

***QUESTAR III***  
***BOARD OF COOPERATIVE EDUCATIONAL SERVICES***  
***RENSSELAER-COLUMBIA-GREENE COUNTIES***

***FINANCIAL REPORT***

***JUNE 30, 2013***

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
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**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSELAER-COLUMBIA-GREENE COUNTIES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
JUNE 30, 2013

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The following is a discussion and analysis of the Board of Cooperative Educational Services (hereinafter referred to as "Questar III") financial performance for the fiscal year ended June 30, 2013. This section is a summary of Questar III's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with Questar III's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

- Net position on an entity wide basis decreased by \$9.4 million over the prior year, primarily as a result of the postemployment benefit adjustment.
- Governmental revenues under the modified accrual basis of accounting increased by 4.79% due to an increase in providing services statewide i.e. GASB 45, STAC and Health & Safety as well as increased participation in staff development services. The following is a five year revenue comparison (dollars in millions):

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Administration (001-002)	\$ 6.0	\$ 5.9	\$ 5.8	\$ 6.0	\$ 5.7
Occupational Instruction (100-199)	8.0	8.1	7.7	7.6	7.7
Instruction for Handicapped (200-299)	19.9	19.1	19.2	18.8	20.1
Itinerant Service (300-399)	1.9	1.5	1.5	1.5	1.3
General Instruction (400-499)	4.6	4.5	4.7	5.7	6.5
Instructional Support (500-599)	5.7	4.7	4.4	5.0	4.7
Other Services (600-699)	9.4	9.0	8.2	7.6	8.0
Special Aid Fund (800-999)	5.8	5.7	6.2	8.2	8.9
Total Revenue	<u>\$ 61.3</u>	<u>\$ 58.5</u>	<u>\$ 57.7</u>	<u>\$ 60.4</u>	<u>\$ 62.9</u>
% Increase (Decrease)	<u>4.79%</u>	<u>1.39%</u>	<u>(4.47%)</u>	<u>(3.97%)</u>	<u>7.89%</u>

The majority of Questar III services are purchased by our 22 component school districts which accounted for approximately 76.6% of our total revenues (76.3% in the 2011/2012 fiscal year).

Expenditures increased by 5.11% over the prior year. Salaries increased as a percentage of total expenditures to 41.56% for the current year. The following is a five year expenditure comparison (dollars in millions) for salaries and benefits:

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JUNE 30, 2013

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**FINANCIAL HIGHLIGHTS (CONTINUED)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Salaries & Wages	\$ 23.9	\$ 22.5	\$ 23.0	\$ 24.6	\$ 24.8
Salaries & Wages as % of Total Expenditures	41.6%	41.1%	43.1%	43.0%	42.2%
Fringe Benefits	\$ 11.7	\$ 11.9	\$ 12.4	\$ 13.3	\$ 11.7
Fringe Benefits as % of Total Expenditures	20.3%	21.7%	23.2%	23.2%	19.9%
Health Insurance	\$ 5.9	\$ 6.3	\$ 6.0	\$ 7.0	\$ 6.6
Health Insurance as % of Total Expenditures	10.2%	11.4%	11.2%	12.2%	11.2%
Total Expenditures	\$ 57.6	\$ 54.8	\$ 53.4	\$ 57.2	\$ 58.7

- Questar III offers approximately 280 educational and district support services, while operating on a fiscally sound basis. Demand for Questar III educational programs is strong and we expect the trend to continue.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

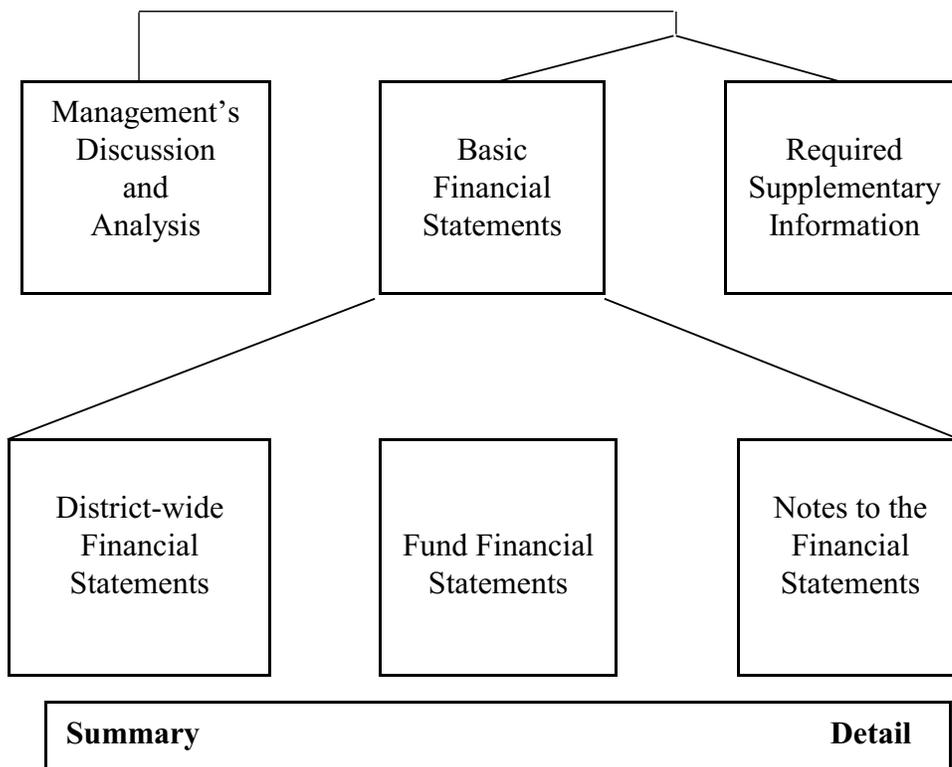
- The first two statements are **government-wide financial statements** that provide both *short-term* and *long-term* information about Questar III's *overall* financial status.
- The remaining statements are **fund financial statements** that focus on *individual parts* of Questar III, reporting the operations in *more detail* than the entity-wide statements.
- The **governmental fund statements** tell how basic services such as instruction and support functions were financed in the *short-term* as well as what remains for future spending.
- The **fiduciary fund statements** provide information about the financial relationships in which Questar III acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of Questar III's budget for the year and details as to amounts due from school districts and other BOCES. Table A-1 shows how the various parts of this annual report are arranged and related to one another.

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*JUNE 30, 2013*

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**Table A-1:** Organization of Questar III's Annual Financial Report



**QUESTAR III**  
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**RENSELAER-COLUMBIA-GREENE COUNTIES**  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)  
JUNE 30, 2013

Table A-2 Summarizes the major features of Questar III's financial statements, including the portion of Questar III's activities that they cover and the types of information that they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**Table A-2: Major Features of the Entity-wide and Fund Financial Statements**

	Entity-wide Statements	Fund Financial Statements	
		Governmental	Fiduciary
1. Scope	Entire governmental entity (except fiduciary funds)	The day-to-day operating activities of Questar III, such as education and district support services	Instances in which Questar III administers resources on behalf of others, such as scholarships
2. Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities and Changes in Net Position</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Changes in Fiduciary Net Position</li> </ul>
3. Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources focus
4. Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
5. Type of inflow and outflow information	All revenues and expenses during year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; 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

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*MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)*  
*JUNE 30, 2013*

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## GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about Questar III as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of Questar III's assets and liabilities. 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 district-wide statements report Questar III's *net position* and how they are changed. Net position, the difference between the assets and liabilities, is one way to measure the financial health or position of Questar III.

- Over time, increases and decreases in net position is an indicator of whether the financial position is improving or deteriorating, respectively.
- For assessment of the overall health of Questar III, additional non-financial factors such as changes in Questar III's component and non-component district's health and the condition of buildings and other facilities should be considered.

In the government-wide financial statements, Questar III's activities are shown as *Governmental Activities*: Most of Questar III's basic services are included here, such as Career and Technical Education, special education, support services, administration and substantially all these activities are financed through user charges.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about Questar III's funds. Funds are accounting devices that Questar III uses to account for specific revenue sources and spending on particular programs. The funds have been established by the laws of the State of New York.

Questar III has two kinds of funds:

- **Governmental funds:** Most of the 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 and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of Questar III. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. In summary, the governmental fund statements focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Included are the general fund, special revenue funds and capital project funds. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances.

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**FUND FINANCIAL STATEMENTS (CONTINUED)**

- **Fiduciary funds:** Questar III is the trustee or fiduciary for assets that belong to others, such as scholarship funds and student activities funds. Questar III is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. Questar III excludes these activities from the entity-wide financial statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net position and changes in net position.

**FINANCIAL ANALYSIS OF QUESTAR III AS A WHOLE**

Questar III's net position decreased approximately \$9.4 million to a deficit of \$(32.2) million as detailed in Tables A-3 and A-4.

**Table A-3: Condensed Statement of Net Assets (Deficit)**  
**(in millions)**

	<b>Fiscal Year 2013</b>	<b>Fiscal Year 2012</b>
Current and Other Assets	\$ 13.7	\$ 12.8
Cash - Restricted	22.9	21.4
Capital Assets, Net of Depreciation	<u>7.1</u>	<u>7.2</u>
Total Assets	<u>\$ 43.7</u>	<u>\$ 41.4</u>
Current Liabilities	\$ 30.5	\$ 29.5
Noncurrent Liabilities	<u>45.4</u>	<u>34.7</u>
Total Liabilities	<u>\$ 75.9</u>	<u>\$ 64.2</u>
Net Position		
Investment in Capital Assets, Net of Related Debt	\$ 5.9	\$ 5.7
Unassigned	<u>(38.1)</u>	<u>(28.5)</u>
Total Net Position	<u>\$ (32.2)</u>	<u>\$ (22.8)</u>

**CHANGES IN NET POSITION**

Questar III's total fiscal year 2013 revenues approximate \$59.6 million. (See Table A-4) Charges to components, non-components and others accounted for 93.1% (92.6% in 2012) of Questar III's revenue. Operating grants accounted for 5.5% (5.6% in 2012).

Questar III's total fiscal year 2013 expenses approximate \$54.7 million. (See Table A-4) Of these expenses 90.7% related to instruction and instructional support (89.8% in 2012) and 9.3% related to administrative and business activities (10.2% in 2012).

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**CHANGES IN NET POSITION (CONTINUED)**

The \$68.3 million of noncurrent liabilities represents the current present value of the actuarially computed future liability for other postemployment employee benefits for retirees and current employees.

**Table A-4: Changes in Net Assets from Operating Results**  
(in millions)

	<u>Fiscal Year</u> <b>2013</b>		<u>Fiscal Year</u> <b>2012</b>	
<b>Revenues</b>				
Program Revenues				
Charges for Services	\$ 55.5	93.1%	\$ 52.8	92.6%
Operating Grants	3.3	5.6%	3.2	5.6%
Other Revenues	<u>.8</u>	<u>1.3%</u>	<u>1.0</u>	<u>1.8%</u>
Total Revenues	<u>59.6</u>	<u>100.0%</u>	<u>57.0</u>	<u>100.0%</u>
<b>Expenses</b>				
Administration	5.1	9.3%	5.4	10.2%
Occupational Instruction	9.2	16.8%	9.5	17.9%
Instruction of Handicapped	19.8	36.3%	19.2	36.2%
Itinerant Services	1.7	3.1%	1.5	2.8%
General Instruction	4.7	8.6%	4.4	8.3%
Instructional Support	6.8	12.4%	4.7	8.9%
Other Services	<u>7.4</u>	<u>13.5%</u>	<u>8.3</u>	<u>15.7%</u>
	<u>54.7</u>	<u>100.0%</u>	<u>53.0</u>	<u>100.0%</u>
<b>Revenues in Excess of Expenses before Return of Surplus</b>				
	4.9		4.0	
Return of Surplus	(3.3)		(3.3)	
Postemployment Benefit Adjustment	(10.8)		(12.3)	
Other	<u>(.2)</u>		<u>-</u>	
Change in Net Position	<u>\$ (9.4)</u>		<u>\$ (11.6)</u>	

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**FINANCIAL ANALYSIS OF QUESTAR III'S FUNDS**

Variances between years for the governmental fund financial statements are not the same as variances between years for the district-wide financial statements. Questar III's governmental funds are presented on the **modified accrual basis of accounting**, which has a current financial resources measurement focus. Based on this presentation, governmental funds do not include long-term debt liabilities and capital assets. Governmental funds will include the current payments for capital assets, and the current payments for capital leases.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, Questar III revised its budget several times in order to comply with the changes of component's and other's needs for additional services pursuant to its mandate. These budget amendments fall into two categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances and encumbrances carried-over from the prior year.
- Changes made to account for projected increases or decreases in purchased services from component, noncomponent and other BOCES.

Questar III had a number of significant budget amendments during the year ended June 30, 2013 primarily to provide additional services as requested by components and others.

	<b>Initial Budget</b>	<b>Adjustments</b>	<b>Current Budget</b>	<b>Year-to-Date Expenditures</b>	<b>Encumbrances Outstanding</b>	<b>(Overexpended) Unencumbered Balance</b>
Administration (001-002)	\$ 6,061,700	\$ 315,735	\$ 6,377,435	\$ 5,583,877	\$ 463,587	\$ 329,971
Occupational Instruction (100-199)	9,522,320	(772,407)	8,749,913	7,697,436	404,133	648,344
Instruction for Handicapped (200-299)	18,641,157	1,575,772	20,216,929	18,661,225	68,730	1,486,974
Itinerant Service (300-399)	1,415,444	625,600	2,041,044	1,739,012	215	301,817
General Instruction (400-499)	2,545,524	2,239,592	4,785,116	4,457,128	18,807	309,181
Instructional Support (500-599)	5,233,224	1,083,481	6,316,705	5,609,467	279,754	427,484
Other Services (600-699)	10,101,604	1,141,529	11,243,133	8,498,381	691,414	2,053,338
	<u>\$ 53,520,973</u>	<u>\$ 6,209,302</u>	<u>\$ 59,730,275</u>	<u>\$ 52,246,526</u>	<u>\$ 1,926,640</u>	<u>\$ 5,557,109</u>

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The following table reflects the total cumulative cost of various building renovations and additions, technology and equipment expenditures through the end of fiscal year 2013:

**Table A-5: Capital Assets**

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<u>Category</u>	<u>2013</u>	<u>2012</u>
Land	\$ 463,533	\$ 463,533
Buildings	7,388,152	7,388,152
Equipment	2,487,720	2,278,040
Equipment Leased to Districts	2,134,341	2,052,845
Vehicles	453,666	453,666
Construction in Progress	446,662	269,851
Total	<u>\$ 13,374,074</u>	<u>\$12,906,087</u>

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**Long-Term Debt**

At year-end Questar III had \$1,524,648 in installment purchase debt outstanding. Installment purchase debt consists of various leases incurred for the purchase of equipment which is then leased by Questar III under similar terms to component districts. The contracts generally mature in two years.

**FACTORS BEARING ON QUESTAR III'S FUTURE**

At the time these financial statements were prepared and audited, Questar III was aware of the following existing circumstances that could significantly affect its financial health in the future:

The national and statewide fiscal crises has resulted in districts looking for ways to maximize their declining/limited resources, and Questar III is a vehicle being utilized to achieve this objective in particular with the growth from our statewide services. New York State's fiscal crisis, budget deficit and the 2% tax cap legislation, continue to have an adverse impact on component districts and Questar III's revenue streams. Questar III is continuing to employ cost containment measures in anticipation of cutbacks, but to sustain our current infrastructure we need to continue to expand our revenue base.

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**FACTORS BEARING ON QUESTAR III'S FUTURE (CONTINUED)**

*Career and Technical Education* - During 2012-2013 two new programs were launched based upon data indicating that jobs in these career fields will continue to be readily available for qualified individuals within Tech Valley. These two programs; Green Technologies and Renewable Energies, and Health and Emergency Medical Careers resulted from conversations with school district leadership. Both programs have increased numbers of students attending (as we enter 2013-2014), which the Green Technologies program now also being offered at Rensselaer High School. All CTE programs were also reviewed through a subcommittee of the Academic Programs subcommittee of superintendents to explore options for delivery. This work is ongoing. Programs are now also reviewed by the Consultant Committees that exist for each program, while also making sure that all students have a worked based learning experience. The “intake process” that was launched two years ago is significantly credited with having students enter CTE programs with a specific significant career interest, and therefore has also helped to reduce the number of students who do not continue a CTE program as well as making sure that students entering a CTE program are better prepared for success. Teams in each building were established also to focus on literacy, numeracy and high expectations. The formation of these teams was a result of data collected during a Southern Regional Education Board (SREB) review that was completed the previous year.

The following five-year chart shows the number of students enrolled in our CTE programs and revenues in millions:

<b><u>Career &amp; Technical Education</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Number of students	656	640	774	869	861
% change from prior year	2.5%	(17.3%)	(10.9%)	.9%	10.4%
Revenue in millions	\$ 8.0	\$ 8.1	\$ 7.7	\$ 7.6	\$ 7.7
% change from prior year	(1.2%)	5.2%	1.3%	(1.3%)	8.5%

*Instruction of Students with Disabilities:* Revenues for Special Education are stable at this time. Enrollment is not growing. It is questionable if we will be able to sustain current student enrollment under the current fiscal conditions. A significant challenge facing the program is the lack of space due to the need for more intensive settings similar to Rensselaer Academy, George Washington Academy and the Sackett Center and Catskill Academy. In these fiscal time districts are programing in district for students traditionally served by Questar III. In addition, Questar III currently rents space in the Catskill school district for middle and high school aged students in an integrated setting.

Approximately 19.1% of our students with disabilities are from non-component school districts (13.9% in 2011-2012).

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**FACTORS BEARING ON QUESTAR III'S FUTURE (CONTINUED)**

The following five-year chart shows the number of students and revenues in millions:

<u>Students with Disabilities</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Number of students	281	281	292	299	307
% change from prior year	0%	(3.7%)	(2.3%)	(2.6%)	2.0%
Revenue in millions	\$ 19.9	\$ 19.1	\$ 19.3	\$ 18.8	\$ 20.1
% change from prior year	3.66%	(1.0%)	2.7%	(6.5%)	9.8%

*Itinerant Service:* The itinerant services have remained stable and no growth is expected in these services unless districts increase the number of students with disabilities that they serve in-house.

*General Instruction:* Changes in program delivery for the Alternative Learning Program (ALP) continued in 2012-2013. To streamline the program, ALP is now offered in conjunction with CTE only. As districts continue to look for cost-effective educational programs, the Cooperative Distance Learning Program continued to see an increase in participation. This trend is expected to continue in 2013-2014.

*Special Aid Fund:* During the 2012-2013 fiscal year, Questar III saw reductions in federal and state funding. Due to the current financial crisis we expect this negative trend to continue.

*School District Support Services:* The demand for district support services is stable. It is expected that the demand for these services will remain stable as districts seek to find economies in the services offered.

*Other Services:* District participation in State Aid Planning, Fixed Asset Management and GASB 45 Planning and Valuation services remain strong. The fiscal crisis has resulted in numerous requests for additional services including cost-sharing opportunities. It is expected that demand for these services will increase as districts strive to meet financial compliance requirements.

**CONTACTING QUESTAR III'S FINANCIAL MANAGEMENT**

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

Questar III  
Board of Cooperative Educational Services  
Rensselaer-Columbia-Greene Counties  
Attention: Treasurer  
10 Empire State Boulevard  
Castleton, New York 12033  
(518) 477-8771

**CUSACK & COMPANY**  
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## **INDEPENDENT AUDITOR'S REPORT**

Questar III  
Board of Cooperative Educational Services  
Rensselaer-Columbia-Greene Counties

We have audited the accompanying financial statements of the governmental activities of Questar III-Board of Cooperative Educational Services of Rensselaer-Columbia-Greene Counties ("Questar III"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Questar III's 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 misstatements, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Questar III, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***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 and the schedule of funding progress - other postemployment plans on pages 1-11 and 34-35 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 Questar III's basic financial statements. The supplemental information on pages 36-37 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 on page 42 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The supplemental information on pages 36-37 and the schedule of expenditures of federal awards on page 42 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 combining and individual nonmajor fund financial statements 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2013 on our consideration of Questar III's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Questar III's internal control over financial reporting and compliance.



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
December 6, 2013

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**

STATEMENT OF NET POSITION

JUNE 30, 2013

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**ASSETS:**

Current Assets:

Cash	\$ 5,798,876
Cash - Restricted	22,901,555
State and Federal Aid Receivable	1,357,292
Due from School Districts and Other BOCES	4,873,463
Due from Other Funds	19,096
Other Receivables	712,675
Prepaid Expenses	<u>1,005,771</u>
Total Current Assets	<u>36,668,728</u>

Noncurrent Assets:

Capital Assets - Net	<u>7,051,665</u>
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Total Assets \$ 43,720,393

**LIABILITIES:**

Current Liabilities:

Accounts Payable	\$ 1,738,378
Accrued Expenses	1,709,079
Unearned Revenues	81,067
Capital Leases Payable	1,524,648
Due to Retirement Systems	2,507,656
Postemployment Benefit Liability	<u>22,901,555</u>
Total Current Liabilities	<u>30,462,383</u>

Noncurrent Liabilities:

Postemployment Benefit Liability	<u>45,433,252</u>
Total Liabilities	<u>75,895,635</u>

**NET POSITION:**

Invested in Capital Assets, Net of Related Debt	5,865,702
Unassigned Deficit	<u>(38,040,944)</u>
Total Net Position	<u>(32,175,242)</u>

Total Liabilities and Net Position \$ 43,720,393

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*STATEMENT OF ACTIVITIES AND CHANGES IN POSITION*  
*FOR THE YEAR ENDED JUNE 30, 2013*

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		<b>Program Revenues</b>		
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Net (Expense) Revenues and Changes in Net Assets</b>
<b>Functions/Programs:</b>				
Administration	\$ 5,075,074	\$ 5,623,640	\$ 49,370	\$ 597,936
Occupational Instruction	9,257,431	8,946,019	1,001,700	690,288
Instruction of Handicapped	19,753,136	21,103,919	509,953	1,860,736
Itinerant Services	1,693,312	1,864,738	-	171,426
General Instruction	4,681,507	4,769,217	351,179	438,889
Instructional Support	6,780,391	5,975,836	1,365,044	560,489
Other Services	7,424,303	7,985,929	-	561,626
Total Functions/Programs	\$ 54,665,154	\$ 56,269,298	\$ 3,277,246	4,881,390
Return of Surplus				(3,266,680)
Postemployment Benefit Adjustment				(10,777,533)
Change in Net Assets				(9,162,823)
General Fund Encumbrances, Beginning of Year				(1,984,340)
General Fund Encumbrances, End of Year				1,926,640
Decrease in Reserve for Prepaid Expenses				(132,812)
Net Position, Beginning of Year				(22,821,907)
Net Position, End of Year				\$(32,175,242)

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
 COMBINED BALANCE SHEET  
 GOVERNMENTAL FUNDS AND RECONCILIATION  
 JUNE 30, 2013

	<u>General</u>	<u>Special Aid</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
<b>Assets:</b>				
Cash	\$ 392,832	\$ 2,460,465	\$ 2,945,579	\$ 5,798,876
Cash, Restricted	22,901,555	-	-	22,901,555
Due from School Districts	3,348,815	-	-	3,348,815
State and Federal Aid Receivable	-	1,357,292	-	1,357,292
Other Receivables, Net	286,139	426,536	-	712,675
Due from Other Funds	2,544,775	-	-	2,544,775
Prepaid Expenses	<u>21,875</u>	<u>-</u>	<u>-</u>	<u>21,875</u>
Total Assets	<u>\$ 29,495,991</u>	<u>\$ 4,244,293</u>	<u>\$ 2,945,579</u>	<u>\$ 36,685,863</u>
<b>LIABILITIES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 1,659,234	\$ 50,254	\$ 28,890	\$ 1,738,378
Accrued Expenses	479,031	44,085	-	523,116
Due to Other Funds	-	2,502,381	23,298	2,525,679
Due to Retirement System	2,507,656	-	-	2,507,656
Deferred Revenue	-	81,067	-	81,067
Other Postemployment Benefit Liability	<u>22,901,555</u>	<u>-</u>	<u>-</u>	<u>22,901,555</u>
Total Liabilities	<u>27,547,476</u>	<u>2,677,787</u>	<u>52,188</u>	<u>30,277,451</u>
<b>FUND BALANCES</b>				
<b>Fund Balance:</b>				
Nonspendable	21,875	-	-	21,875
Assigned	1,926,640	1,566,506	2,893,391	6,386,537
Unassigned	-	-	-	-
Total Fund Balance	<u>1,948,515</u>	<u>1,566,506</u>	<u>2,893,391</u>	<u>6,408,412</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 29,495,991</u>	<u>\$ 4,244,293</u>	<u>\$ 2,945,579</u>	<u>\$ 36,685,863</u>
<b>Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities:</b>				
Total Fund Balances for Governmental Funds				\$ 6,408,412
Capital Assets				7,051,665
Installment Debt Receivables				1,524,648
Prepaid Expenses				983,896
Accrued Expense				(1,185,963)
Installment Debt Payable				(1,524,648)
Postemployment Benefit Adjustment				<u>(45,433,252)</u>
Net Position of Governmental Activities				<u>\$ (32,175,242)</u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSELAER-COLUMBIA-GREENE COUNTIES**  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Special Aid</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>				
Charges to Components	\$ 47,027,449	\$ -	\$ -	\$ 47,027,449
Charges to Components of Other BOCES	4,078,697			4,078,697
Charges to Non-Components	2,601,283	-	-	2,601,283
Charges for Services	39,469	2,750,793	-	2,790,262
Interest and Earnings	54,713	-	4,723	59,436
Miscellaneous	563,632	-	-	563,632
Sales	167,379	-	-	167,379
Interfund Revenues	980,584	-	-	980,584
State and Local Sources	-	2,160,377	-	2,160,377
Federal Sources	-	1,116,869	-	1,116,869
Total Revenues	<u>55,513,206</u>	<u>6,028,039</u>	<u>4,723</u>	<u>61,545,968</u>
<b>EXPENDITURES:</b>				
Administration	4,831,404	711,616	-	5,543,020
Occupational Instruction	7,697,436	1,852,822	-	9,550,258
Instruction for Handicapped	18,661,225	1,625,015	-	20,286,240
Itinerant Services	1,739,012	-	-	1,739,012
General Instruction	4,457,128	350,725	-	4,807,853
Instructional Support	5,609,467	1,353,915	-	6,963,382
Other Services	8,498,381	-	176,811	8,675,192
Total Expenditures	<u>51,494,053</u>	<u>5,894,093</u>	<u>176,811</u>	<u>57,564,957</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER</b>				
<b>EXPENDITURES:</b>	<u>4,019,153</u>	<u>133,946</u>	<u>(172,088)</u>	<u>3,981,011</u>
<b>OTHER SOURCES AND (USES):</b>				
Return of Surplus	(3,266,680)	-	-	(3,266,680)
Transfer to Capital Projects	(752,473)	-	-	(752,473)
Transfer from General Fund	-	-	752,473	752,473
Total Other Sources (Uses)	<u>(4,019,153)</u>	<u>-</u>	<u>752,473</u>	<u>(3,266,680)</u>
Change in Fund Equity	-	133,946	580,385	714,331
Encumbrances, Beginning of Year	(1,984,341)	-	-	(1,984,341)
Encumbrances, End of Year	1,926,640	-	-	1,926,640
Decrease in Reserve for Prepays	(132,812)	-	-	(132,812)
Fund Equity, Beginning of Year	<u>2,139,028</u>	<u>1,432,560</u>	<u>2,313,006</u>	<u>5,884,594</u>
Fund Equity, End of Year	<u>\$ 1,948,515</u>	<u>\$ 1,566,506</u>	<u>\$ 2,893,391</u>	<u>\$ 6,408,412</u>
<b>RECONCILIATION OF THE GOVERNMENTAL FUNDS</b>				
<b>COMBINED STATEMENTS OF REVENUES,</b>				
<b>EXPENDITURES AND CHANGES IN FUND BALANCES TO</b>				
<b>THE STATEMENT OF ACTIVITIES:</b>				
Total Net Changes in Fund Balances -				
Governmental Funds				\$ 714,331
Prepaid Expenses				983,896
Capital Assets Acquired				382,203
Depreciation				(447,654)
Loss on Asset Disposal				(18,066)
Postemployment Benefit Adjustment				(10,777,533)
Change in Net Position of Governmental Activities				<u>\$ (9,162,823)</u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*STATEMENT OF FIDUCIARY NET POSITION AND CHANGES IN FIDUCIARY NET POSITION*  
*JUNE 30, 2013*

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**Statement of Fiduciary Net Position**

	<b><u>Private-purpose Trusts</u></b>	<b><u>Agency Funds</u></b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 95,913	\$ 21,196
Accounts Receivable	-	14,094
Total Assets	<u>\$ 95,913</u>	<u>\$ 35,290</u>
<b>LIABILITIES</b>		
Due to Student Activities	\$ -	\$ 16,196
Due to Other Funds	-	19,094
Total Liabilities	<u>-</u>	<u>\$ 35,290</u>
<b>NET POSITION</b>		
Restricted for Scholarships	<u>95,913</u>	
Total Net Position	<u>95,913</u>	
Total Liabilities and Net Position	<u>\$ 95,913</u>	

**Statement of Changes in Fiduciary Net Position**

Contributions	\$ 10,497
Interest	<u>136</u>
Total Income	<u>10,633</u>
Scholarships and Other Expense	<u>12,487</u>
Total Expenses	<u>12,487</u>
Decrease in Net Assets	(1,854)
Net Position, Beginning of Year	<u>97,767</u>
Net Position, End of Year	<u>\$ 95,913</u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS*  
*JUNE 30, 2013*

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties (“Questar III”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of Questar III’s accounting policies are described below.

*Reporting Entity*

Questar III is governed by the Education Law and other laws of the State of New York. The governing body is the Board of Cooperative Educational Services. The scope of activities included within the accompanying financial statements are those transactions which comprise Questar III operations, and are governed by, or significantly influenced by, this Board.

Boards of Cooperative Educational Services (BOCES) were established by New York State legislation in 1948 to enable school districts to offer more breadth in their educational programs to provide vocational and special education. BOCES is a voluntary, cooperative association for school districts in a geographic area that share planning, services and programs to provide educational and support activities more economically, efficiently and equitably than could be provided locally. Questar III provides instructional and support programs and services to the following 23 school districts in New York’s Rensselaer, Columbia and Greene counties:

Averill Park	Hoosic Valley
Berkshire Union Free	Hoosick Falls
Berlin	Hudson City
Brittonkill/Brunswick	Ichabod Crane/Kinderhook
Cairo-Durham	Lansingburgh
Catskill	New Lebanon
Chatham	North Greenbush Common
Copake-Taconic Hills	Rensselaer City
Coxsackie-Athens	Schodack
East Greenbush	Troy City
Germantown	Wynantskill Union Free
Greenville	

Questar III’s programs and services include career technical education, instruction of students with disabilities, academic and alternative programs, summer school, staff development, itinerant and school district support services.

The financial reporting entity consists of the following, as originally defined by GASB Statement 14, “*The Financial Reporting Entity*” and updated by GASB 61.

1. The primary government which is Questar III;
2. Organizations for which the primary government is financially accountable.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*JUNE 30, 2013*

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Reporting Entity (continued)*

3. Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The decision to include a potential component unit in the reporting entity is based on the criteria set forth in GASB Statement 61, including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following activity is included in the reporting entity:

The Extraclassroom Activity Funds

The extraclassroom activity funds of Questar III represents funds of the students of Questar III. The Board exercises general oversight of these funds. The extraclassroom activity funds are independent of Questar III with respect to its financial transactions, and the designation of student management and the cash balances are reported in the agency fund of Questar III. Separate audited financial statements (cash basis) of the extraclassroom activity funds are presented on pages 46 to 50.

The Questar III Education Foundation

The Questar III Education Foundation was formed primarily to solicit contributions and bequests to support scholarships for students of Questar III or its component school districts. The Foundation's activities are independent of Questar III with respect to its financial transactions and separate Board of Directors and the cash balances are reported in the agency fund of Questar III.

*Intermunicipal Sharing Agreement*

Questar III has entered into an intermunicipal sharing agreement with Capital Region BOCES to operate the Tech Valley Regional Technology Institute, also known as Tech Valley High School ("TVHS"). As the TVHS board is appointed equally by Questar III and Capital Region BOCES and it is anticipated that any excess costs will be shared equally, in accordance with GASB Statement 61 TVHS' operating results are not included in these financial statements.

*Basis of Presentation*

Questar III's financial statements are presented on a government-wide, governmental fund and fiduciary fund basis in accordance with GASB Statement 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. As a result, these financial statements include a management discussion and analysis of Questar III's overall financial position and results of operations and financial statements prepared using full accrual accounting for all of Questar III's activities.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*JUNE 30, 2013*

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Government-wide Financial Statements

The government-wide financial statements present aggregated information for the overall government, excluding activities reported in fiduciary funds, on a full accrual, economic resources basis. This government-wide focus is more on the sustainability of Questar III as an entity and the change in Questar III's net assets resulting from the current year's activities. Internal fund transactions, including, but not limited to, operating transfers, receivables and payables have been eliminated. Government-wide financial statements include a statement of net position and a statement of activities.

The statement of net position recognizes all current and non-current assets including capital assets as well as long-term debt and obligations. Questar III's net assets are reported in three parts invested in capital assets, net of related debt and accumulated depreciation; restricted net assets due to legal limitations imposed on their use by legislation or external restrictions by other governments; and unrestricted net assets.

The statement of activities presents a comparison between direct expenses (including depreciation) and related program revenues for each function of Questar III's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services are allocated among the programs and functions using appropriate allocation methods such as payroll costs and square footage. Program revenues include charges paid by the recipient for the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Questar III's primary program revenues are fees charged for services.

Basic Financial Statements - Fund Financial Statements

The fund financial statements provide information about Questar III's funds. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. The focus of governmental fund financial statements is on major funds rather than reporting funds by type with each major fund presented in a separate column. The following funds are used by Questar III:

- a. General - is the general operating fund and is used to account for all financial transactions except those required to be accounted for in another fund.
- b. Special Aid - is used to account for the proceeds of specific revenue sources such as Federal and State grants, that are legally restricted to expenditures for specified purposes and other activities whose funds are restricted as to use, other than expendable trusts or major capital projects. These legal restrictions may be imposed by either governments that provide the funds or outside parties.
- c. Capital Projects - is used to account for financial resources to be used for the acquisition or construction of facilities, renovations and improvements.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*JUNE 30, 2013*

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Fiduciary Fund Financial Statements

The fiduciary fund financial statements include a statement of fiduciary net position and a statement of changes in fiduciary net position. Fiduciary funds are used to report assets held in a trustee or agency capacity for others and, therefore, are not available to support Questar III's programs. Questar III has the following fiduciary funds:

Private-purpose trusts - established to account primarily for the assets of scholarship programs.

Agency - established to account for assets held in trust by Questar III.

Basis of Accounting/Measurement Focus

1. Government-wide and Fiduciary Fund Financial Statements

The government-wide and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred regardless of when the related cash flows take place. This approach differs from the manner in which governmental fund financial statements are prepared. The governmental fund financial statements are reconciled to the government-wide financial statements on the combined balance sheet and on the combined statement of revenues, expenditures and changes in funds balances for governmental funds.

2. Governmental Fund Financial Statements

The basis of accounting determines when revenues and expenditures are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. Measurement focus is the determination of what is measured. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets, current liabilities and interfund balances are included in the fund types on the balance sheet. Operating statements of these fund types present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund equity.

Modified Accrual Basis - Generally accepted accounting principles and the New York State Uniform System of Accounts require that Questar III use the modified accrual basis of accounting for recording transactions in its governmental fund types and expendable trust and agency funds as applicable. Under this basis of accounting, revenues are recorded when measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition for governmental fund revenues. Material revenues that are susceptible to accrual include charges for services, intergovernmental revenues and operating transfers. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made. Expenditures are recorded when the fund liability is incurred except that:

- a. Expenditures for prepaid items are recognized at the time of disbursement when Questar III is liable for payment.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*JUNE 30, 2013*

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting/Measurement Focus (Continued)**

**2. Governmental Fund Financial Statements (Continued)**

- b. Principal and interest on long-term debt is recognized as an expenditure when due.
- c. Unfunded compensated absences for vacation leave and other compensated absences with similar characteristics and additional salary-related payments are recognized as a liability as the benefits are earned by the employees, based on the rendering of past service and the probability that the employees will be compensated for the benefits through paid time off or some other means. This includes vacation leave and other compensated absences with similar characteristics that were earned but not used during the current or prior periods and for which employees can receive compensation in a future period. Amounts do not include leave expected to lapse and leave that new employees will eventually qualify for.

**Capital Assets and Depreciation**

Capital assets are reported at actual or estimated historical cost. Contributed assets are reported at estimated fair market values at the time received.

Capital assets with a minimum depreciable base of \$5,000 are depreciated in the government-wide financial statements using the straight-line method with capital assets below this threshold being expensed in the year acquired. Estimated useful lives of the various classes of depreciable assets are as follows: buildings - 15 to 50 years, machinery and equipment - 7 to 15 years and vehicles - 8 years.

**Long-Term Debt**

Long-term debt includes Questar III's installment purchase debt.

**Compensated Absences**

Vacation leave is recorded as an expenditure when earned and the estimated liability is reported. Employees accrue vacation leave based on years of service.

**Deferred and Unearned Revenue**

Deferred revenues arise when potential revenues do not meet both the measurable and available criteria for recognition in the current period. Unearned revenues arise when resources are received by Questar III before it has a legal claim to them, as when grants are received prior to the incidence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when Questar III has legal claim to the resources, the liability for deferred and unearned revenues is removed and revenues are recognized.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*JUNE 30, 2013*

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1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting/Measurement Focus (Continued)**

2. **Governmental Fund Financial Statements (Continued)**

Postemployment Benefits

In addition to providing pension benefits, Questar III provides health insurance coverage for retired employees and their survivors. Substantially all of Questar III's employees may become eligible for these benefits if they reach normal retirement age and provide a minimum of 10 to 15 years of service (depending on when hired) while working for Questar III. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing postemployment benefits is primarily borne by Questar III.

Fund Balance

Questar III has implemented GASB 54 "Fund Balance Reporting and Governmental Fund Type Definitions."

GASB 54 defines five categories of fund balances as follows:

- **Nonspendable** fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Questar III's nonspendable fund balance consists of \$21,875 in prepaid expense recorded in the general fund at June 30, 2013.
- **Restricted** fund balance includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of Questar III's Board and contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements such as the award of a bid by Questar III's Board.
- **Assigned** fund balance includes amounts that are constrained by Questar III's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include funds that are legally mandated to be accounted for separately as well as amounts that have been contractually obligated by Questar III or designated by Questar III for the ensuing year's budget. Assigned fund balance includes \$1,926,640 recorded in the general fund at June 30, 2013.
- **Unassigned** fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the fund.

Questar III's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*JUNE 30, 2013*

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Budgetary Procedures and Budgetary Accounting**

1. Budget Policies

The budget policies are as follows:

- a. Section 1950 §4(b) of the Education Law requires adoption of a final budget by no later than May 15, for the ensuing year.
- b. Questar III administration prepares a proposed administrative, capital and program budget, as applicable, for approval by members of Questar III board for the general fund.
- c. Appropriations for educational services are adopted at the program level and lapse at the end of each fiscal year.
- 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.

2. Budget Basis of Accounting

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

Questar III's Board can approve budget revisions based upon a request for additional services and available surplus revenues to pay for these items.

*Subsequent Events*

Management has evaluated subsequent events or transactions as to potential material impact on operations or financial position occurring through December 6, 2013, the date the financial statements were available to be issued. No such events or transactions were identified.

**2. CASH AND INVESTMENTS**

Questar III's investment policies are governed by state statutes. In addition, Questar III has its own written investment policy. Questar III monies must be deposited in FDIC insured commercial banks or trust companies located within the state. The Assistant Superintendent for Business and Financial Services and the Treasurer are authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, obligations of New York State or its localities, obligations of states other than New York rated in the three highest ranking categories and zero coupon obligations or the U.S. Treasury.

Collateral is required for demand deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, including agency guaranteed debt and obligations of New York State or its localities.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

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**2. CASH AND INVESTMENTS (CONTINUED)**

Total financial institution (bank) balances at June 30, 2013 per the bank were \$29,247,829 with a carrying value of \$28,700,431. These deposits were covered by Federal Deposit Insurance to the extent of \$996,293 and by pledged collateral of \$28,251,536.

**3. RESTRICTED CASH**

Restricted cash consists of the funded amount of postemployment benefits charged and collected from participating districts, non-components and grants as further detailed in Note 7. As a commingled cash account is utilized by Questar III, the cash is not physically maintained in a separate restricted cash account but rather is internally restricted.

**4. CAPITAL ASSETS**

A summary of capital assets for the year ended June 30, 2013 is as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Transfers/ Deletions</u></b>	<b><u>Ending Balance</u></b>
Land	\$ 463,533	\$ -	\$ -	\$ 463,533
Buildings	7,388,152	-	-	7,388,152
Equipment	2,278,040	205,391	4,289	2,487,720
Equipment Leased to Districts	2,052,845	162,924	(81,428)	2,134,341
Vehicles	453,666	-	-	453,666
Construction in Progress	269,851	176,811	-	446,662
	<u>12,906,087</u>	<u>545,126</u>	<u>(77,139)</u>	<u>13,374,074</u>
Less Accumulated Depreciation:				
Buildings	3,345,123	159,420	-	3,504,543
Equipment	1,337,682	166,131	-	1,503,813
Equipment Leased to Districts	693,098	314,353	(59,073)	948,378
Vehicles	322,577	43,098	-	365,675
	<u>5,698,480</u>	<u>683,002</u>	<u>(59,073)</u>	<u>6,322,409</u>
Capital Assets, Net	<u>\$ 7,207,607</u>	<u>\$ (137,876)</u>	<u>\$ (18,066)</u>	<u>\$ 7,051,665</u>

Depreciation expense was \$683,002 for the year ended June 30, 2013.

**5. INSTALLMENT PURCHASE DEBT**

Installment purchase debt consists of various leases incurred for the purchase of equipment which is then leased by Questar III under similar terms to its component districts. The contracts will generally mature in two years. All installment purchase debts are collateralized by various equipment.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*JUNE 30, 2013*

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**5. INSTALLMENT PURCHASE DEBT (CONTINUED)**

Installment purchase debt activity for the year ended June 30, 2013 is as follows:

Installment Purchase Debt, Beginning Balance	\$ 1,550,845
New Leases	992,643
Repayments	<u>(1,018,840)</u>
Installment Purchase Debt, Ending Balance	<u>\$ 1,524,648</u>

**6. PENSION PLANS**

*General Information*

Questar III participates in the New York State and Local Employees' Retirement System (ERS), and the New York State Teachers' Retirement System (TRS). These Systems 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.

*Plan Descriptions*

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

**Employees' Retirement System.** The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

*Funding Policies*

The Systems are noncontributory except for the employees who joined the Systems after July 27, 1979 who contribute 3% of their salary, for the first ten years of membership. Effective January 1, 2010 and thereafter, new employees must contribute 3% of their salary until retirement age. For the New York State and Local Employees' Retirement System, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, rates are established annually for TRS by the New York State Teachers' Retirement Board.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

**6. PENSION PLANS (CONTINUED)**

*Funding Policies (Continued)*

Questar III is required to contribute at an actuarially determined rate. The required contributions and applicable rates for the current year and two preceding years were:

	ERS		TRS	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
2013	\$ 1,262,478	20.53%	\$ 1,972,828	11.84%
2012	\$ 1,204,596	16.30%	\$ 2,012,266	11.11%
2011	\$ 917,047	14.93%	\$ 1,344,741	8.62%

Questar III's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

**7. POSTEMPLOYMENT BENEFITS**

Questar III provides postemployment (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 Questar III's contractual agreements. Questar III implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*, within the required implementation time-line. This required Questar III to calculate and record a net other postemployment benefit obligation at year end. The net other postemployment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

Questar III recognizes the cost of providing health insurance annually as expenditures in the General Fund of the fund level financial statements as payments are made. For the current year and two preceding years, Questar III recognized for its share of insurance premiums for currently enrolled retirees the following:

2013	\$2,818,951
2012	\$2,097,828
2011	\$2,085,839

Questar III has obtained an actuarial valuation report as of June 30, 2013 which indicates that the total liability for other postemployment benefits is \$68,334,807, which is reflected in the Statement of Net Assets.

**Funding Policy:** The annual contributions are established by the Board of Education. Required annual insurance premiums are budgeted as approved by the Board of Education in addition to a certain amount set aside as designated for postretirement benefits.

**Annual OPEB Cost and Net OPEB Obligation:** Questar III's annual other postemployment benefit (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 thirty years. The following table shows the components of Questar III's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in Questar III's net OPEB obligation:

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

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**7. POSTEMPLOYMENT BENEFITS (CONTINUED)**

Annual required contribution	\$ 16,318,769
Interest	1,401,987
Less: ARC adjustment	<u>2,646,468</u>
Annual OPEB Cost	15,074,288
Contributions made	<u>2,818,951</u>
Increase in net OPEB obligation	12,255,337
Net OPEB obligation - Beginning of year	<u>56,079,470</u>
Net OPEB obligation - End of year	<u><u>\$ 68,334,807</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and 2012 is as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/11	\$ 15,027,762	13.8%	\$ 42,720,281
6/30/12	\$ 15,457,017	13.6%	\$ 56,079,470
6/30/13	\$ 15,074,288	18.7%	\$ 68,334,807

Funded Status and Funding Progress: As of June 30, 2013, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$153,945,108, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$153,945,108. The covered payroll (annual payroll of active employees covered by the plan) was \$23,097,020, and the ratio of the UAAL to the covered payroll was 667%. 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.

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 actual 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 June 30, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 2.5% investment rate of return and an annual healthcare cost trend rate of 5% initially, reduced by decrements to an ultimate rate of 7.0% after 5 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013, was 25 years.

A portion of the postemployment benefit liability has been charged to participating districts, non-components and grants, while the remaining portion remains unfunded. Questar III includes that portion charged to districts and grants in functional expenses and the unfunded portion as an other change in net assets, as this presentation is deemed the most meaningful.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2013

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**7. POSTEMPLOYMENT BENEFITS (CONTINUED)**

The change in the postemployment benefit can be summarized as follows:

	<u>Total</u>	<u>Funds Set Aside</u>	<u>Unfunded</u>
Postemployment Benefit Liability, July 1, 2012	\$ 56,079,470	\$ 21,423,751	\$ 34,655,719
Annual Required Contribution	15,074,288	4,296,755	10,777,533
Contributions Made	<u>(2,818,951)</u>	<u>(2,818,951)</u>	<u>-</u>
Postemployment Benefit Liability June 30, 2013	<u>\$ 68,334,807</u>	<u>\$ 22,901,555</u>	<u>\$ 45,433,252</u>

**8. COMMITMENTS AND CONTINGENCIES**

*Other Contingencies*

Questar III has received grants which are subject to audit by agencies of the state and federal governments. Such audits may result in disallowances and a request for a return of funds to the federal and state governments. Questar III believes disallowances, if any, will be immaterial.

*Leases*

Questar III was committed to 9 operating lease arrangements attributable to 78 classrooms and 2 operating lease arrangements attributable to Questar III's main office at June 30, 2013. The term of the leases vary from one to ten years.

The following table summarizes Questar III future payment requirements as of June 30, 2013 under noncancellable operating leases:

<b>Year Ending</b>	
2014	\$ 1,151,489
2015	988,004
2016	652,848
2017	652,848
2018	652,848
Thereafter	<u>1,271,544</u>
	<u>\$ 5,369,581</u>

*Worker's Compensation Self-Insurance*

Questar III participates in a self-insurance plan for worker's compensation called The Rensselaer Columbia-Greene (RCG) Counties Worker's Compensation Consortium ("Consortium"). The Plan is a claims-servicing public entity risk pool which began operations in July, 1985. The Consortium was formed by participating school districts and Questar III. The purpose of the Consortium is to operate a plan to provide the employees of the participants with worker's compensation benefits and the participants with centralized administration and insurance covering job-connected disabilities and including the cost of medical treatment. The Consortium was accepted as a self-insurer by the State of New York Worker's Compensation Board effective July 1, 1985.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*JUNE 30, 2013*

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**8. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

*Worker's Compensation Self-Insurance (Continued)*

The Consortium is governed by a Plan Agreement administered by a Board of Directors, consisting of one Director for each member. As of June 30, 2013 there were 18 participating members from Rensselaer, Columbia and Greene Counties in New York State. An estimated actuarial calculated liability to the Consortium of \$115,001 has been recorded in the accrued expenses in the general fund. Payments made to the Consortium during the year ended June 30, 2013 were \$331,938.

*Dental Self-Insurance*

Questar III is self-insured for dental insurance. Dental claims expense for the year ended June 30, 2013 was \$318,458. There is no annual maximum, no deductible and the plan covers employee's dependents.

*Union Contracts*

Questar III employees are represented by collective bargaining agents. Those agents which represent them and the dates of expiration of their agreements are as follows:

<u>Bargaining Unit</u>	<u>Contract Expiration Date</u>
Teachers' Association	June 30, 2017
Assistant Unit	June 30, 2017
Support Services	June 30, 2017

*Litigation*

Questar III is a defendant in various legal actions which are pending litigation. Legal counsel has reviewed the contingent liability to Questar III for each of these various lawsuits. Legal counsel is of the opinion that the outcome of this litigation will not materially affect the financial position of Questar III.

*Accounting for Postemployment Healthcare Costs in the Governmental Funds*

Some representatives of Questar III component school districts have questioned whether Questar III could set aside funds for postemployment healthcare costs in the governmental general fund. Management has vigorously defended its position, as it believes that BOCES in general are service organizations as defined in GASB 34.

As a service organization Questar III should be allowed to use the enterprise accounting method to mitigate the long term costs of postemployment healthcare that will ultimately fall to the component districts. Additionally, by charging non-component districts and various grants a fair share of these future costs, component districts will not be charged that portion of the costs. This will save local school district taxpayers considerable sums over time.

Management has met with the New York State Comptroller's Office ("OSC") and the State Education Department ("SED") and has formed a committee with component school district members to determine if the current method is acceptable, to investigate alternatives and to develop a plan to address this issue.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*JUNE 30, 2013*

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**8. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

In the letter dated October 11, 2013, the OSC maintains that they have the authority to select the accounting method and Questar III should use the modified accrual basis of accounting and that the cash accumulated for its OPEB liability in excess of OPEB expenditures calculated on a modified accrual basis should be returned to the component school districts in accordance with applicable statutes. (It should be noted that a significant portion of the liability may be due not only to school districts but also to New York State as it represents state aid that would have to be repaid to the state as well as and federal, state and other grant aid that would be repaid to grantors.)

Management will recommend a plan to the Questar III Board of Education on how to address this issue based on the OSC and committee guidance. The final plan once approved by the Questar III Board of Education will also require the approval of the State Education Department. Until that time, it is management's belief that the current presentation is not misleading, is conservative in that the entire balance in question is recorded as a liability, and has been adequately disclosed to the users of the financial statements.

**SUPPLEMENTARY INFORMATION**

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
 BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2013

**SUPPLEMENTAL SCHEDULE #1**

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Over (Under) Amended Budget</b>
<b>REVENUES</b>				
Administration (001-002)	\$ 6,061,700	\$ 6,027,215	\$ 6,027,503	\$ 288
Occupational Instruction (100-199)	9,522,320	8,076,825	8,013,315	(63,510)
Instruction for Handicapped (200-299)	19,233,686	19,886,884	19,908,452	21,568
Itinerant (300-399)	1,543,576	1,886,693	1,889,668	2,975
General Instruction (400-499)	2,642,519	4,573,479	4,573,702	223
Instructional Support (500-599)	5,313,043	5,757,221	5,717,405	(39,816)
Other (600-699)	<u>10,230,121</u>	<u>9,453,332</u>	<u>9,383,161</u>	<u>(70,171)</u>
	<u>\$ 54,546,965</u>	<u>\$ 55,661,649</u>	<u>\$ 55,513,206</u>	<u>\$ (148,443)</u>

	<b>Original Budget</b>	<b>Amended Budget</b>	<b>Actual</b>	<b>Unencumbered Encumbrances</b>	<b>Unencumbered Balance</b>
<b>EXPENDITURES</b>					
Administration (001-002)	\$ 6,061,700	\$ 6,377,435	\$ 5,583,877	\$ 463,587	\$ 329,971
Occupational Instruction (100-199)	9,522,320	8,749,913	7,697,436	404,133	648,344
Instruction for Handicapped (200-299)	18,641,157	20,216,929	18,661,225	68,730	1,486,974
Itinerant (300-399)	1,415,444	2,041,044	1,739,012	215	301,817
General Instruction (400-499)	2,545,524	4,785,116	4,457,128	18,807	309,181
Instructional Support (500-599)	5,233,224	6,316,705	5,609,467	279,754	427,484
Other (600-699)	<u>10,101,604</u>	<u>11,243,133</u>	<u>8,498,381</u>	<u>691,414</u>	<u>2,053,338</u>
	<u>\$ 53,520,973</u>	<u>\$ 59,730,275</u>	<u>\$ 52,246,526</u>	<u>\$ 1,926,640</u>	<u>\$ 5,557,109</u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*SCHEDULE OF FUNDING PROGRESS - OTHER POSTEMPLOYMENT BENEFIT PLANS*  
*FOR THE YEAR ENDED JUNE 30, 2013*

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**SUPPLEMENTAL SCHEDULE #2**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a-b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a percentage of covered payroll (b-a)c)</b>
July 1, 2008	\$ -	\$ 126,836,470	\$ 126,836,470	N/A	\$ 24,793,268	511.58%
July 1, 2009	\$ -	\$ 133,067,158	\$ 133,067,158	N/A	\$ 23,052,538	577.23%
July 1, 2010	\$ -	\$ 132,426,991	\$ 132,426,991	N/A	\$ 23,052,538	574.46%
July 1, 2011	\$ -	\$ 143,212,888	\$ 143,212,888	N/A	\$ 19,963,960	717.36%
July 1, 2012	\$ -	\$ 153,945,108	\$ 153,945,108	N/A	\$ 23,097,020	666.52%

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*ANALYSIS OF ACCOUNT A431-SCHOOL DISTRICTS AND OTHER BOCES*  
*FOR THE YEAR ENDED JUNE 30, 2013*

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**SUPPLEMENTAL SCHEDULE #3**

July 1 - Debit Balance	\$ 2,496,202
Debits:	
Billings to School Districts and Other BOCES	53,707,429
Prior Year Refund of Balances Due School Districts	3,210,302
Encumbrances - End of Year	<u>1,926,640</u>
Total Debits	<u>58,844,371</u>
Total	<u>61,340,573</u>
Credits:	
Collections from School Districts and Other BOCES	52,740,737
Adjustments - Credits to School BOCES - Revenues in Excess of Expenditures	3,266,680
Encumbrances - Beginning of Year	<u>1,984,341</u>
Total Credits	<u>57,991,758</u>
June 30 - Debit Balance	<u><u>\$ 3,348,815</u></u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*SCHEDULE OF PROJECT EXPENDITURES*  
*CAPITAL PROJECTS FUND*  
*FOR THE YEAR ENDED JUNE 30, 2013*

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**SUPPLEMENTAL SCHEDULE #4**

	<u>Original</u> <u>Appropriation</u>	<u>Revised</u> <u>Appropriation</u>	<u>Prior Year's</u>	<u>Current Year</u>	<u>Balance</u>
Columbia - Greene Greenhouse	\$ 350,000	\$ 326,702	\$ 269,851	\$ 56,851	\$ -
(Phase I) Rensselaer Education Center	62,000	99,580	-	3,297	96,283
(Phase I) Columbia Green Education Center	111,000	174,050	-	5,763	168,287
(Phase II) Columbia Green Education Center	1,595,000	1,595,000	-	81,000	1,514,000
(Phase III) Sackett Education Center	848,000	848,000	-	29,900	818,100
	<u>\$ 2,966,000</u>	<u>\$ 3,043,332</u>	<u>\$ 269,851</u>	<u>\$ 176,811</u>	<u>\$ 2,596,670</u>

**FEDERAL PROGRAM AWARD INFORMATION**

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

Members of the Board  
Questar III - Board of Cooperative Educational Services  
Rensselaer-Columbia-Greene Counties

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 of Questar III - Board of Cooperative Education Services, Rensselaer-Columbia-Greene Counties (Questar III) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Questar III basic financial statements, and have issued our report thereon dated December 6, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting 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 financial reporting 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 Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' financial statements are free of 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.



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
December 6, 2013

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board  
Questar III - Board of Cooperative Educational Services  
Rensselaer-Columbia-Greene Counties

**Report on Compliance for Each Major Federal Program**

We have audited Questar III - Board of Cooperative Educational Services Rensselaer-Columbia-Greene Counties' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Questar III's major federal programs for the year ended June 30, 2013. Questar III's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Questar III's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Questar III's 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 on Questar III's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Questar III 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, 2013.

## Report on Internal Control Over Compliance

Management of Questar III 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 Questar III's 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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing our opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Questar III's internal control over compliance.

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

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

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



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
December 6, 2013

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*  
*FOR THE YEAR ENDED JUNE 30, 2013*

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<u>Federal Projects</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
<b>U.S. Department of Labor</b>		
<b>Passed Through NYS Department of Education</b>		
Service Navigator/WIA	17.259	\$ <u>22,118</u>
<b>U.S. Department of Education</b>		
<b>Passed Through NYS Department of Education</b>		
WIA	84.002	258,746
RSE-TASC	84.027	509,952
VATEA Formula	84.048	275,882
Perkins	84.243	<u>50,171</u>
		<u>1,094,751</u>
<b>Direct Awards:</b>		
<b>U.S. Department of Education (Federal Student Aid Programs)</b>		
Federal Direct Loan Program	84.268	456,417
Federal Pell Grant Program	84.063	<u>211,455</u>
		<u>667,872</u>
		<u>\$ 1,784,741</u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*  
*FOR THE YEAR ENDED JUNE 30, 2013*

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards presents expenditures under federal financial assistance programs administered by Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States and Local Governments, and Non-Profit Organizations.*

**2. RECONCILIATION OF FEDERAL AWARDS TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

A reconciliation of federal awards per the basic financial statements and the schedule of expenditures of federal awards is as follows:

Federal Award Revenue per Basic Financial Statement - Special Revenue Fund	\$ 1,116,869
Add Non Cash Loan Guarantee Federal Awards:	
Federal Direct Loan Program	456,417
Federal Pell Grant Program	<u>211,455</u>
Federal Awards per Schedule of Expenditures of Federal Awards	<u><u>\$ 1,784,741</u></u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSELAER-COLUMBIA-GREENE COUNTIES**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED JUNE 30, 2013*

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**Section I - Summary of Auditor's Results**

Financial Statements

Type of Auditor's Report Issued: Unqualified

Internal Control Over Financial Reporting

- "Going Concern" explanatory paragraph included in audit report? No
- Significant deficiency(ies) disclosed No
- Significant deficiency(ies) reported as a material weakness? No
- Material noncompliance disclosed? No

Federal Awards

Internal Control Over Major Programs

- Significant deficiency(ies) disclosed for any major programs? No
- Significant deficiency(ies) reported for any major programs as a material weakness? No
- Any known questioned costs reported? No

Type of Auditor's Report Issued on Compliance for Major Programs: Unqualified

Audit Findings Disclosed That Are Required to be Reported in Accordance with Section 510(a) of OMB Circular A-133: No

Major Program:	<b>CFDA Number</b>
WIA	84.002
VATEA Formula	84.048

Dollar Threshold to Determine Type A and Type B Programs \$300,000

Auditee Qualified as Low-Risk Auditee: Yes

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSELAER-COLUMBIA-GREENE COUNTIES**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)*  
*FOR THE YEAR ENDED JUNE 30, 2013*

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**Section II - Financial Statement Findings**

There were no findings relating to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

**Section III - Federal Award Findings and Questioned Costs**

There were no findings or questioned costs relating to Federal Award programs that are required to be reported in accordance with OMB Circular A-133.

**EXTRACLASSROOM ACTIVITY FUNDS SECTION**

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## **INDEPENDENT AUDITOR'S REPORT**

Members of the Board  
Questar III  
Board of Cooperative Educational Services  
Rensselaer-Columbia-Greene Counties

We have audited the accompanying financial statements of the Questar III - Board of Cooperative Educational Services of Rensselaer-Columbia-Greene Counties Extraclassroom Activity Funds ("Questar III Extraclassroom Activity Funds"), which comprise the statement of assets and fund balance-cash basis as of June 30, 2013, and the related statement of cash receipts and disbursements-cash basis 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.

### **Auditor's 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 of material misstatement.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, and fund balance of Questar III Extraclassroom Activity Fund as of June 30, 2013, and its cash receipts and disbursements for the year then ended in accordance with the cash basis of accounting as 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 that matter.



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
December 6, 2013

**QUESTAR III - BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*EXTRAClassroom Activity Funds*  
*STATEMENT OF ASSETS AND FUND BALANCE - CASH BASIS*  
*JUNE 30, 2012*

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Assets

Cash	\$ <u>16,196</u>
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Fund Balance

Fund balance	\$ <u>16,196</u>
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**QUESTAR III - BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*EXTRACLASSROOM ACTIVITY FUNDS*  
*STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - CASH BASIS*  
*FOR THE YEAR ENDED JUNE 30, 2012*

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	<b><u>Balances</u></b> <b><u>June 30, 2012</u></b>	<b><u>Receipts</u></b>	<b><u>Disbursements</u></b>	<b><u>Balances</u></b> <b><u>June 30, 2013</u></b>
Skills - Columbia-Greene	\$ 3,595	\$ 12,126	\$ 13,369	\$ 2,352
Skills - Rensselaer	6,623	9,571	9,243	6,951
E Bluhm/Red Mill	222	300	-	522
Odyssey of the Mind	10	1	-	11
Autistic/Goff	2,054	1,740	1,850	1,944
Claverack Student Council	189	-	35	154
New Visions RPI	60	-	-	60
New Visions Visual Arts	61	375	426	10
Sackett Student Council	814	2,179	2,854	139
Pro Start - Columbia-Greene	-	2,286	22	2,264
Pro Start - Rensselaer	947	1,270	1,384	833
New Visions Science Research	66	-	-	66
Food Service	514	2,198	2,093	619
Rensselaer Academy Student Council	1,294	-	1,180	114
Tamarac - Burola	157	-	-	157
CGEC Health	<u>97</u>	<u>106</u>	<u>203</u>	<u>-</u>
	<b><u>\$ 16,703</u></b>	<b><u>\$ 32,152</u></b>	<b><u>\$ 32,659</u></b>	<b><u>\$ 16,196</u></b>

**QUESTAR III - BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*EXTRACLASSROOM ACTIVITY FUNDS*  
*NOTE TO FINANCIAL STATEMENTS*  
*JUNE 30, 2012*

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**1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The extraclassroom activity funds are used to account for those organizations within Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties (Questar III) whose activities are conducted by students and whose financial support is raised other than by taxation, fees or through charges of Questar III.

**A. Reporting Entity**

The transactions of the Extraclassroom Activity Funds are considered part of the reporting entity of Questar III. Consequently, such transactions are included in the combined financial statements.

The extraclassroom activity funds of Questar III represents funds of the students of Questar III. The Board exercises general oversight of these funds. The extraclassroom activity funds are independent of Questar III with respect to its financial transactions, and the designation of student management.

**B. Basis of Accounting**

The books and records of Questar III's 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 recognized when cash is disbursed.

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Members of the Board  
Questar III  
Board of Cooperative Educational Services  
Rensselaer-Columbia-Greene Counties

In planning and performing our audit of the financial statements of Questar III, Board of Cooperative Educational Services Rensselaer-Columbia-Greene Counties for the year ended June 30, 2013, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated December 6, 2013, on the financial statements of Questar III.

We will discuss the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.



**CUSACK & COMPANY, CPA'S LLC**

Latham, New York  
December 6, 2013

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE**  
MANAGEMENT COMMENTS  
JUNE 30, 2012

---

**CURRENT YEAR RECOMMENDATIONS**

**1. Audit Adjustments**

A reclassification of cash and due to/from for \$6.9 million was proposed as an audit adjustment as well as an adjustment for \$102,953 to correct bad debts written off directly to fund balance.

Recommendation: As a comingled cash account is utilized by the trust and agency fund and the general fund, regular adjustments are required to properly reflect transactions. We recommend management develop and implement procedures to address this issue. Recording receivables at net realizable value requires management to periodically evaluate collectibility and establish an allowance for uncollectible accounts. The Board of Education or audit committee should approve all actual write-offs. We recommend management consider development and implementation of a policy to address these issues.

Management's Response: Procedures for timely interfund transfers and evaluating receivables will be developed. The procedure for evaluating receivables will include approval by the audit committee before any write-offs are completed.

**2. Authorized Signature**

We noted a cash account that still listed the previous Treasurer as an authorized signer.

We recommend that authorized signers on all accounts be reviewed to insure they are proper.

Management's Response: The prior treasurer was removed from the account on July 31, 2013.

**3. PASSED ADJUSTMENT**

We did not record the reclass adjustment for \$326,702 to record the completion of the Columbia-Greene Greenhouse which should have been reclassified from construction in progress.

We recommend that procedures be developed and implemented to monitor the completion of projects and to make the appropriate adjustments to the general ledger.

Management's Response: Procedures will be developed for adjusting the general ledger for fixed assets upon completion of Capital Projects.

**PRIOR YEAR RECOMMENDATIONS**

**1. Fixed Assets**

During our audit we noted multiple asset additions unaccounted for in the fixed asset detail. We also noted a lack of separate purchase order (P.O.) referencing in the fixed asset detail, which would be useful when sample testing the invoices relating to each fixed asset on the detailed list.

Recommendation: We recommend procedures be developed and implemented to address the issues noted above.

Management Response: A monthly review of equipment purchases will now be done by warehouse staff to assure all items are tagged timely. Business office staff will also reference P.O.'s on year end reports.

Status: The comment was adequately addressed.

**2. Long-Term Debt**

During our audit we noted several changes to the installment lease purchases for one of the districts. This caused several changes to the long-term debt and fixed asset account groups during the audit.

Recommendation: We recommend procedures be developed and implemented to address the issues noted above.

Management Response: The Purchasing Agent has addressed this issue with the Business Official of the District.

Status: The comment was adequately addressed.