% over the past five years and the tuition rate has remained relatively flat. Due to the overall reduced costs, the component districts are beginning to send larger numbers of students to the programs at BOCES. The largest challenge for BOCES special education programs is the continuing lack of program space in which to provide programming for district students. The BOCES continues to utilize the component district school buildings wherever possible in order to provide an integrated and inclusive education for the students, this space is becoming increasingly scarce in the component buildings.

Itinerant Services

The component districts are maintaining their increased usage of Itinerant staff with Herkimer BOCES staff due to staff reductions in the home schools. Use of the Itinerant Services Program allows districts to share teachers rather than over-staffing their own district or eliminating a wider range of course selections for their students. The BOCES continues to maintain the levels of Itinerant Services.

Management Services

After two years of operation, the Safety Service has not only fulfilled the needs of its component districts but it has increased the scope of services to meet new requests from the Component Districts and requirements from NYSED. These new requests and requirements include: playground inspection, inventorying and purchasing Carbon Monoxide alarms, and coordinating the testing of districts drinking water for lead. All Herkimer BOCES component districts are participating in this CoSer.

New Factors

This past year the Herkimer BOCES has continued to address the emerging needs of its component districts by increasing the offerings in its new services.

The new VP-Tech program created in conjunction with the Herkimer Central School District will allow incoming ninth graders to obtain an Associate's Degree from Herkimer College in Advanced Manufacturing-Quality Assurance at the same time they receive their high school diploma. The initial two years of the program went well and the third cohort of students started in September, 2017.

The Remington Educational Complex continues to grow with changes in its Pathways Academy, Special Education and Adult Education programs. The special education program is expanded its offerings in the fall of 2016 when it collaborated with Kids Oneida in creating its AIM program which focuses on meeting the educational needs of students with Intense Management needs. The AIM Program is anticipated to increase in student enrollment in the 2017-2018 school year.

The third year of a Herkimer BOCES program, School to Work, is beginning after a positive first two years. The program has established new options for the component school districts which will enable those students who wish to enter the job market directly from high school graduation to do so with the skills that are needed for the industry that they have chosen.

The BOCES is also continuously reviewing program participation by its component districts in all of its programs to determine if they are cost-effective to run for the districts.

CONTACTING THE BOCES' FINANCIAL MANAGEMENT

This report is designed to provide citizens, taxpayers, customers and investors and creditors with a general overview of the finances of the BOCES and to demonstrate their accountability with the money they receive. If you have any questions about this report or need additional information, please contact:

Herkimer-Fulton-Hamilton-Otsego Counties BOCES
Attention: Mark Deierlein – Executive Director of Business
352 Gros Boulevard
Herkimer, NY 13350
(315) 867-2052

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

STATEMENT OF NET POSITION

JUNE 30, 2017

CURRENT ASSETS

Cash and cash equivalents	\$ 2,132,758
Restricted cash	2,503,094
Investments	1,093,441
State and federal aid receivable	8,406,171
Due from other governments	929,298
Other receivables	525,832
Other assets	5,350
Food inventory	6,301
Total Current Assets	15,602,245

NONCURRENT ASSETS

Capital assets	26,671,922
Less: accumulated depreciation	11,210,522
Total Noncurrent Assets	15,461,400

TOTAL ASSETS

31,063,645

DEFERRED OUTFLOWS OF RESOURCES

Pensions	6,533,736
Total Deferred Outflows of Resources	6,533,736

CURRENT LIABILITIES

Due to school districts	8,976,280
Due to other governments	215,481
Collections in advance	52,546
Unearned grant revenues	748,892
Due to retirement systems	1,495,850
Energy performance contract	168,377
Accrued interest	129,763
Bonds and notes payable	925,000
Total Current Liabilities	12,712,189

LONG-TERM LIABILITIES

Bonds and notes payable	7,775,000
Other post-employment benefits	47,170,800
Energy performance contract	407,206
Net pension liability - proportionate share	1,484,079
Compensated absences	743,281
Total Long-Term Liabilities	57,580,366

TOTAL LIABILITIES

70,292,555

DEFERRED INFLOWS OF RESOURCES

Pensions	461,313
Total Deferred Inflows of Resources	461,313

NET POSITION

Net investment in capital assets	6,761,400
Restricted	
Workers' compensation reserve	246,602
Unemployment insurance reserve	236,677
Retirement contribution reserve	303,432
Reserve for debt service	1,048,809
Employee benefit accrued liability reserve	856,491
Unrestricted	(42,609,898)
TOTAL NET POSITION	\$ (33,156,487)

See notes to basic financial statements.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

STATEMENT OF ACTIVITIES AND CHANGE IN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenue		Net (Expenses)
	Expenses	Charges for Services	Operating Grants	Revenues and Changes in Net Position
FUNCTIONS AND PROGRAMS:				
Administration	\$ 5,237,742	\$ 5,435,937	\$ 0	\$ 198,195
Occupational instruction	6,578,563	4,836,548	889,860	(852,155)
Instruction for special education	8,756,788	7,131,343	874,599	(750,846)
Itinerant services	4,547,535	4,719,614	0	172,079
General instruction	5,094,273	2,934,698	1,051,386	(1,108,189)
Instructional support	6,580,593	6,739,086	40,457	198,950
Other services	6,193,280	6,255,931	0	62,651
Expenditures - school lunch	188,984	105,651	82,379	(954)
Debt service - interest	321,579	0	0	(321,579)
Total Functions and Programs	\$ 43,499,337	\$ 38,158,808	\$ 2,938,681	(2,401,848)
GENERAL REVENUES:				
Use of money and property				6,163
Total General Revenues				6,163
CHANGE IN NET POSITION				(2,395,685)
TRANSFER OF JUNE 30, 2017 SURPLUS TO SCHOOL DISTRICTS - PAYABLE				(2,661,558)
TOTAL NET POSITION (DEFICIT) – BEGINNING OF YEAR				(28,099,244)
TOTAL NET POSITION (DEFICIT) – END OF YEAR				\$ (33,156,487)

See notes to basic financial statements.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2017

	Governmental Fund Types					Total
	General	Special Aid	School Lunch	Capital Projects	Debt Service	Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 1,899,360	\$ 217,966	\$ 15,432	\$ 0	\$ 0	\$ 2,132,758
Restricted - cash and cash equivalents	1,643,202	0	0	859,892	0	2,503,094
Investments	0	0	0	44,632	1,048,809	1,093,441
Other receivables	117,901	398,823	9,108	0	0	525,832
State and federal aid receivable	7,431,384	970,150	4,637	0	0	8,406,171
Due from other funds	1,080,024	3,993	0	0	0	1,084,017
Due from other governments	0	929,298	0	0	0	929,298
Other assets	0	0	0	5,350	0	5,350
Food inventory	0	0	6,301	0	0	6,301
TOTAL ASSETS	<u>\$ 12,171,871</u>	<u>\$ 2,520,230</u>	<u>\$ 35,478</u>	<u>\$ 909,874</u>	<u>\$ 1,048,809</u>	<u>\$ 16,686,262</u>
LIABILITIES						
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Accrued liabilities	0	0	0	0	0	0
State aid and refunds due school districts	8,976,280	0	0	0	0	8,976,280
Due to other funds	3,993	1,078,261	1,763	0	0	1,084,017
Due to other governments	0	215,481	0	0	0	215,481
Collections in advance	52,546	0	0	0	0	52,546
Unearned grant revenues	0	748,892	0	0	0	748,892
Due to Teachers' Retirement System	1,302,202	0	0	0	0	1,302,202
Due to Employees' Retirement System	193,648	0	0	0	0	193,648
Total liabilities	<u>10,528,669</u>	<u>2,042,634</u>	<u>1,763</u>	<u>0</u>	<u>0</u>	<u>12,573,066</u>
FUND BALANCE						
Nonspendable						
Reserve for inventory	0	0	6,301	0	0	6,301
Restricted						
Workers' compensation reserve	246,602	0	0	0	0	246,602
Unemployment insurance reserve	236,677	0	0	0	0	236,677
Retirement contribution reserve	303,432	0	0	0	0	303,432
Reserve for debt service	0	0	0	0	1,048,809	1,048,809
Employee benefit accrued liability reserve	856,491	0	0	0	0	856,491
Assigned	0	477,596	27,414	909,874	0	1,414,884
Total fund balance	<u>1,643,202</u>	<u>477,596</u>	<u>33,715</u>	<u>909,874</u>	<u>1,048,809</u>	<u>4,113,196</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 12,171,871</u>	<u>\$ 2,520,230</u>	<u>\$ 35,478</u>	<u>\$ 909,874</u>	<u>\$ 1,048,809</u>	<u>\$ 16,686,262</u>
RECONCILIATION OF FUND BALANCE TO NET POSITION:						
Amounts reported for activities in the statement of net position are different because:						
Total fund balance at June 30, 2017 (as reported above)						\$ 4,113,196
Amounts reported for governmental activities in the statement of net position are difference because:						
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in funds						15,461,400
Accrued interest on long-term debt						(129,763)
Proportionate share of long-term asset and liability associated with participation in state retirement system are not current financial resources or obligations and are not reported in the funds						4,588,344
Long-term liabilities, including capitalized lease payables, other post-employment benefits and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds						(57,189,664)
TOTAL NET POSITION – STATEMENT OF ACTIVITIES						<u>\$ (33,156,487)</u>

See notes to basic financial statements.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Fund Types					Totals
	General	Special Aid	School Lunch	Capital Projects	Debt Service	
REVENUES						
Charges for services	\$ 20,405	\$ 2,577,413	\$ 105,651	\$ 0	\$ 0	\$ 2,703,469
Charges to components	32,559,078	0	0	0	0	32,559,078
Charges to other BOCES	570,717	0	0	0	0	570,717
Interest and earnings	841	0	0	0	5,322	6,163
Sale of property and compensation for loss	96,893	0	0	0	0	96,893
Miscellaneous	792,314	0	0	0	0	792,314
Interfund revenues	57,649	0	0	135,000	1,243,688	1,436,337
State sources	0	882,131	2,980	0	0	885,111
Federal sources	0	1,974,171	79,399	0	0	2,053,570
Total revenues	34,097,897	5,433,715	188,030	135,000	1,249,010	41,103,652
EXPENDITURES						
Administration	4,501,055	0	0	0	0	4,501,055
Occupational instruction	4,004,749	1,648,541	0	0	0	5,653,290
Instruction for special education	5,904,881	1,620,269	0	0	0	7,525,150
Itinerant services	3,907,926	0	0	0	0	3,907,926
General instruction	2,429,983	1,947,782	0	0	0	4,377,765
Instructional support	5,580,085	74,950	0	0	0	5,655,035
Other services	5,180,024	142,173	0	0	0	5,322,197
Debt service - principal	0	0	0	0	900,000	900,000
Debt service - interest	0	0	0	0	335,188	335,188
Cost of sales	0	0	188,984	0	0	188,984
Total expenditures	31,508,703	5,433,715	188,984	0	1,235,188	38,366,590
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	2,589,194	0	(954)	135,000	13,822	2,737,062
OTHER FINANCING SOURCES (USES)						
Workers' compensation reserve	21,255	0	0	0	0	21,255
Unemployment insurance reserve	(6,255)	0	0	0	0	(6,255)
Refund of surplus	(2,661,558)	0	0	0	0	(2,661,558)
Total other financing sources (uses)	(2,646,558)	0	0	0	0	(2,646,558)
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND USES	(57,364)	0	(954)	135,000	13,822	90,504
FUND BALANCE – BEGINNING OF YEAR	1,700,566	477,596	34,669	774,874	1,034,987	4,022,692
FUND BALANCE – END OF YEAR	\$ 1,643,202	\$ 477,596	\$ 33,715	\$ 909,874	\$ 1,048,809	\$ 4,113,196

See notes to basic financial statements.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

**RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2017

REVENUES - GOVERNMENTAL FUNDS		\$ 41,103,652
EXPENDITURES - GOVERNMENTAL FUNDS	38,366,590	
Add:		
Depreciation	1,056,637	
Current year accrued interest	129,763	
Pensions	290,635	
Increase in other post-employment benefits liability	5,179,989	
	<u>6,657,024</u>	
Deduct:		
Decrease in bonds and notes payable	900,000	
Decrease in energy performance contract	161,094	
Increase in reserves	15,000	
Increase in capital assets	249,899	
Prior year accrued interest	143,372	
Decrease in compensated absences	54,912	
	<u>1,524,277</u>	
EXPENDITURES - STATEMENT OF ACTIVITIES		<u>43,499,337</u>
CHANGE IN NET POSITION		<u><u>\$ (2,395,685)</u></u>

See notes to basic financial statements.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	<u>Agency Funds</u>
ASSETS	
Restricted cash	<u>\$ 188,635</u>
Total assets	<u><u>\$ 188,635</u></u>
LIABILITIES	
Extraclassroom activity funds	\$ 31,336
Other liabilities	<u>157,299</u>
Total liabilities	<u><u>\$ 188,635</u></u>

See notes to basic financial statements.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Significant accounting principles and policies utilized by the BOCES are described below:

A) Reporting Entity

The BOCES is governed by the laws of New York State. The BOCES is an independent entity and the governing body is the Board of Cooperative Educational Services. The President of the Board serves as the chief fiscal officer and the District Superintendent is the chief executive officer. The Board is responsible for, and controls, all activities related to education within the BOCES District. Board members have authority to make decisions, power to appoint management and primary accountability for all fiscal matters.

The reporting entity of the BOCES is based upon criteria set forth by GASB Statement 14, *The Financial Reporting Entity*, as amended by GASB Statement 39, *Component Units*. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Boards of Cooperative Educational Services (BOCES) were established by New York State legislation in 1948 to enable smaller school districts to offer more breadth in their educational programs by sharing teachers. In 1955, legislation was passed allowing BOCES to provide districts in a geographic area that share planning, services and programs which 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 10 school districts in New York's Herkimer-Fulton-Hamilton-Otsego Counties:

Central Valley Central School District
Dolgeville Central School District
Frankfort-Schuyler Central School District
Herkimer Central School District
Little Falls City School District
Mount Markham Central School District
Owen D. Young Central School District
Poland Central School District
Richfield Springs Central School District
West Canada Valley Central School District

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

A) Reporting Entity – (Continued)

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

The accompanying financial statements present the activities of the BOCES. The BOCES is not a component unit of another reporting entity. The decision to include a potential component unit in the BOCES' reporting entity is based on several criteria including legal standing, fiscal dependency and financial accountability. Based on the application of these criteria, the following is a brief description of an entity included in the BOCES' reporting entity.

i) Extraclassroom Activity Funds

The Extraclassroom Activity Funds of the BOCES represent funds of the students of the BOCES District. The Board of Cooperative Educational Services exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the BOCES District with respect to financial transactions and designation of student management. Audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found bound with these basic financial statements. The BOCES accounts for assets held as an agent for various student organizations in an agency fund.

B) Joint Venture

There are 10 participating school districts in the BOCES. The BOCES is a joint venture in which the participating districts have an ongoing financial responsibility, no equity interest and no single participant controls the financial or operating policies of the BOCES. The BOCES was formed under state law for the purpose of providing shared educational programs and instruction in subjects approved by the State Education Commissioner. The BOCES' governing board is elected based on the vote of members of the participating districts' governing boards. The BOCES charges districts for program costs based on participation and for administrative costs. During the year ended June 30, 2017, the BOCES billed its component districts and other BOCES \$33,133,095 for administrative and program costs.

C) Basis of Presentation

1. BOCES-Wide Statements

The Statement of Net Position and the Statement of Activities present financial information about the BOCES' governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary.

Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through charges to components and other BOCES, intergovernmental revenues and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

C) Basis of Presentation – (Continued)

1. BOCES-Wide Statements – (Continued)

The Statement of Net Position presents the financial position of the BOCES at fiscal year-end. The Statement of Activities presents a comparison between program expenses and revenues for each function of the BOCES' governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of goods and services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

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

The BOCES reports the following major governmental funds:

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

Special Revenue Funds – These funds account for the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specified purposes, child nutrition or other activities whose funds are restricted as to use. These legal restrictions may be imposed either by governments that provide the funds or by outside parties.

Capital Projects Fund – These funds are used to account for the financial resources used for acquisition, construction or major repair of capital facilities. For these funds, each capital project is assessed to determine whether it is a major or nonmajor fund. Those capital projects that are determined to be major are reported in separate columns in the financial statements. Those that are determined to be nonmajor are reported in the supplemental schedules either separately or in the aggregate.

Debt Service Fund – These funds are used to account for and report the financial resources that are restricted to pay debt services. The funds include unused debt proceeds and interest and earnings on the temporary investment debt proceeds.

The BOCES reports on the following fiduciary funds:

Fiduciary Funds

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

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

C) Basis of Presentation – (Continued)

2. Fund Financial Statements – (Continued)

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

D) Measurement Focus and Basis of Accounting

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

The BOCES-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the BOCES gives or receives value without directly receiving or giving equal value in exchange, include grants and donations. On an accrual basis, revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

E) Inventories

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis or in the case of surplus food, at stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

A reserve for these non-liquid assets (inventories) has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

F) Due To/From Other Funds

The amounts reported on the Statement of Net Position for due to and due from other funds represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for amounts due to and due from within the same fund type. A detailed description of the individual fund balances at year end is provided subsequently in these Notes.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

G) Capital Assets

Capital assets are reported at actual cost when such data was available. For assets in which there was no data available, estimated historical costs, based on direct costing, standard costing or normal costing methods, were used. Donated assets are reported at estimated fair market value at the time received.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and improvements	\$ 5,000	Straight-line	15 – 40
Vehicles	5,000	Straight-line	5 – 10
Furniture	5,000	Straight-line	5 – 10
Equipment	5,000	Straight-line	5 – 10

H) Vested Employee Benefits

Compensated Absences

The BOCES' employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods. Sick leave eligibility and accumulation is specified in negotiated labor contracts and in individual employment contracts. Upon retirement, resignation, or death, employees may receive a payment based on unused accumulated sick leave, based on contractual provisions.

Consistent with GASB, an accrual for accumulated sick leave is included in the compensated absences liability at year end. The compensated absences liability is calculated based on the pay rates in effect at year end.

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

I) Deferred Outflows and Inflows of Resources

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

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

I) Deferred Outflows and Inflows of Resources – (Continued)

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

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

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

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
BOCES' proportionate share of the net pension asset (liability)	\$ (909,006)	\$ (575,073)
BOCES' portion of the Plan's total net pension asset (liability)	0.0096742%	0.053693%
Change in proportion since the prior measurement date	0.0000719%	0.0036%

For the year ended June 30, 2017, the BOCES' recognized pension expense of \$375,449 for ERS and \$1,194,794 for TRS. At June 30, 2017, the BOCES' reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources were:

	<u>Deferred Outflows of Resources</u>		<u>Deferred Inflows of Resources</u>	
	<u>ERS</u>	<u>TRS</u>	<u>ERS</u>	<u>TRS</u>
Differences between expected and actual experience	\$ 22,779	\$ 0	\$ 138,038	\$ 186,816
Changes of assumptions	310,550	3,275,983	0	0
Net difference between projected and actual earnings on pension plan investments	181,565	1,293,067	0	0
Changes in proportion and differences between the BOCES' contributions and proportionate share of contributions	40,070	21,280	5,322	131,137
BOCES' contributions subsequent to the measurement date	193,648	1,194,794	0	0
Total	\$ 748,612	\$ 5,785,124	\$ 143,360	\$ 317,953

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

I) Deferred Outflows and Inflows of Resources – (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – (Continued)

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

		<u>ERS</u>	<u>TRS</u>
Year ended:			
	2018	\$ 185,121	\$ 385,640
	2019	185,121	1,389,871
	2020	164,161	1,077,425
	2021	(122,799)	486,377
	2022	0	547,424
	Thereafter	0	0

Actuarial Assumptions

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

Significant actuarial assumptions used in the valuations were as follows:

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
Actuarial valuation date	April 1, 2016	June 30, 2015
Interest rate	7.0%	7.5%
Salary scale	3.8%	1.90% - 4.72%
Decrement tables	April 1, 2010 - March 31, 2015	July 1, 2009 - June 30, 2014
	Systems experience	Systems experience
Inflation rate	2.5%	2.5%

For ERS, annuitant mortality rates are based on April 1, 2010 through March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014. For TRS, annuitant mortality rates are based on July 1, 2009 through June 30, 2014 System's experience with adjustments for mortality improvements based on Society of Actuaries Scale AA.

For ERS, the actuarial assumptions used in the April 1, 2016 valuation are based on the results of an actuarial experience study for the period April 1, 2010 through March 31, 2015. For TRS, the actuarial assumptions used in the June 30, 2015 valuation are based on the results of an actuarial experience study for the period July 1, 2009 through June 30, 2014.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

I) Deferred Outflows and Inflows of Resources – (Continued)

Actuarial Assumptions – (Continued)

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

	<u>ERS</u>	<u>TRS</u>
Measurement date	March 31, 2017	June 30, 2016
<u>Asset type</u>		
Domestic equity	4.55%	6.10%
International equity	6.35	7.30
Real estate	5.80	5.40
Domestic fixed income securities	0	1.00
Global fixed income securities	0	0.80
Mortgages	0	3.10
Short-term	0	0.10
Private equity/alternative investments	7.75	9.20
Absolute return strategies	4.00	0
Opportunistic portfolio	5.89	0
Real assets	5.54	0
Bonds and mortgages	1.31	0
Cash	(0.25)	0
Inflation index bonds	1.50	0

Discount Rate

The discount rate used to calculate the total pension liability was 7.0% for ERS and 7.5% for TRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the BOCES' proportionate share of the net pension asset (liability) calculated using the discount rate of 7.0% for ERS and 7.5% for TRS, as well as what the BOCES' proportionate share of the net pension asset (liability) would be if it were calculated using a discount rate that is 1 percentage point lower (6.0% for ERS and 6.5% for TRS) or 1 percentage point higher (8.0% for ERS and 8.5% for TRS) than the current rate:

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

I) Deferred Outflows and Inflows of Resources – (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption – (Continued)

	<u>1% Decrease (6.0%)</u>	<u>Current Assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
<u>ERS</u> BOCES' proportionate share of the net pension asset (liability)	\$(2,903,186)	\$ (909,006)	\$ 777,069
	<u>1% Decrease (6.5%)</u>	<u>Current Assumption (7.5%)</u>	<u>1% Increase (8.5%)</u>
<u>TRS</u> BOCES' proportionate share of the net pension asset (liability)	\$(7,503,137)	\$ (575,073)	\$ 5,235,824

Pension Plan Fiduciary Net Position

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

	(Dollars in thousands)		
	<u>ERS</u>	<u>TRS</u>	<u>Total</u>
Measurement date	March 31, 2017	June 30, 2016	
Employers' total pension asset (liability)	\$(177,400,586)	\$(108,577,184)	\$(285,977,770)
Plan fiduciary net position asset (liability)	168,004,363	107,506,142	275,510,505
Employers' net pension asset (liability)	(9,396,223)	(1,071,042)	(10,467,265)
Ratio of plan fiduciary net position to the employers' total pension asset (liability)	94.7%	99.0%	96.3%

Payables to the Pension Plan

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31. Accrued retirement contributions as of June 30, 2017, represent the projected employer contribution for the period of April 1, 2017 through June 30, 2017 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2017, amounted to \$193,648.

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

I) Deferred Outflows and Inflows of Resources – (Continued)

Payables to the Pension Plan – (Continued)

For TRS, employer and employee contributions for the fiscal year ended June 30, 2017, are paid to the System in September, October and November, 2017, through a state aid intercept. Accrued retirement contributions as of June 30, 2017, represent employee and employer contributions for the fiscal year ended June 30, 2017, based on paid TRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2017, amount to \$1,302,202.

Additional pension information can be found in Note 8.

J) Unearned Revenue

Unearned revenues are reported when potential revenues do not meet both the measureable and available criteria for recognition in the current period. Unearned revenues recorded in the governmental fund and government-wide financial statements arise when revenues are received prior to the BOCES having legal claim to them. For example, when grant monies are received prior to incurring qualified expenditures, then those monies are considered to be unearned revenue. In subsequent periods, when both recognition criteria are met, or when the BOCES has legal claim to the resources, the liability for deferred revenues is removed and revenues are recorded.

K) Receivables

Receivables are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

L) Other Benefits

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

In addition to providing pension benefits, the BOCES provides health insurance coverage and survivor benefits for retired employees and their dependents.

Substantially, all of the BOCES' employees may become eligible for these benefits if they reach normal retirement age while working for the BOCES. Healthcare benefits are provided through plans whose premiums are based on the benefits paid during the year, the cost of which is shared between the BOCES and the retired employee. The BOCES recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the General Fund in the year paid, and is reimbursed by transfer from the Reserve for Retiree Health Insurance maintained in the Trust and Agency Fund.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

M) Equity Classifications

BOCES-Wide Statements

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

i) Net Investment in Capital Assets

Consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, constructions or improvements of those assets.

ii) Restricted Net Position

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

iii) Unrestricted Net Position

Reports the balance of net position that does not meet the definition of the above two classifications and is deemed to be available for general use by the BOCES.

Funds Statements

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

1. Nonspendable

Includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Nonspendable fund balance includes the inventory recorded in the School Lunch Fund of \$6,301.

2. Restricted

Includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. All encumbrances of funds other than the General Fund are classified as restricted fund balance. The BOCES has established the following restricted fund balances:

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

M) Equity Classifications – (Continued)

Funds Statements – (Continued)

2. Restricted – (Continued)

Currently Utilized by the BOCES:

Unemployment Insurance Reserve

According to General Municipal Law §6-m, must be used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within 60 days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the BOCES elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the General Fund.

Workers' Compensation

According to General Municipal Law §6-j, must be used to pay for compensation benefits and other expenses authorized by Article 2 of the Workers' Compensation Law, and for payment of expenses of administering this self-insurance program. The reserve may be established by Board action, and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget.

Retirement Contributions

According to General Municipal Law §6-r, must be used for financing retirement contributions. The reserve must be separate and apart from all other funds and a detailed report of the operation and condition of the fund must be provided to the Board.

Employee Benefit Accrued Liability

According to General Municipal Law §6-p, must be used for the payment of accrued employee benefit due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated.

Debt Service

According to General Municipal Law §6-l, the Mandatory Reserve for Debt Service, must be established for the purpose of retiring the outstanding obligations upon the sale of BOCES property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of BOCES property or capital improvement.

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

M) Equity Classifications – (Continued)

Funds Statements – (Continued)

2. Restricted – (Continued)

Currently Utilized by the BOCES: – (Continued)

Encumbrances

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

3. Committed

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

4. Assigned

Includes amounts that are constrained by the BOCES' intent to be used for specific purposes, but are neither restricted nor committed. The purpose of the constraint must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance also includes an amount appropriated to partially fund the subsequent year's budget, as well as encumbrances not classified as restricted at the end of the fiscal year.

5. Unassigned

Includes all other General Fund amounts that do not meet the definition of the above four classifications and are deemed to be available for use by the BOCES and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification is used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted or assigned.

Order of Use of Fund Balance

The BOCES' policy is to annually determine the appropriate use of fund balance upon recommendation of the Superintendent and Board of Cooperative Educational Services.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

N) New Accounting Standards

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

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

GASB has issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, effective for the year ending June 30, 2017.

O) Future Changes in Accounting Standards

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*, effective for the year ending June 30, 2018. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

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

P) Budgetary Procedures and Budgetary Accounting

Budget Policies

The budget policies are as follows:

- a. Section 1950 of the Education Law requires adoption of a final budget by no later than May 15 of the ensuing year.
- b. BOCES' administration prepares a proposed administrative, capital and program budget, as applicable, for approval by members of the BOCES' Board for the General Fund.
- c. Appropriations for educational services are adopted at the program level.
- d. A tentative administrative budget is provided to the component districts for adoption by resolution. Approval of the tentative administrative budget requires the approval of a majority of the component school boards actually voting. During the current year, the administrative budget was approved by a majority of its voting component school boards.
- e. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. The BOCES' Board can approve supplemental appropriations based upon requests for additional services and surplus revenues.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

P) Budgetary Procedures and Budgetary Accounting – (Continued)

Budget Policies – (Continued)

The following is a summary of General Fund budget revisions for the year ended June 30, 2017:

<u>Program</u>	<u>Original Budget</u>	<u>Budget Revisions</u>		<u>Revised Budget</u>
		<u>Purpose</u>	<u>Amount</u>	
Administration	\$ 4,511,609	All revisions	\$ 33,438	\$ 4,545,047
Occupational Instruction	4,455,922	were made to	(2,190)	4,453,732
Instruction for Special Education	6,320,281	meet the program	586,099	6,906,380
Itinerant Services	4,294,984	service needs to	77,214	4,372,198
General Instruction	2,349,480	the component	433,858	2,783,338
Instructional Support	3,567,817	school districts.	2,108,654	5,676,471
Other Services	4,222,704		999,333	5,222,037
TOTALS	\$ 29,722,797		\$ 4,236,406	\$ 33,959,203

Budget Basis of Accounting

Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

The budget and actual comparison for Special Revenue Funds has not been presented because the funds are not required to establish a legally authorized budget.

Q) Interfund Transactions

The operations of the BOCES include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The BOCES typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditures and revenues to provide financing or other services.

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

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the BOCES' practice to settle these amounts at a net balance based upon the right of legal offset.

Refer to Note 4 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

R) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

S) Cash (and Cash Equivalents)/Investments

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

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

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

Investments

Investments are stated at fair value. The investments represent unspent revenue bond proceeds and funds intercepted by the state for the component school districts debt service payments. The investments consist of only short-term United States Treasury Bills. The investments are held in the BOCES' name but are not insured or collateralized.

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
U.S. Treasury Bills	<u>\$ 1,088,889</u>	<u>\$ 1,093,441</u>	<u>\$ 4,552</u>

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

**NOTE 2 – EXPLANATION OF CERTAIN DIFFERENCES BETWEEN FUND STATEMENTS AND
BOCES-WIDE STATEMENTS**

Due to the differences in the measurement focus and basis of accounting used in the funds statements and the BOCES-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the BOCES-wide statements, compared with the current financial resources focus of the governmental funds.

A) Total Fund Balances of Governmental Funds vs. Net Position of Governmental Activities

Total fund balances of the BOCES' governmental funds differs from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund balance sheets.

B) Statement of Revenues, Expenditures and Changes in Fund Balances vs. Statement of Activities

Differences between the funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of four broad categories, described as follows:

i) Long-Term Revenue Differences

Long-term revenue differences arise because governmental funds report revenues only when they are considered "available," whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

ii) Capital Related Differences

Capital related differences include the difference between proceeds for the sale of capital assets reported on fund statements and the gain or loss on the sale of assets as reported on the Statements of Activities, and the difference between recording an expenditure for the purchase of capital items in the fund statements and depreciation expense on those items as recorded in the Statement of Activities.

iii) Long-Term Debt Transaction Differences

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the fund statements, whereas interest payments are recorded in the Statement of Activities as incurred and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

iv) Pension Differences

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

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 3 – CASH (AND CASH EQUIVALENTS) – CUSTODIAL CREDIT, CONCENTRATION OF CREDIT, INTEREST RATE AND FOREIGN CURRENCY RISKS

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

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

Uncollateralized	\$ 0
Collateralized with securities held by the pledging financial institution, or its trust department or agent, but not in the BOCES' name	8,680,715

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes \$2,503,094 within the governmental funds and \$188,635 in fiduciary funds.

NOTE 4 – INTERFUND TRANSACTIONS

Interfund balances at June 30, 2017, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>	<u>Interfund Revenues</u>	<u>Interfund Expenditures</u>
General Fund	\$ 1,080,024	\$ 3,993	\$ 0	\$ 0
School Lunch Fund	0	1,763	0	0
Capital Fund	0	0	0	0
Debt Service Fund	0	0	0	0
Special Aid Fund	3,993	1,078,261	0	0
TOTALS	<u>\$ 1,084,017</u>	<u>\$ 1,084,017</u>	<u>\$ 0</u>	<u>\$ 0</u>

Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Position.

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

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

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 5 – FAIR VALUE OF ASSETS

As required by GASB 72, the BOCES is required to value investment and debt securities based on the valuation measurement techniques and hierarchy established by the pronouncement.

There are three general valuation techniques that may be used to measure fair value, as described below:

- A) Market approach – Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades or other sources;
- B) Cost approach – Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost); and
- C) Income approach – Uses valuation techniques to convert future amounts to a single present amount based on current market expectation about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Assets and liabilities itemized below were measured at fair value during the year ended using the market and income approaches. The market approach was used for Level 1 and Level 2.

Fair Value Measurements Using

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury Bills	\$ 1,093,441	\$ 0	\$ 1,093,441	\$ 0

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 6 – CAPITAL ASSETS

Capital asset balances and activity for the year ended June 30, 2017, were as follows:

	Beginning Balance	Additions	Retirement/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 176,400	\$ 0	\$ 0	\$ 176,400
Total nondepreciable historical cost	176,400	0	0	176,400
Capital assets that are depreciated:				
Buildings and improvements	21,197,010	0	0	21,197,010
Furniture and equipment	5,071,327	273,083	45,898	5,298,512
Total depreciable historical cost	26,268,337	273,083	45,898	26,495,522
Less accumulated depreciation:				
Buildings and improvements	6,330,085	790,671	0	7,120,756
Furniture and equipment	3,846,514	265,966	22,714	4,089,766
Total accumulated depreciation	10,176,599	1,056,637	22,714	11,210,522
Total depreciable historical cost - net	16,091,738	(783,554)	23,184	15,285,000
GRAND TOTALS	\$ 16,268,138	\$ (783,554)	\$ 23,184	\$ 15,461,400
Depreciation was allocated to programs as follows:				
Administration		\$ 128,740		
Occupational instruction		161,697		
Instruction for the handicapped		215,236		
Itinerant services		111,776		
General instruction		125,214		
Instructional support		161,747		
Other services		152,227		
		<u>\$ 1,056,637</u>		

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 7 – LONG-TERM DEBT

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Government activities:					
General obligation debt:					
Bonds and notes payable	\$ 9,600,000	\$ 0	\$ 900,000	\$ 8,700,000	\$ 925,000
Total general obligation debt	9,600,000	0	900,000	8,700,000	925,000
Other liabilities:					
Compensated absences	798,193	0	54,912	743,281	0
Energy performance contract	736,677	0	161,094	575,583	168,377
Other post-employment benefits	41,990,811	5,179,989	0	47,170,800	0
Total other liabilities	43,525,681	5,179,989	216,006	48,489,664	168,377
TOTAL LONG-TERM LIABILITIES	<u>\$53,125,681</u>	<u>\$5,179,989</u>	<u>\$ 1,116,006</u>	<u>\$57,189,664</u>	<u>\$ 1,093,377</u>

Revenue Bonds

The BOCES entered into a financing agreement with the Dormitory Authority of the State of New York (DASNY) consisting of program lease revenue bonds in which the BOCES guarantees the payment of principal and interest on bonds issued by the DASNY. The revenue bonds will be paid by the component districts of the BOCES through rental charges which are part of the BOCES administrative budget. The financing agreement is part of a building expansion and alteration project approved by a majority vote of the residents of the component districts. The terms of the revenue bonds are as follows:

<u>Description of issue</u>	<u>Date</u>	<u>Maturity</u>	<u>Rate</u>	<u>Balance</u>
DASNY Bonds	August, 2010	June, 2026	2.0 - 4.25%	\$ 8,700,000

The following is a summary of maturing debt service requirements on the bonds payable:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30,			
2018	\$ 925,000	\$ 302,969	\$ 1,227,969
2019	925,000	267,500	1,192,500
2020	950,000	231,688	1,181,688
2021	950,000	193,438	1,143,438
2022	975,000	156,188	1,131,188
Thereafter	3,975,000	279,563	4,254,563
Totals	<u>\$ 8,700,000</u>	<u>\$1,431,346</u>	<u>\$10,131,346</u>

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NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 7 – LONG-TERM DEBT – (CONTINUED)

Energy Performance Contract

The BOCES finalized an energy performance contract during the year ended June 30, 2006. The contract is defined in Section 9-102(4) of the New York State Energy Law as: "an agreement for the provision of energy services, including but not limited to electricity, heating, ventilation, cooling, steam, or hot water, in which a person agrees to install, maintain, or manage energy systems or equipment to improve the energy efficiency of, or produce energy in connection with a building or facility in exchange for a portion of the energy savings or revenues." The contract is accounted for as a capital lease. The lease payments are recorded as a component of the BOCES Administrative Budget function. The total net present value of the lease at June 30, 2017, is \$575,583.

Principal and interest payments due on the energy performance contract are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30,			
2018	\$ 168,377	\$ 22,811	\$ 191,188
2019	175,988	15,197	191,185
2020	183,946	7,241	191,187
2021	47,272	525	47,797
2022	0	0	0
Thereafter	0	0	0
Totals	<u><u>\$ 575,583</u></u>	<u><u>\$ 45,774</u></u>	<u><u>\$ 621,357</u></u>

Interest paid on long-term debt was comprised of:

Interest expense	\$ 335,188
Less: Prior year accrued interest	(143,372)
Plus: Current year accrued interest	129,763
Totals	<u><u>\$ 321,579</u></u>

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

NOTE 8 – PENSION PLANS

General Information

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

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 8 – PENSION PLANS – (CONTINUED)

Plan Descriptions and Benefits Provided:

Teachers' Retirement System (TRS)

The BOCES participates in the New York State Teachers' Retirement System (TRS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as, death and disability benefits to plan members and beneficiaries as authorized by the Education Law and the Retirement and Social Security Law of the State of New York. The System is governed by a 10 member Board of Trustees. System benefits are established under New York State Law. Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in TRS. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the System, may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395 or by referring to the NYSSTR Comprehensive Annual Financial report which can be found on the System's website at www.nystrs.org.

Employees' Retirement System (ERS)

The BOCES participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The BOCES also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 2, 2010, who generally contribute 3.0% to 3.5% of their salary for their entire length of service. In addition, employee contribution rates under ERS tier VI vary based on a sliding salary scale. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education Law.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 8 – PENSION PLANS – (CONTINUED)

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

	<u>NYSTRS</u>	<u>NYSERS</u>
2017	\$ 1,194,794	\$ 375,449
2016	1,512,581	439,105
2015	1,259,173	440,625

Since 1989, the NYSERS billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 over a 17 year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability, which the BOCES did not exercise.

ERS has provided additional disclosures through entities that elected to participate in Chapter 260, 57 and 105.

NOTE 9 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS

The BOCES provides post-employment health insurance coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by the BOCES' contractual agreements.

The BOCES recognizes the cost of providing health insurance annually as expenditures in the General Fund of the funds financial statements as payments are made. For the year ended June 30, 2017, the BOCES recognized \$2,570,277 for its share of insurance premiums for currently enrolled retirees.

The BOCES has obtained an actuarial valuation report as of July 1, 2016, which indicates that the total liability for other post-employment benefits is \$47,170,800, which is reflected in the Statement of Net Position.

Plan Description

The BOCES provides medical and prescription drug insurance benefits for retirees, spouses and their covered dependents while contributing a portion of the expenses. Such post-employment benefits are an included value in the exchange of salaries and benefits for employee services rendered. An employee's total compensation package includes not only the salaries and benefits received during active service, but all compensation and benefits received for their services during post-employment. Nevertheless, both types of benefits constitute compensation for employee services.

The BOCES issues a publicly available financial report that includes financial statements and required supplementary information.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 9 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS – (CONTINUED)

Funding Policy

The contribution requirements of plan members and the BOCES are established by the Board of Education. The required contribution is based on projected pay-as-you-go financing requirements.

For the fiscal year ended June 30, 2017, the BOCES contributed \$4,080,199 to the employee health insurance.

Annual Other Post-employment Benefit (OPEB) Cost and Net OPEB Obligation

The BOCES' annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the BOCES' annual OPEB cost for the year, the amount actually contributed to the plan and changes in the BOCES' net OPEB obligation to the healthcare plan:

Annual required contribution	\$ 8,955,507
Interest of net OPEB obligation	1,469,678
Adjustment to annual required contribution	<u>(2,674,919)</u>
Annual OPEB cost (expense)	7,750,266
Contributions made	<u>(2,570,277)</u>
Increase in net OPEB obligation	5,179,989
Net OPEB obligation - beginning of year	<u>41,990,811</u>
Net OPEB obligation - end of year	<u><u>\$ 47,170,800</u></u>

The BOCES' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	\$ 7,750,266	33.2%	\$ 47,170,800
June 30, 2016	8,351,187	35.6%	41,990,811
June 30, 2015	8,015,900	35.2%	36,613,469

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 9 – POST-EMPLOYMENT (HEALTH INSURANCE) BENEFITS – (CONTINUED)

Funding Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$80,246,639 and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$80,246,639. The covered payroll (annual payroll of active employees covered by the plan) was \$12,650,884, and the ratio of the UAAL to the covered payroll was 634%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is based on the expected earnings of the BOCES' General Fund investments at the valuation date and an annual healthcare cost trend rate of 7% initially, reduced by decrements to an ultimate rate of 4.2% after 30 years. Both rates included a 5% inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was 30 years.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Potential Grantor Liability

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE 11 – RISK MANAGEMENT

The BOCES is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 11 – RISK MANAGEMENT – (CONTINUED)

Consortiums and Self Insured Plans

The BOCES participates with 9 other governmental entities in the Herkimer County BOCES Health Insurance Consortium for its health insurance coverage, as well as with 31 other school districts in the Madison, Oneida, and Herkimer Workers' Compensation Consortium for its workers' compensation insurance coverage. Premiums paid to the Health and Workers' Compensation Consortium totaled \$5,777,781 and \$95,462, respectively, for the year ended June 30, 2017. Entities joining the plan must remain members for a minimum of one year; a member may withdraw from the plan after that time by submitting a notice of withdrawal, 120 days for workers' compensation or 30 days for health insurance, prior to the plan's year end. Plan members are subject to a supplemental assessment in the event of deficiencies. If the plan's assets were to be exhausted, members would be responsible for the plan's liabilities. The plan uses a reinsurance agreement to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the liability of the plan as direct insurer of the risks insured.

The plan establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. However, because actual claim costs depend on complex factors, the process used in computing claims liabilities does not necessarily result in an exact amount. Such claims are based on the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and claims that have been incurred but not reported. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The Consortium is an intermunicipal agreement pursuant to Article 5-G of the General Municipal Law whereby each entity pays annual premiums based on the expected claims for the enrollees. Due to this arrangement, a possible contingent liability exists for the BOCES as a result of the possibility that any participating entity may have actual claims less than its annual premiums and try to recover its portion due to it through the Consortium participants.

The BOCES continues to carry commercial insurance for all other risks of loss such as general liability.

NOTE 12 – OPERATING LEASES

The BOCES also has various short-term leases for classroom and administration space, predominantly of a one-year duration. All lease payments are expensed when paid. Lease expense total \$324,992 for the year ended June 30, 2017.

NOTE 13 – BUDGET REVISIONS

The budget was increased by \$4,236,406 to provide for changes in program services by the component districts. The increases were approved by the Board during the year.

NOTE 14 – DEFICIT NET POSITION

The BOCES-wide net position had a deficit at June 30, 2017, of \$33,156,487. The deficit is the result of the implementation of GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which required the recognition of an unfunded liability of \$47,170,800 at June 30, 2017. Since New York State Laws provide no mechanism for funding the liability, the subsequent accruals are expected to increase the deficit.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 15 – SUBSEQUENT EVENTS

The BOCES has evaluated subsequent events through the issuance date of the report. None were considered material to the issued financial statements.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Fav; (Unfav)</u>
REVENUES				
Local Sources:				
Charges for services	\$ 22,000	\$ 22,000	\$ 20,405	\$ (1,595)
Charges to components	28,444,364	32,631,443	32,559,078	(72,365)
Charges to other BOCES	521,390	570,717	570,717	0
Interest and earnings	3,000	3,000	841	(2,159)
Sale of property and compensation for loss	85,000	85,000	96,893	11,893
Miscellaneous	647,043	647,043	792,314	145,271
Interfund revenues	0	0	57,649	57,649
Total revenues	<u>29,722,797</u>	<u>33,959,203</u>	<u>34,097,897</u>	<u>138,694</u>
EXPENDITURES				
Current:				
Administration	4,511,609	4,545,047	4,501,055	43,992
Occupational instruction	4,455,922	4,453,732	4,004,749	448,983
Instruction for special education	6,320,281	6,906,380	5,904,881	1,001,499
Itinerant services	4,294,984	4,372,198	3,893,999	478,199
General instruction	2,349,480	2,783,338	2,422,067	361,271
Instructional support	3,567,817	5,676,471	5,534,255	142,216
Other services	4,222,704	5,222,037	5,175,333	46,704
Total expenditures	<u>29,722,797</u>	<u>33,959,203</u>	<u>31,436,339</u>	<u>2,522,864</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 0</u>	<u>\$ 0</u>	2,661,558	<u>\$ 2,661,558</u>
RECONCILIATION				
Add - encumbrances at end of year included in actual			0	
Less - expenditure of prior year's encumbrances			(72,364)	
EXCESS OF REVENUES OVER EXPENDITURES			<u>2,589,194</u>	
OTHER FINANCING SOURCES (USES)				
Workers' compensation reserve			21,255	
Unemployment reserve			(6,255)	
Refund of surplus			(2,661,558)	
Total other financing sources (uses)			<u>(2,646,558)</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			(57,364)	
FUND BALANCE – BEGINNING OF YEAR			<u>1,700,566</u>	
FUND BALANCE – END OF YEAR			<u>\$ 1,643,202</u>	

See paragraph on supplemental schedules included in independent auditors' report.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFITS PLAN

FOR THE YEAR ENDED JUNE 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (b)	Unfunded Accrued Liability (UAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2016	\$ 0	\$ 80,246,639	\$ 80,246,639	0%	\$ 12,650,884	634%
7/1/2015	0	92,217,700	92,217,700	0%	14,109,000	654%
7/1/2014	0	88,563,785	88,563,785	0%	11,304,000	783%

See paragraph on supplemental schedules included in independent auditors' report.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF THE LOCAL GOVERNMENT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

FOR THE YEARS ENDED JUNE 30, 2017, 2016 AND 2015

<u>NYS Employees' Retirement System</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
BOCES' proportion of the net pension liability (asset)	0.0096742%	0.0096023%	0.0085810%
BOCES' proportionate share of the net pension liability (asset)	\$ 909,006	\$ 1,541,200	\$ 289,887
BOCES' covered-employee payroll	2,853,579	2,462,818	2,462,818
BOCES' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.9%	62.6%	11.8%
Plan fiduciary net position as a percentage of the total pension liability	94.7%	90.7%	97.9%
<u>NYS Teachers' Retirement System</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
BOCES' proportion of the net pension liability (asset)	0.053693%	0.054055%	0.049341%
BOCES' proportionate share of the net pension liability (asset)	\$ 575,073	\$ (5,614,638)	\$ (5,496,252)
BOCES' covered-employee payroll	9,453,273	10,080,392	8,119,863
BOCES' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	6.1%	55.7%	67.7%
Plan fiduciary net position as a percentage of the total pension liability (asset)	99.00%	110.50%	111.48%

See paragraph on supplemental schedules included in independent auditors' report.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF LOCAL GOVERNMENT CONTRIBUTIONS

FOR THE YEARS ENDED JUNE 30, 2017, 2016 AND 2015

<u>NYS Employees' Retirement System</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 396,286	\$ 510,459	\$ 440,625
Contributions in relation to the contractually required contribution	<u>396,286</u>	<u>510,459</u>	<u>440,625</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
BOCES' covered-employee payroll	\$ 2,853,579	\$ 2,462,818	\$ 2,462,818
Contribution as a percentage of covered-employee payroll	13.89%	20.73%	17.89%
<u>NYS Teachers' Retirement System</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,107,924	\$ 1,336,660	\$ 1,423,412
Contributions in relation to the contractually required contribution	<u>1,107,924</u>	<u>1,336,660</u>	<u>1,423,412</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
BOCES' covered-employee payroll	\$ 9,453,273	\$ 10,080,392	\$ 8,119,863
Contribution as a percentage of covered-employee payroll	11.72%	13.26%	17.53%

See paragraph on supplemental schedules included in independent auditors' report.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

SUPPLEMENTARY INFORMATION

ANALYSIS OF ACCOUNT A431 – SCHOOL DISTRICTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
DEBIT (CREDIT) BALANCE - BEGINNING OF YEAR	\$ 1,659,474	\$ 360,426
DEBITS		
Encumbrances - end of year	0	72,364
Billings to school districts and other BOCES	33,133,095	32,867,357
Refund of balances due school districts	<u>2,738,621</u>	<u>3,225,898</u>
Total Debits	<u>35,871,716</u>	<u>36,165,619</u>
CREDITS		
Excess revenues over expenditures	2,589,193	2,810,986
Collections from school districts	36,414,527	32,055,585
Encumbrances - beginning of year	<u>72,364</u>	<u>0</u>
Total Credits	<u>39,076,084</u>	<u>34,866,571</u>
DEBIT (CREDIT) BALANCE - END OF YEAR	<u><u>\$ (1,544,894)</u></u>	<u><u>\$ 1,659,474</u></u>

See paragraph on supplemental schedules included in independent auditors' report.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

SUPPLEMENTARY INFORMATION

**SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURES
COMPARED TO BUDGET**

FOR THE YEAR ENDED JUNE 30, 2017

	Revenues				Expenditures				
	Original Budget	Revised Budget	Current Years Revenues	Over (Under) Revised Budget	Original Budget	Revised Budget	Current Years Expenditures	Encumbrances	Unencumbered (Overexpended) Balances
Administration 001-002	\$ 4,511,609	\$ 4,545,047	\$ 4,570,663	\$ 25,616	\$ 4,511,609	\$ 4,545,047	\$ 4,501,055	\$ 0	\$ 43,992
Occupational Instruction 100-199	4,455,922	4,453,732	4,452,118	(1,614)	4,455,922	4,453,732	4,004,749	0	448,983
Instruction for Special Education 200-299	6,320,281	6,906,380	6,979,126	72,746	6,320,281	6,906,380	5,904,881	0	1,001,499
Itinerant 300-399	4,294,984	4,372,198	4,336,165	(36,033)	4,294,984	4,372,198	3,907,926	0	464,272
General Instruction 400-499	2,349,480	2,783,338	2,538,720	(244,618)	2,349,480	2,783,338	2,429,983	0	353,355
Instructional Support 500-599	3,567,817	5,676,471	5,797,049	120,578	3,567,817	5,676,471	5,580,085	0	96,386
Other Services 600-699	4,222,704	5,222,037	5,424,056	202,019	4,222,704	5,222,037	5,180,024	0	42,013
TOTALS	<u>\$ 29,722,797</u>	<u>\$ 33,959,203</u>	<u>\$ 34,097,897</u>	<u>\$ 138,694</u>	<u>\$ 29,722,797</u>	<u>\$ 33,959,203</u>	<u>\$ 31,508,703</u>	<u>\$ 0</u>	<u>\$ 2,450,500</u>
EXCESS REVENUES					<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,589,194</u>		

See paragraph on supplemental schedules included in independent auditors' report.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

SUPPLEMENTARY INFORMATION

SCHEDULE OF PROJECT EXPENDITURES – CAPITAL PROJECT FUND

FOR THE YEAR ENDED JUNE 30, 2017

Project Title	Original Appropriation	Revised Appropriation	Expenditures			Unexpended Balance	Methods of Financing			Total	Fund Balances
			Prior Year	Current Year	Total		State Aid	Local Sources	Proceeds of Obligations		
WEB Capital Project	\$ 17,025,000	\$ 17,025,000	\$ 14,620,036	\$ 0	\$ 14,620,036	\$ 2,404,964	\$ 0	\$ 1,329,910	\$ 14,200,000	\$ 15,529,910	\$ 909,874
TOTALS	<u>\$ 17,025,000</u>	<u>\$ 17,025,000</u>	<u>\$ 14,620,036</u>	<u>\$ 0</u>	<u>\$ 14,620,036</u>	<u>\$ 2,404,964</u>	<u>\$ 0</u>	<u>\$ 1,329,910</u>	<u>\$ 14,200,000</u>	<u>\$ 15,529,910</u>	<u>\$ 909,874</u>

See paragraph on supplemental schedules included in independent auditors' report.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

SUPPLEMENTARY INFORMATION

NET INVESTMENT IN CAPITAL ASSETS

JUNE 30, 2017

CAPITAL ASSETS, NET			\$ 15,461,400
DEDUCT:			
Short-term portion of debt	925,000		
Long-term portion of debt	<u>7,775,000</u>		
			<u>8,700,000</u>
NET INVESTMENT IN CAPITAL ASSETS			<u><u>\$ 6,761,400</u></u>

See paragraph on supplemental schedules included in independent auditors' report.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

**FEDERAL AWARD PROGRAM INFORMATION
(SINGLE AUDIT)**

(UNIFORM GUIDANCE)

JUNE 30, 2017



**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**

To the Board of Education of the
Herkimer-Fulton-Hamilton-Otsego Counties
Board of Cooperative Educational Services
Herkimer, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Herkimer-Fulton-Hamilton-Otsego Counties Board of Cooperative Educational Services (BOCES) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the BOCES' basic financial statements, and have issued our report thereon dated September 22, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

WEST & COMPANY CPAs PC

Gloversville, New York
September 22, 2017



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

To the Board of Education of the
Herkimer-Fulton-Hamilton-Otsego Counties
Board of Cooperative Educational Services
Herkimer, New York

Report on Compliance for Each Major Federal Program

We have audited the Herkimer-Fulton-Hamilton-Otsego Counties Board of Cooperative Educational Services' (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 the BOCES' major federal programs for the year ended June 30, 2017. The 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 the requirements of laws, regulations, contracts and grants 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 Regulation* 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, Herkimer-Fulton-Hamilton-Otsego Counties Board of Cooperative Educational Services (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 the BOCES is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered 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 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.

WEST & COMPANY CPAs PC

Gloversville, New York
September 22, 2017

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Current Year Federal Expenditures</u>
<u>U.S. Department of Education</u>			
Direct Award:			
Student Financial Aid Cluster:			
Federal Direct Student Loans	84.268	Not Applicable	\$ 327,330
Federal Pell Grant Program	84.063	Not Applicable	230,760
			<hr/>
Total Student Financial Aid Cluster			558,090
(Passed through the State Education Department of the State of New York - Pass-through Grantor's No. 14-6013200-C6)			
Migrant Education - State Grant Program	84.011	0035160008	268,199
Migrant Education - State Grant Program	84.011	0035170008	852,918
Special Education - Grants to States (SETRC)	84.027	Not Applicable	163,164
Adult Education - Basic Grants to States	84.002	2338172070	49,900
Career and Technical Education - Basic Grants to States	84.048	8000170057	81,900
			<hr/>
Total U.S. Department of Education			1,974,171
<u>U.S. Department of Agriculture</u>			
Passed Through NYS Education Department:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	Not Applicable	20,886
National School Lunch Program	10.555	Not Applicable	41,099
Summer Food Service Program for Children	10.559	Not Applicable	17,414
			<hr/>
Total Child Nutrition Cluster			79,399
			<hr/>
Total U.S. Department of Agriculture			79,399
			<hr/>
TOTAL FEDERAL AWARDS EXPENDED			<hr/> <hr/> \$ 2,053,570

See notes to schedule of expenditures of federal awards.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs administered by BOCES, which is described in Note 1 to BOCES' accompanying financial statements, using the modified accrual basis of accounting. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented. Certain of the BOCES' federal award programs have been charged with indirect costs, based upon an established rate applied to overall expenditures. There is no other indirect cost allocation plan in effect.

Matching costs (the BOCES' share of certain program costs) are not included in the reported expenditures.

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the BOCES had food commodities totaling \$-0- in inventory.

NOTE C – CLUSTER PROGRAMS

The following programs are identified by the Uniform Guidance to be a part of a cluster of programs:

Child Nutrition Cluster

CFDA #10.553	School Breakfast Program
CFDA #10.555	National School Lunch Program
CFDA #10.559	Summer Food Service Program for Children

Student Financial Aid Cluster

CFDA #84.268	Federal Direct Student Loans
CFDA #84.063	Federal Pell Grant Program

NOTE D – INDIRECT COST RATE

The BOCES has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' opinion issued: Unmodified

Internal control over financial reporting:

Material weakness identified? _____ yes X no

Significant deficiency identified that is not
considered to be material weakness? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

FEDERAL AWARDS

Internal control over major programs:

Material weaknesses identified? _____ yes X no

Significant deficiency identified that is not
considered to be material weakness? _____ yes X none reported

Type of auditors' opinion(s) issued on compliance for
major programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR 200.516? _____ yes X no

Identification of major programs:

Name of Federal Program

CFDA Number

Federal Direct Student Loans	84.268
Federal Pell Grant Program	84.063

Dollar threshold used to distinguish between Type A and Type B Programs	\$750,000
--	-----------

Auditee qualified as low risk? X yes _____ no

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

AUDITED FINANCIAL STATEMENTS

EXTRACLASSROOM ACTIVITY FUNDS

JUNE 30, 2017



INDEPENDENT AUDITORS' REPORT

To the Board of Education of the
Herkimer-Fulton-Hamilton-Otsego Counties
Board of Cooperative Educational Services
Herkimer, New York

We have audited the accompanying statement of assets and liabilities arising from cash transactions of the Extraclassroom Activity Funds of Herkimer-Fulton-Hamilton-Otsego Counties Board of Cooperative Educational Services as of June 30, 2017, and the related statement of revenues collected and expenses paid for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting as described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 an opinion 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. 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 qualified audit opinion.

Basis for Qualified Opinion

Insufficient accounting controls are exercised over cash receipts at the point of collections to the time of submission to the Central Treasurer. Accordingly, it was impracticable to extend our audit of such receipts beyond the amounts recorded.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances of the Extraclassroom Activity Funds of the Herkimer-Fulton-Hamilton-Otsego Counties Board of Cooperative Educational Services as of June 30, 2017, and the revenues collected and expenses paid for the year then ended, on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

WEST & COMPANY CPAs PC

Gloversville, New York
September 22, 2017

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

EXTRACLASSROOM ACTIVITY FUNDS

STATEMENT OF ASSETS AND LIABILITIES ARISING FROM CASH TRANSACTIONS

JUNE 30, 2017

ASSETS	
Cash	\$ 31,336
TOTAL ASSETS	<u>\$ 31,336</u>
LIABILITIES AND CLUB BALANCES	
Club balances	\$ 31,336
TOTAL LIABILITIES AND CLUB BALANCES	<u>\$ 31,336</u>

See independent auditors' report.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

EXTRACLASSROOM ACTIVITY FUNDS

STATEMENT OF REVENUES COLLECTED AND EXPENSES PAID

FOR THE YEAR ENDED JUNE 30, 2017

	Balances July 1, 2016	Total Receipts	Total Disbursements	Balances June 30, 2017
<u>ACTIVITIES</u>				
Career Prep	\$ 0	\$ 544	\$ 24	\$ 520
Child and Family Services Program	2,143	442	75	2,510
Cosmetology - AM	1,295	681	29	1,947
Cosmetology - PM	213	2,279	1,626	866
Cosmetology Retail	1,377	64	0	1,441
Criminal Justice - AM	21	0	21	0
Criminal Justice - PM	20	0	20	0
Culinary/Hospitality	1,422	2,516	2,572	1,366
Foundations of Culinary	25	0	25	0
FBLA	895	5,381	5,986	290
HOSA - AM	919	3,400	4,156	163
HOSA - PM	(19)	5,342	4,936	387
Pathways	470	0	0	470
Skills USA	16,690	20,209	21,424	15,475
Visual Communications	3,906	4,421	3,438	4,889
VP-Tech	94	2,190	1,339	945
Interest Accrued	58	9	0	67
TOTAL ALL FUNDS	\$ 29,529	\$ 47,478	\$ 45,671	\$ 31,336

See notes to financial statements.

**HERKIMER-FULTON-HAMILTON-OTSEGO COUNTIES
BOARD OF COOPERATIVE EDUCATIONAL SERVICES**

EXTRAClassroom Activity Funds

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Extraclassroom Activity Funds of the Herkimer-Fulton-Hamilton-Otsego Counties BOCES represent funds of the students of the BOCES. The BOCES' Board exercises general oversight on these funds. The Extraclassroom Activity Funds are independent of the BOCES with respect to its financial transactions and the designation of student management. However, since the BOCES' Board does exercise general oversight, these funds and their corresponding cash accounts are reflected in the Trust and Agency Fund of the financial statements of the BOCES.

The books and records of the Herkimer-Fulton-Hamilton-Otsego Counties BOCES' Extraclassroom Activity Funds are maintained on the cash basis of accounting. Under this basis of accounting, revenues are recognized when cash is received and expenditures are recognized when cash is disbursed.

Interest earned on savings is credited to each permanent activity equally, as authorized by the BOCES' Board.

NOTE 2 – MANAGEMENT LETTER

Management letter items associated with the Extraclassroom Activity Funds are included in the management letter accompanying the BOCES' financial statements.



September 22, 2017

To the Board of Education of the
Herkimer-Fulton-Hamilton-Otsego Counties
Board of Cooperative Educational Services
Herkimer, New York

Dear Board Members:

In planning and performing our audit of the financial statements of the Herkimer-Fulton-Hamilton-Otsego Counties Board of Cooperative Educational Services (BOCES) for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the BOCES' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BOCES' internal control. Accordingly, we do not express an opinion on the effectiveness of the BOCES' internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and improving operating efficiency. We previously reported on the BOCES' internal control in our report dated September 22, 2017. A separate report dated September 22, 2017, contains our report on significant deficiencies in the BOCES' internal control. This letter does not affect our report dated September 22, 2017 on the financial statements of Herkimer-Fulton-Hamilton-Otsego Counties Board of Cooperative Educational Services.

Prior-Year Comments and Recommendations

1) Payroll Testing

Prior Condition: During our June 30, 2016 audit testing, we noted one employee who did not have the employer review and verification section of their I-9 completed and one employee who did not have sufficient identification on file with their I-9.

Status: During our June 30, 2017 audit testing, we noted two employees whose I-9 did not have the employer review and verification section completed.

Recommendation: The Human Resources Department must require all employees to complete form I-9 in its entirety, and place it in the employee file along with copies of the appropriate identification examined.

2) Old Outstanding Checks

Prior Condition: We have noted that in bank reconciliations of several funds, there are outstanding checks that are over one year old.

Status: This condition remains outstanding as of June 30, 2017.

Recommendation: We recommend that the BOCES attempt to void and re-issue the old checks or submit to New York State in compliance with the Escheat Laws.

3) **Accounts Receivable**

Prior Condition: During review of accounts receivable balances, we noted several that are over one year past due.

Status: This condition remains outstanding as of June 30, 2017.

Recommendation: The Business Office should review collectability of receivables regularly to ensure receipt.

4) **Special Aid Fund**

Prior Condition: We have noted that adjusting journal entries proposed as a result of your 2012-2013 audit were not posted in the account records.

Status: This condition has been corrected as of June 30, 2017.

5) **Interfund Balances**

Prior Condition: At the time of the audit interfund receivables and payables were out of balance.

Status: This condition has been corrected as of June 30, 2017.

6) **Extraclassroom Activity Funds**

Prior Condition: Our audit testing noted the following:

- (a) Clubs did not complete profit or loss statements or inventory control forms for fundraisers as required by NYS Education Department regulations.
- (b) Clubs failed to collect and pay sales tax on receipts and purchases.
- (c) There were missing signatures on the documentation.

Status: During our June 30, 2017 audit testing we noted the following:

- (a) One club is still not completing profit and loss statements but all other clubs now are.
- (b) We noted one disbursement which did not pay sales tax.
- (c) This condition has been corrected as of June 30, 2017.

Recommendation: The BOCES should develop accounting procedures which are in accordance with State Education Department requirements as stated in NYS Pamphlet #2 to properly account for all activities.

7) **Instructional Support Budget**

Prior Condition: In review of budget to actual expenditures, the State CoSer grouping for instructional support exceeded the approved final budget.

Status: This condition has been corrected as of June 30, 2017.

Current-Year Comments and Recommendations

1) **Disbursement of Financial Aid Funds**

Condition: Our testing noted two instances where federal financial aid funds were not disbursed to student accounts within three days of receipt of funds.

Recommendation: We recommend that the BOCES ensure that procedures are in place between the business office and the LPN program office to disburse all federal aid to student accounts within three days.

* * * * *

We appreciate the courtesies, assistance and cooperation given us during our audit by all staff in the Business Office.

Please feel free to contact us regarding our comments and recommendations, or any other matters that may come to your attention at your convenience.

Very truly yours,

WEST & COMPANY CPAs PC

WEST & COMPANY CPAs PC