

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

FINANCIAL REPORT

JUNE 30, 2016

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

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QUESTAR III
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016

The following is a discussion and analysis of the Rensselaer-Columbia-Greene Counties Board of Cooperative Educational Services (hereinafter referred to as “Questar III”) financial performance for the year ended June 30, 2016. 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 approximately \$3.1 million over the prior year, primarily as a result of the net impact of the postemployment benefit adjustment and the pension adjustment.
- Governmental revenues under the modified accrual basis of accounting increased by 3.25% due to a net increase in providing instructional, instructional support services and other district services. The following is a five year revenue comparison (dollars in millions):

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Administration (001-002)	\$ 7.5	\$ 7.3	\$ 5.9	\$ 6.0	\$ 5.9
Career Education (100-199)	8.9	8.5	8.0	8.0	8.1
Instruction for Handicapped (200-299)	22.7	20.9	19.8	19.9	19.1
Itinerant Service (300-399)	2.1	2.2	1.8	1.9	1.5
General Instruction (400-499)	5.9	5.5	5.2	4.6	4.5
Instructional Support (500-599)	7.4	7.1	6.7	5.7	4.7
Other Services (600-699)	11.1	10.6	9.4	9.4	9.0
Special Aid Fund (800-999)	4.3	5.6	4.7	5.8	5.7
Total Revenue	<u>\$ 69.9</u>	<u>\$ 67.7</u>	<u>\$ 61.5</u>	<u>\$ 61.3</u>	<u>\$ 58.5</u>
% Increase	<u>3.25%</u>	<u>10.08%</u>	<u>.32%</u>	<u>4.79%</u>	<u>1.39%</u>

The majority of Questar III services are purchased by our 23 component school districts which accounted for approximately 78.5% of our total revenues (77.9% in the 2014-2015 year).

Expenditures increased by 6.8% over the prior year. Salaries increased as a percentage of total expenditures to 40.0% for the current year from 39.0% in the prior year. The following is a five year expenditure comparison (dollars in millions) for salaries and benefits:

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FINANCIAL HIGHLIGHTS (CONTINUED)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Salaries & Wages	\$ 25.1	\$ 24.7	\$ 24.1	\$ 23.9	\$ 22.5
Salaries & Wages as % of Total Expenditures	37.0%	39.0%	41.1%	41.6%	41.1%
Fringe Benefits	\$ 15.7	\$ 13.7	\$ 12.1	\$ 11.7	\$ 11.9
Fringe Benefits as % of Total Expenditures	23.0%	21.6%	20.6%	20.3%	21.7%
Health Insurance	\$ 9.2	\$ 7.1	\$ 6.0	\$ 5.9	\$ 6.3
Health Insurance as % of Total Expenditures	14.7%	11.2%	10.2%	10.2%	11.4%
Total Expenditures	\$ 67.7	\$ 63.4	\$ 58.8	\$ 57.6	\$ 54.8

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

OVERVIEW OF THE FINANCIAL STATEMENTS

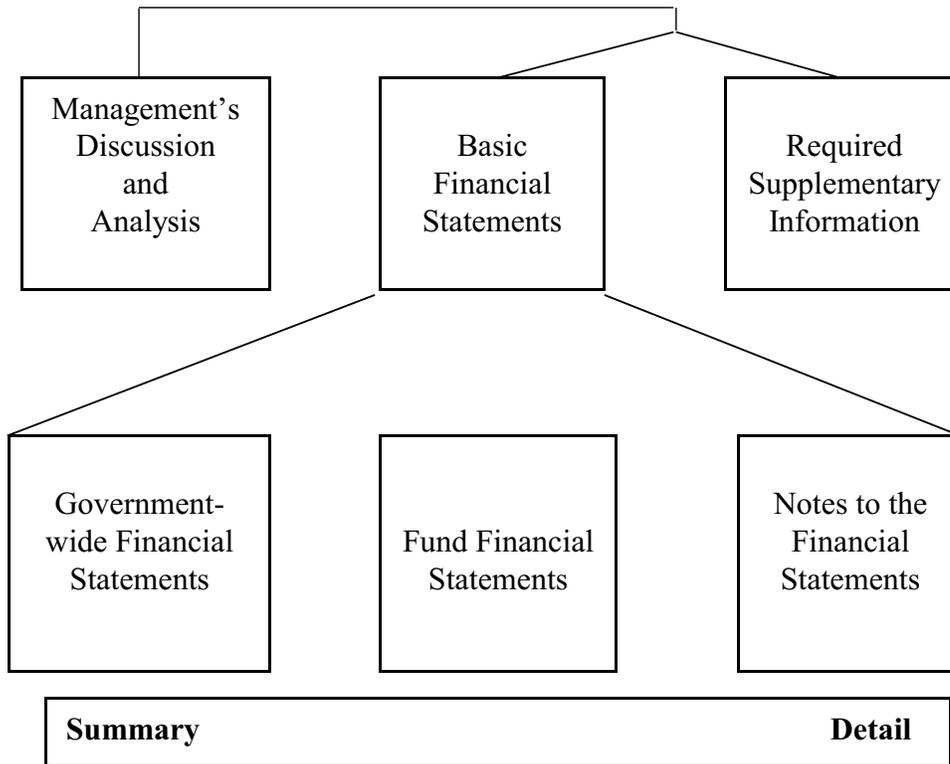
This annual report consists of three parts: MD&A (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of Questar III:

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



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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 Government-wide and Fund Financial Statements

	Government-wide <u>Statements</u>	Fund Financial Statements	
		<u>Governmental</u>	<u>Fiduciary</u>
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"> • Statement of Net Position • Statement of Activities and Changes in Net Position 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
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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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 (Deficit) 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, special revenue 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 \$3.1 million to a deficit of approximately \$65.6 million as detailed in Tables A-3 and A-4.

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

	<u>2016</u>	<u>2015</u>
Current Assets	\$ 17.2	\$ 18.0
Capital Assets, Net of Depreciation	7.9	6.8
Other Long-Term Assets	.9	.9
Proportionate Share of Net Pension Assets	11.3	12.5
Deferred Outflows - Pension	<u>6.4</u>	<u>3.4</u>
Total Assets and Deferred Outflows	<u>\$ 43.7</u>	<u>\$ 41.6</u>
Current Liabilities	\$ 9.6	\$ 9.3
Noncurrent Liabilities	95.2	86.1
Deferred Inflows - Pension	<u>4.5</u>	<u>8.7</u>
Total Liabilities and Deferred Inflows	<u>\$ 109.3</u>	<u>\$ 104.1</u>
Net Position (Deficit)		
Investment in Capital Assets, Net of Related Debt	\$ 7.9	\$ 6.8
Unassigned Deficit	<u>(73.5)</u>	<u>(69.3)</u>
Total Net Position (Deficit)	<u>\$ (65.6)</u>	<u>\$ (62.5)</u>

CHANGES IN NET POSITION (DEFICIT)

Questar III's total year 2016 program revenues approximate \$68.7 million. (See Table A-4) Charges to components, non-components and others accounted for 93.2% (94.5% in 2015) of Questar III's revenue. Operating grants accounted for 6.3% (5.2% in 2015).

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CHANGES IN NET POSITION (DEFICIT) (CONTINUED)

Questar III's total year 2016 program expenses approximate \$68.5 million. (See Table A-4) Of these expenses 90.4% related to instruction and instructional support (88.8% in 2015) and 9.6% related to administrative and business activities (11.2% in 2015).

Table A-4: Changes in Net Position (Deficit) from Operating Results
(in millions)

	2016		2015	
Revenues				
Program Revenues				
Charges for Services	\$ 64.0	93.2%	\$ 63.4	94.5%
Operating Grants	4.3	6.3%	3.5	5.2%
Other Revenues	.4	.5%	.2	.3%
Total Revenues	68.7	100.0%	67.1	100.0%
Expenses				
Administration	6.6	9.6%	7.0	11.2%
Career Education	10.2	14.9%	9.2	14.7%
Instruction of Handicapped	23.5	34.3%	20.3	32.4%
Itinerant Services	2.2	3.2%	1.9	3.0%
General Instruction	6.4	9.4%	5.8	9.3%
Instructional Support	9.0	13.1%	8.6	13.7%
Other Services	10.6	15.5%	9.8	15.7%
	68.5	100.0%	62.6	100.0%
Revenues in Excess of Expenses before Return of Surplus				
	.2		4.5	
Return of Surplus	(3.1)		(4.5)	
Postemployment Benefit Adjustment	-		(23.4)	
Other	(2)		3.2	
Change in Net Position	\$ (3.1)		\$ (20.2)	

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FINANCIAL ANALYSIS OF QUESTAR III'S FUNDS

Variations between years for the governmental fund financial statements are not the same as variations between years for the government-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, 2016 primarily to provide additional services as requested by components and others.

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Unencumbered (Overexpended) Balance</u>
Administration (001-002)	\$ 7,483,483	\$ 7,663,640	\$ 7,431,474	\$ 232,166	\$ -
Career Education (100-199)	10,320,498	9,377,413	8,777,681	439,946	159,786
Instruction for Handicapped (200-299)	20,971,751	22,181,667	20,855,563	387,018	939,086
Itinerant Service (300-399)	2,365,095	2,082,761	1,999,189	4,147	79,425
General Instruction (400-499)	3,630,455	5,975,467	5,865,250	30,420	79,797
Instructional Support (500-599)	7,001,439	7,955,314	7,450,331	369,860	135,123
Other Services (600-699)	11,635,821	12,217,072	10,138,309	1,022,813	1,055,950
	<u>\$ 63,408,542</u>	<u>\$ 67,453,334</u>	<u>\$ 62,517,797</u>	<u>\$ 2,486,370</u>	<u>\$ 2,449,167</u>

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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The following table reflects the total cumulative cost before depreciation of various building renovations and additions, technology and equipment expenditures through the end of year 2016:

Table A-5: Capital Assets

<u>Category</u>	<u>2016</u>	<u>2015</u>
Land	\$ 463,533	\$ 463,533
Buildings	10,381,579	8,852,427
Equipment	2,405,835	2,304,215
Vehicles	668,478	629,684
Construction in Progress	-	94,540
Total	<u>\$ 13,919,425</u>	<u>\$ 12,344,399</u>

Long-Term Debt

At year-end 2016 Questar III had \$1,740,922 in installment purchase debt outstanding of which \$878,003 is long-term. 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 up to five 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:

For the last several years, the national and statewide fiscal crises has resulted in districts looking for ways to maximize the value attained by their limited resources. Questar III is a vehicle being utilized to achieve this objective. Despite New York State's improved financial picture, the 2% tax cap legislation continues to have an adverse impact on component districts and Questar III's revenue streams. Questar III continues to employ cost containment measures as a result of cutbacks, but to sustain our current infrastructure we need to become more innovative in the development and enhancement of new and existing programs and services to expand our revenue base.

Career and Technical Education (CTE): CTE program options were reduced slightly for the 2016-2017 school year with the discontinuation of the satellite Media Communication program at Catskill High School and withdrawing from Aviation Flight in Schenectady. However, we developed a new program, New Visions Medical course, for the 2016-2017 school year. We are pleased that the new offering is following the tradition of the other New Visions courses by running at capacity.

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FACTORS BEARING ON QUESTAR III'S FUTURE (CONTINUED)

Pass rates on the CTE technical assessments remain high while continuing to close the gap for the pass rates for Students with Disabilities. Since approximately 30 percent of our CTE students are Students with Disabilities, raising the achievement of all students has been a focus of our programs. Eight of our CTE programs just went through a rigorous program re-approval process. We are pleased to report that, to date, six of the eight programs have been approved and we are confident that the remaining two programs will be approved. We are continuing to improve the overall outcomes of all students by having more students receive technical endorsements in addition to the state and national credentials applicable to each program. In addition to CTE credit and work-based learning experience, Career Tech classes offer students the opportunity to earn a general math and science credit their junior year and an English Language Arts credit their senior year.

While not a pure CTE program, our Career Studies programs provide students with entry-level training in a technical area of trade at an alternative learning pace. These programs are designed to provide more customize career instruction and experience in a supportive learning environment. These programs have a small student-teacher ratio while still being taught by certified teachers that have substantial real world experiences in their given trades. We are excited to now offer integrated math, science and English language arts credits stretched over the two years of the Career Studies program to better respond to the needs of these students and our districts.

<u>Career & Technical Education</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Number of students	723	725	674	656	640
% change from prior year	(0.2%)	7.6%	2.7%	2.5%	(17.3%)
Revenue in millions	\$ 8.9	\$ 8.5	\$ 8.0	\$ 8.0	\$ 8.1
% change from prior year	4.7%	6.3%	0%	(1.2%)	5.2%

Instruction of Students with Disabilities: Enrollment for special education during the 2015-2016 school year increased. We are beginning the 2016-2017 school year with enrollment numbers mirroring where we began the previous year. Last year we faced space issue challenges due to the need for more intensive settings similar to Rensselaer Academy, George Washington School, Sackett Center and Catskill Academy. In September 2016, four classes of high school students, working towards a Regents Diploma, were moved from Rensselaer Academy to the Rensselaer Education Center. In addition to taking their academic classes, our goal is for the students to work towards participating in a Career and Technical Education or Career Studies program. Our transition program, geared to students between the ages of 18 to 21 who have completed all their NYS required testing, moved their location from the Russell Sage College Campus in Troy to The Arts Center in Troy. Many of our current classes are filled, although some capacity exists in specific classes. In addition, the Catskill Academy and George Washington School have capacity to add two classes and one class, respectively.

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FACTORS BEARING ON QUESTAR III'S FUTURE (CONTINUED)

Approximately 21.0% of our students with disabilities are from non-component school districts (18.6% in 2014-2015).

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

<u>Students with Disabilities</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Number of students	295	275	270	281	281
% change from prior year	7.3%	1.9%	(3.9%)	0%	(3.7%)
Revenue in millions	\$ 22.7	\$ 20.9	\$ 19.7	\$ 19.9	\$ 19.1
% change from prior year	8.6%	6.1%	(1.0%)	4.2%	(1.0%)

Itinerant Service: The itinerant services have remained stable and are expected to remain so.

General Instruction: Questar III continues to operate a relatively small Alternative Learning Program (ALP) at both the Columbia-Greene Educational Center and at Greenville High School. All students enrolled in the ALP program at the Columbia-Greene Educational Center also participate in a ½ day CTE program. The academic success of the students that go through the ALP program is a testament to the small size, individualized structure and focused academic instruction that the students receive. However, student numbers are down at the Columbia-Greene Educational Center for the 2016-2017 year. The decreased enrollment will cause a re-examination of district need in order to continue the program into 2017-2018 school year.

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.

School Improvement Services: School Improvement Services continue to grow. The demand for staff development continues to remain strong. A Social Studies Specialist has been added to support school districts with the new Social Studies framework. The School improvement program will continue to enhance communications with districts and support districts with new regulations from the State Education Department.

Other Services: The Financial Services Department continued to see growth and success in the 2015-2016 fiscal year. With lots of hard work and perseverance, the Fixed Asset Inventory Service gained twelve new clients over the course of the 2015-2016 fiscal year. The Fixed Asset Inventory service is also working with the component school districts of a BOCES in the western part of NYS to convert their perpetual inventory to AssetMAXX in the 2016-2017 fiscal year. The GASB 45 Team also experienced growth by adding twelve new clients in the 2015-2016 fiscal year. The Central Business Office (CBO) Service continued to serve five district clients and added one additional

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FACTORS BEARING ON QUESTAR III'S FUTURE (CONTINUED)

client about half-way through the 2015-2016 fiscal year. While the CBO experienced changes in the 2015-2016 fiscal year, it has managed to sustain its client numbers as well as maintain efficiencies and cost effectiveness. The Internal Audit and Administrative Management & Planning Services added three and five new district clients, respectively. The significant growth of the Financial Services Department provides evidence of the important and valuable work that the entire team delivers.

The State Aid and Financial Planning Service currently serves 648 school districts and 32 BOCES. The service continues to provide much needed technical support to school districts across the state. The increased use of teleconferencing technology allows the staff to provide updates and information in real time. In addition, the STAC and Special Education aid reporting service increased the number of participating districts by six and are now servicing 31 districts statewide. Both services provide much needed support for school administrators as they navigate through the complexity of school aid and the school business management system.

The Health and Safety Service continues to support its school districts with new regulation compliance in public schools. In the 2015-2016 school year, preparation began to support schools in complying with the new carbon monoxide detection law in testing for the presence of lead in the schools' water. Both provide new service opportunities for the department. In addition, the Chemical Hygiene Program expanded to provide electronic recordkeeping of required documents and access to a chemical hygiene officer for schools. The Fire System Maintenance service also increased its customer base by adding three new school district customers.

Special Aid Fund: As anticipated, during the 2015-2016 fiscal year, Questar III experienced decreases in federal aid primarily related to the "Teaching is the Core" and "Virtual Advanced Placement" one-year grant awards that expired at the end of the 2014-2015 year, in addition to the discontinuation of the Adult Licensed Practical Nursing (LPN) Program. Grant funding levels for 2016-2017 are expected to approximate 2015-2016 levels. Questar III will continue to be proactive in seeking new funding opportunities.

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2016, 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 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 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 financial position of the governmental activities of Questar III, as of June 30, 2016, and the changes in its 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, the schedules of funding progress - other postemployment benefit plans, proportionate share of net pension asset/liability and contributions - pension plans on pages 1-12 and 42-45 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 46-48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 53 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements, for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

The supplemental information on pages 46-48 and the schedule of expenditures of federal awards on page 53 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016 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
November 30, 2016

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

STATEMENT OF NET POSITION

JUNE 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:

Current Assets:

Cash	\$ 7,757,363
Due from School Districts and Other BOCES	7,924,031
State and Federal Aid Receivable	1,033,835
Other Receivables, Net	422,906
Due from Other funds	26,627
Prepaid Expenses	<u>25,925</u>
Total Current Assets	<u>17,190,687</u>

Noncurrent Assets:

Due from School Districts	878,003
Capital Assets, Net	7,947,343
Proportionate Share of Net Pension Assets	<u>11,335,652</u>
Total Noncurrent Assets	<u>20,160,998</u>

Deferred Outflows - Pension

6,411,059

Total Assets and Deferred Outflows

\$ 43,762,744

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES:

Current Liabilities:

Accounts Payable	\$ 1,178,827
Accrued Expenses	1,880,838
Postemployment Benefit Liability	2,994,316
Unearned Revenues	14,542
Capital Leases Payable	862,919
Due to Retirement Systems	<u>2,681,887</u>
Total Current Liabilities	<u>9,613,329</u>

Noncurrent Liabilities:

Capital Leases Payable	878,003
Postemployment Benefit Liability	90,044,826
Proportionate Share of Net Pension Liability	<u>4,320,516</u>
Total Noncurrent Liabilities	<u>95,243,345</u>

Deferred Inflows - Pension

4,485,577

Total Liabilities and Deferred Inflows

109,342,251

NET POSITION (DEFICIT):

Invested in Capital Assets, Net of Related Debt	7,947,343
Unassigned Deficit	<u>(73,526,850)</u>
Total Net Position (Deficit)	<u>(65,579,507)</u>

Total Liabilities, Deferred Inflows and Net Position (Deficit)

\$ 43,762,744

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenues and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Position</u>
<u>Functions/Programs:</u>				
Administration	\$ 6,604,751	\$ 6,335,069	\$ 322,966	\$ 53,284
Career Education	10,167,148	9,415,251	785,120	33,223
Instruction of Handicapped	23,482,040	22,017,514	1,531,321	66,795
Itinerant Services	2,160,879	2,167,351	-	6,472
General Instruction	6,376,448	6,038,747	355,740	18,039
Instructional Support	9,045,649	7,796,567	1,273,789	24,707
Other Services	<u>10,613,643</u>	<u>10,645,432</u>	<u>-</u>	<u>31,789</u>
 Total Functions/Programs	 <u>\$ 68,450,558</u>	 <u>\$ 64,415,931</u>	 <u>\$ 4,268,936</u>	 234,309
 Return of Surplus				 <u>(3,121,797)</u>
 Change in Net Position				 (2,887,488)
 General Fund Encumbrances, Beginning of Year				 (2,697,190)
 General Fund Encumbrances, End of Year				 2,486,370
 Increase in Reserve for Prepaid Expenses				 960
 Net Position (Deficit), Beginning of Year, as Restated				 <u>(62,482,159)</u>
 Net Position (Deficit), End of Year				 <u>\$ (65,579,507)</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 COMBINED BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2016

	<u>General</u>	<u>Special Aid</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets:				
Cash	\$ 3,514,508	\$ 2,596,150	\$ 1,646,705	\$ 7,757,363
Due from School Districts and Other BOCES	7,061,112	-	-	7,061,112
State and Federal Aid Receivable	-	1,033,835	-	1,033,835
Other Receivables, Net	379,476	43,430	-	422,906
Due from Other Funds	205,072	-	-	205,072
Prepaid Expenses	<u>25,925</u>	<u>-</u>	<u>-</u>	<u>25,925</u>
 Total Assets	 <u>\$ 11,186,093</u>	 <u>\$ 3,673,415</u>	 <u>\$ 1,646,705</u>	 <u>\$ 16,506,213</u>
LIABILITIES				
Liabilities:				
Accounts Payable	\$ 1,138,356	\$ 40,471	\$ -	\$ 1,178,827
Accrued Expenses	1,859,239	21,599	-	1,880,838
Postemployment Benefit Liability	2,994,316	-	-	2,994,316
Due to Other Funds	-	178,445	-	178,445
Due to Retirement Systems	2,681,887	-	-	2,681,887
Unearned Revenue	<u>-</u>	<u>14,542</u>	<u>-</u>	<u>14,542</u>
Total Liabilities	<u>8,673,798</u>	<u>255,057</u>	<u>-</u>	<u>8,928,855</u>
FUND BALANCES				
Fund Balance:				
Nonspendable	25,925	-	-	25,925
Assigned	<u>2,486,370</u>	<u>3,418,358</u>	<u>1,646,705</u>	<u>7,551,433</u>
Total Fund Balance	<u>2,512,295</u>	<u>3,418,358</u>	<u>1,646,705</u>	<u>7,577,358</u>
 Total Liabilities and Fund Balance	 <u>\$ 11,186,093</u>	 <u>\$ 3,673,415</u>	 <u>\$ 1,646,705</u>	 <u>\$ 16,506,213</u>
 Reconciliation of Total Governmental Fund Balances to Net Position (Deficit) of Governmental Activities:				
Total Fund Balances for Governmental Funds				\$ 7,577,358
Capital Assets				7,947,343
Installment Debt Receivables				1,740,922
Installment Debt Payable				(1,740,922)
Postemployment Benefit Obligation				(90,044,826)
Pension Adjustment - Net				<u>8,940,618</u>
 Net Position (Deficit) of Governmental Activities				 <u>\$ (65,579,507)</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	<u>Special Aid</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES:				
Charges to Components	\$ 54,848,050	\$ -	\$ -	\$ 54,848,050
Charges to Non-Components	8,918,776	-	-	8,918,776
Charges for Services	373,695	1,420,353	-	1,794,048
Interest and Earnings	19,577	-	1,635	21,212
Miscellaneous	383,040	-	-	383,040
Sales	139,023	-	-	139,023
Interfund Revenues	957,433	-	-	957,433
State and Local Sources	-	1,908,756	-	1,908,756
Federal Sources	-	939,827	-	939,827
Total Revenues	<u>65,639,594</u>	<u>4,268,936</u>	<u>1,635</u>	<u>69,910,165</u>
EXPENDITURES:				
Administration	6,932,974	288,600	-	7,221,574
Career Education	8,777,681	780,013	-	9,557,694
Instruction for Handicapped	20,855,563	1,530,275	-	22,385,838
Itinerant Services	1,999,189	-	-	1,999,189
General Instruction	5,865,250	355,734	-	6,220,984
Instructional Support	7,450,331	1,272,364	-	8,722,695
Other Services	10,138,309	-	1,434,613	11,572,922
Total Expenditures	<u>62,019,297</u>	<u>4,226,986</u>	<u>1,434,613</u>	<u>67,680,896</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURE	<u>3,620,297</u>	<u>41,950</u>	<u>(1,432,978)</u>	<u>2,229,269</u>
OTHER SOURCES AND (USES):				
Return of Surplus	(3,121,797)	-	-	(3,121,797)
Transfer to Capital Projects	(498,500)	-	-	(498,500)
Transfer from General Fund	-	-	498,500	498,500
Total Other Sources (Uses)	<u>(3,620,297)</u>	<u>-</u>	<u>498,500</u>	<u>(3,121,797)</u>
Change in Fund Balance	-	41,950	(934,478)	(892,528)
Encumbrances, Beginning of Year	(2,697,190)	-	-	(2,697,190)
Encumbrances, End of Year	2,486,370	-	-	2,486,370
Increase in Reserve for Prepaids	960	-	-	960
Fund Balance, Beginning of Year	<u>2,722,155</u>	<u>3,376,408</u>	<u>2,581,183</u>	<u>8,679,746</u>
Fund Balance, End of Year	<u>\$ 2,512,295</u>	<u>\$ 3,418,358</u>	<u>\$ 1,646,705</u>	<u>\$ 7,577,358</u>
RECONCILIATION OF THE GOVERNMENTAL FUNDS COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES:				
Total Net Changes in Fund Balances - Governmental Funds				\$ (892,528)
Capital Assets Acquired				1,803,178
Depreciation				(622,260)
Loss on Disposal of Asset				(22,394)
Postemployment Benefit Obligation				(5,771,040)
Pension Adjustment				2,617,556
Change in Net Position of Governmental Activities				<u>\$ (2,887,488)</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
STATEMENT OF FIDUCIARY NET POSITION AND CHANGES IN FIDUCIARY NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

Statement of Fiduciary Net Position

	<u>Private-purpose Trusts</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 101,463	\$ 11,638,334
Accounts Receivable	-	19,188
Total Assets	<u>\$ 101,463</u>	<u>\$ 11,657,522</u>
LIABILITIES		
Due to Student Activities	\$ -	\$ 29,755
Due to Other Funds	-	26,627
Due to Components and Non-Components	-	11,601,140
Total Liabilities	<u>-</u>	<u>\$ 11,657,522</u>
NET POSITION		
Restricted for Scholarships	<u>101,463</u>	
Total Liabilities and Net Position	<u>\$ 101,463</u>	

Statement of Changes in Fiduciary Net Position

Contributions	\$ 13,848
Interest	<u>69</u>
Total Income	13,917
Scholarships and Other Expense	<u>11,529</u>
Increase in Net Position	2,388
Net Position, Beginning of Year	<u>99,075</u>
Net Position, End of Year	<u>\$ 101,463</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 accordance 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, 2016

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 57 to 61.

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, 2016

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 position 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 position 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 the 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, 2016

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.

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.

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

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.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting/Measurement Focus (Continued)

1. Government-wide and Fiduciary Fund Financial Statements (Continued)

Unearned Revenue

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 unearned revenues is removed and revenues are recognized.

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.

Beginning with the year ended June 30, 2015, Questar III adopted a policy of providing a current liability for the estimated amount of postemployment benefits to be paid in the next fiscal year as that estimate is expected to be liquidated with expendable available resources.

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:

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting/Measurement Focus (Continued)

2. Governmental Fund Financial Statements (Continued)

- a. Expenditures for prepaid items are recognized at the time of disbursement when Questar III is liable for payment.
- b. Principal and interest on long-term debt are 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.

Unearned Revenues and Deferred Outflows and Inflows of Resources

Unearned revenue arises when resources are received before BOCES has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, or when BOCES has legal claim to the resources, the liability is removed and revenue is recognized.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. There are generally three items that qualify for reporting in this category. First is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in BOCES' proportion of the collective net pension asset or liability and differences during the measurement period between BOCES' contributions and its proportionate share of total contributions to the pension systems not included in pension expense. Lastly BOCES' contributions to the pension systems (TRS and ERS Systems) made subsequent to the measurement date.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

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

Basis of Accounting/Measurement Focus (Continued)

2. Governmental Fund Financial Statements (Continued)

Unearned Revenues and Deferred Outflows and Inflows of Resources (Continued)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflows of resources (revenue) until that time. There are generally two items that qualify for reporting in this category. First arises only under a modified accrual basis of accounting and is reported as unavailable revenue. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in BOCES' proportion of the collective net pension liability (TRS and ERS Systems) and differences during the measurement periods between BOCES' contributions and its proportionate share of total contributions to the pension system not included in pension expense.

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 non-spendable fund balance consists of \$25,925 in prepaid expense recorded in the general fund at June 30, 2016.
- **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 \$2,486,370 recorded in the general fund at June 30, 2016 for encumbrances. The special aid and capital projects funds had assigned fund balances for their programs and expenditures amounting to \$3,418,358 and \$1,646,705, respectively at June 30, 2016. The special aid assigned fund balance includes \$2,318,337 designated by the Board of Cooperative Educational Services for other postemployment benefits (Note 6).

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

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

Basis of Accounting/Measurement Focus (Continued)

2. Governmental Fund Financial Statements (Continued)

Fund Balance (Continued)

- **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.

Use of Estimates

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

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.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Procedures and Budgetary Accounting (Continued)

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.

New Accounting Standards

The BOCES has adopted and implemented GASB Statement No. 72, *Fair Value Measurement and Application*, effective for the year ended June 30, 2016.

The BOCES has also adopted and implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the year ended June 30, 2016.

Future Changes in Accounting Standards

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

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

Subsequent Events

Management has evaluated subsequent events or transactions as to potential material impact on operations or financial position occurring through November 30, 2016, 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 Deputy 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 of the U.S. Treasury.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

2. CASH AND INVESTMENTS (CONTINUED)

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.

Available deposits at year end were entirely covered by Federal Deposit Insurance or by collateral held by a bank in Questar III's name.

3. CAPITAL ASSETS

A summary of capital assets for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Land	\$ 463,533	\$ -	\$ -	\$ -	\$ 463,533
Buildings	8,852,427	-	-	1,529,152	10,381,579
Equipment	2,304,215	242,344	(140,724)	-	2,405,835
Vehicles	629,684	126,222	(87,428)	-	668,478
Construction in Progress	94,540	1,434,612	-	(1,529,152)	-
	<u>12,344,399</u>	<u>1,803,178</u>	<u>(228,152)</u>	<u>-</u>	<u>13,919,425</u>
Less Accumulated Depreciation:					
Buildings	3,631,040	324,611	-	-	3,955,651
Equipment	1,464,801	245,768	(123,910)	-	1,586,659
Vehicles	459,739	51,881	(81,848)	-	429,772
	<u>5,555,580</u>	<u>622,260</u>	<u>(205,758)</u>	<u>-</u>	<u>5,972,082</u>
Capital Assets, Net	<u>\$ 6,788,819</u>	<u>\$ 1,180,918</u>	<u>\$ (22,394)</u>	<u>\$ -</u>	<u>\$ 7,947,343</u>

Depreciation expense was \$622,260 for the year ended June 30, 2016.

4. 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. All installment purchase debts are collateralized by various equipment.

Installment purchase debt activity for the year ended June 30, 2016 is as follows:

Installment Purchase Debt, Beginning Balance	\$ 2,008,787
New Leases	1,106,253
Repayments	(1,374,118)
Installment Purchase Debt, Ending Balance	<u>\$ 1,740,922</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

4. INSTALLMENT PURCHASE DEBT (CONTINUED)

Current maturities of installment purchase debt are as follows:

2017	\$ 862,819
2018	632,958
2019	157,155
2020	87,990
	<u>\$ 1,740,922</u>

5. 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 Description and Benefits Provided - TRS. The TRS is administered by the New York State Teachers' Retirement Board. The System provides benefits to plan members and beneficiaries as authorized by Article 11 of the New York State Education Law. 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, Albany, NY 12211-2395, or by referring to the System's website at www.nystrs.org.

Plan Description and Benefits Provided - ERS. ERS provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund, which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York (the "Comptroller") serves as sole trustee and administrative head of the System. System benefits are established under provisions of the New York State Retirement and Social Security Laws ("NYSRSSL"). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The 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, or by referring to www.osc.state.ny.us/retire/publications/index.php.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

5. PENSION PLANS (CONTINUED)

TRS Contributions. Pursuant to Article 11 of the New York State Education Law, employers are required to contribute at an actuarially determined rate applicable to member salaries and adopted annually by the Retirement Board. Tier 3 and 4 members who have less than 10 years of service or membership are required by law to contribute 3% of salary to the System. Tier 5 members are required by law to contribute 3.5% of salary throughout their active membership. Tier 6 members are required by law to contribute between 3% and 6% of salary throughout their active membership in accordance with a schedule based upon salary earned. Pursuant to Article 14 and Article 15 of the Retirement and Social Security Law, those member contributions are used to help fund the benefits provided by the System. However, if a member dies or leaves covered employment with less than 5 years of credited service for Tiers 3 and 4, or 10 years of credited service for Tiers 5 and 6, the member contributions with interest calculated at 5% per annum are refunded to the employee or designated beneficiary. Eligible Tier 1 and Tier 2 members may make member contributions under certain conditions pursuant to the provisions of Article 11 of the Education Law and Article 11 of the Retirement and Social Security Law. Upon termination of membership, such accumulated member contributions are refunded. At retirement, such accumulated member contributions can be withdrawn or are paid as a life annuity.

ERS Contributions. The System is noncontributory except for the employees who joined the System after July 27, 1976 who contribute 3% of their salary, for the first ten years of membership and employees who joined on or after January 1, 2010 who generally must contribute 3% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31.

Contributions for the current year and two preceding years were equal to 100% of the contributions required as follows:

	ERS		TRS	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
2016	\$ 1,080,724	14.86%	\$ 2,210,429	13.26%
2015	\$ 1,269,520	17.75%	\$ 2,873,792	17.53%
2014	\$ 1,143,631	18.81%	\$ 2,687,904	16.25%

Chapter 260 of the laws of 2014 of the State of New York allows local employers to bond or amortize a portion (limitations established by fiscal year) of their retirement bill up to 10 years for fiscal years ending March 31, 2005 through 2008. Chapter 57 of the laws of 2010 of the State of New York allows local employers to amortize a portion (limitations established by fiscal year) of their retirement bill for 10 years for fiscal years ending March 31, 2011 and forward. These laws require participating employers to make payments on a current basis, while bonding or amortizing existing unpaid amounts. Questar III has not bonded or amortized any portion of their retirement obligations.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

5. PENSION PLANS (CONTINUED)

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

At June 30, 2016, Questar III reported an asset of \$11,335,652 (TRS) and a liability of \$4,320,516 (ERS) for its proportionate share of the net pension asset or liability. The net pension asset (TRS) was measured as of June 30, 2015, and the net pension liability (ERS) was measured as of March 31, 2016, and the total pension asset/liability used to calculate the net pension asset/liability was determined by an actuarial valuation as of those dates. Questar III's proportion of the net pension asset/liability was based on a projection of the Questar III's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At June 30, 2016, Questar III's proportion was .11% percent TRS and .03% ERS.

For the year ended June 30, 2016, Questar III recognized pension expense, (income) of \$(738,096) for TRS and \$1,541,955 for ERS.

At June 30, 2016, Questar III reported deferred outflows of resources related to pensions from the following sources:

	<u>TRS</u>	<u>ERS</u>	Total Deferred Outflows of Resources
Differences between expected and actual experience	\$ -	\$ 21,833	\$ 21,833
Changes of assumptions	-	1,152,151	1,152,151
Net difference between projected and actual earnings on pension plan investments	-	2,563,167	2,563,167
Changes in proportion	98,057	95,241	193,298
Contributions after the measurement date	<u>2,210,429</u>	<u>270,181</u>	<u>2,480,610</u>
	<u>\$ 2,308,486</u>	<u>\$ 4,102,573</u>	<u>\$ 6,411,059</u>

At June 30, 2016, Questar III reported deferred inflows of resources related to pensions from the following sources:

	<u>TRS</u>	<u>ERS</u>	Total Deferred Inflows of Resources
Differences between expected and actual experience	\$ 314,159	\$ 512,125	\$ 826,284
Net difference between projected and actual earnings on pension plan investments	3,583,258	-	3,583,258
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>-</u>	<u>76,035</u>	<u>76,035</u>
	<u>\$ 3,897,417</u>	<u>\$ 588,160</u>	<u>\$ 4,485,577</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

5. PENSION PLANS (CONTINUED)

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

The net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

June 30, 2016	\$ 1,046,921
June 30, 2017	(619,301)
June 30, 2018	(619,301)
June 30, 2019	1,421,879
June 30, 2020	773,489
June 30, 2021	(78,205)
	<u>\$ 1,925,482</u>

	<u>TRS</u>	<u>ERS</u>
Covered Payroll	<u>\$ 17,226,673</u>	<u>\$ 9,020,039</u>

TRS Actuarial Assumptions. The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2014, with update procedures used to roll forward the total pension liability to June 30, 2015. The actuarial valuation used the following actuarial assumptions:

Inflation	3.0%
Projected salary increases	Rates of increase differ based on age and gender. They have been calculated based upon recent NYSTRS member experience.

<u>Age</u>	<u>Female</u>	<u>Male</u>
25	10.35%	10.91%
35	6.26	6.27
45	5.39	5.04
55	4.42	4.01

Projected COLAs	1.625% compounded annually
Investment rate of return	8.0% compounded annually, net of pension plan investment expense, including inflation

Annuitant mortality rates are based on plan member experience, with adjustments for mortality improvements based on Society of Actuaries Scale AA.

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

5. PENSION PLANS (CONTINUED)

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

ERS Actuarial Assumptions. The total pension liability at March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016. The actuarial valuation used the following actuarial assumptions.

Significant actuarial assumptions used in the April 1, 2015 valuation were a follows:

Investment rate of return	7.0%
Salary scale	3.8%
Inflation rate	2.5%
Cost of living adjustments	1.3%

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014.

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

Long-Term Expected Rates of Return

Best estimates of arithmetic real rates of return for each major asset class are included in the target asset allocation for TRS and ERS are as follows:

<u>Asset Class</u>	<u>TRS Long-Term Expected Real Rate of Return</u>	<u>ERS Long-Term Expected Real Rate of Return</u>
Domestic equity	6.50%	7.30%
International equity	7.70%	8.55%
Private equity	N/A	11.00%
Real estate	4.60%	8.25%
Absolute return strategies	N/A	6.75%
Opportunistic portfolio	N/A	8.60%
Real assets	N/A	8.65%
Bonds and mortgages	3.40%	4.00%
Cash	1.20%	2.25%
Inflation-indexed bonds	N/A	2.00%
Alternative investments	9.90%	N/A
Domestic fixed income securities	2.10%	N/A
Global fixed income securities	1.90%	N/A

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BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

5. PENSION PLANS (CONTINUED)

Discount Rate

The discount rate used to calculate the total pension asset was 8.0% for TRS and the total pension liability was 7% for ERS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Questar III's proportionate share of the net pension asset/liability calculated using the discount rate of 8.0 and 7.0 percent, as well as what Questar III's proportionate share of the net pension asset/liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Assumption</u>	<u>1% Increase</u>
<u>TRS</u>			
Employers' proportionate share of the net pension asset (liability)	\$ (773,238)	\$ 11,335,652	\$ 21,661,991
<u>ERS</u>			
Employers' proportionate share of the net pension asset (liability)	\$ (9,742,450)	\$ (4,320,516)	\$ 260,786

Pension Plan Fiduciary Net Position

The components of the net pension asset (TRS) and liability (ERS) of the employer as of June 30, 2015 and March 31, 2016, respectively, were as follows (in thousands):

	<u>TRS</u>	<u>ERS</u>
Employers' total pension liability	\$ (99,332,104)	\$ (202,651,271)
Fiduciary net position	<u>109,718,917</u>	<u>183,640,205</u>
Employers' net pension asset (liability)	<u>\$ 10,386,813</u>	<u>\$ (19,011,066)</u>
Ratio of fiduciary net position to the employers' total pension liability	<u>110.5%</u>	<u>90.6%</u>

Restatement of Net Position

For the fiscal year ended June 30, 2015, the Institute implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-Amendment to GASB Statement No. 27*. The implementation of Statement No. 68 resulted in the reporting of an asset, deferred outflows of resources, liability and deferred inflows of resources related to Questar III's participation in the New York State Teachers' and Employees' retirement

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

5. PENSION PLANS (CONTINUED)

Restatement of Net Position (Continued)

systems. For the fiscal year ended June 30, 2015, the deferred outflows of resources for contributions made subsequent to the measurement date was reported as zero when it should have been \$3,191,172 due to the misinterpretation of GASB No. 71. As a result, the net position at June 30, 2015 has been restated to increase net position by \$3,191,172.

6. OTHER 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.

It is Questar III's adopted policy to provide a current liability for the estimated amount of postemployment benefits to be paid in the next fiscal year as that estimate is expected to be liquidated with expendable available resources. For the current year and two preceding years, Questar III recognized for its share of insurance premiums for currently enrolled retirees the following:

2016	\$ 2,994,316
2015	\$ 2,675,000
2014	\$ 2,906,868

Questar III has obtained an actuarial valuation report as of June 30, 2016 which indicates that the total liability for other postemployment benefits is \$93,039,142, which is reflected in the Statement of Net Position.

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.

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:

Annual required contribution	\$ 10,964,508
Interest	2,173,720
Less: ARC adjustment	<u>(4,053,556)</u>
Annual OPEB cost	9,084,672
Contributions made	<u>(2,994,316)</u>
Increase in net OPEB obligation	6,090,356
Net OPEB obligation, beginning of year	<u>86,948,786</u>
Net OPEB obligation, end of year	<u><u>\$ 93,039,142</u></u>

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

6. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Questar III's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and two preceding years are 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>
6/30/14	\$ 15,069,502	19%	\$ 80,497,441
6/30/15	\$ 9,080,409	29%	\$ 86,948,786
6/30/16	\$ 9,084,672	33%	\$ 93,039,142

Funded Status and Funding Progress: As of July 1, 2015, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$116,522,969, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$116,522,969. The covered payroll (annual payroll of active employees covered by the plan) was \$23,569,220, and the ratio of the UAAL to the covered payroll was 494%. 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, 2016 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 8%, reduced by decrements to an ultimate rate of 5% in 2021. The UAAL is amortized each year over a constant 30 year period, as a level dollar amount.

7. DUE TO COMPONENTS AND NON-COMPONENTS

Prior to July 1, 2015, Questar III had charged components, non-components and grantors for postemployment healthcare costs and accumulated those funds for several years in anticipation of partially funding the liability. As legislation was never passed that allowed for the funding of postemployment healthcare costs, the New York State Comptroller's Office required the funds be liquidated. A plan to liquidate the funds was approved by the Questar III Board, the State Education Department and the participating districts. The plan required that funds collected from components and non-components of \$15,692,282 be liquidated via providing credits to the districts over a five year period. Additionally, funds collected from grantors of \$2,318,337 will be retained in the Special Aid fund and Questar III will seek guidance from the New York State Education Department concerning how to address these funds. Lastly, a one year estimate for retiree healthcare costs will remain in the general fund as a current liability, in accordance with GASB Statement No. 45 "Other postemployment benefit expenditures from governmental funds should be recognized on the modified accrual basis. The amount recognized should be equal to the amount contributed to the plan or expected to be liquidated with expendable available financial resources."

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

7. DUE TO COMPONENTS AND NON-COMPONENTS (CONTINUED)

The liquidation of the liability to components and non-components is scheduled as follows:

2017	\$ 4,315,311
2018	2,857,188
2019	2,285,750
2020	<u>2,142,891</u>
	<u>\$ 11,601,140</u>

8. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Questar III has five items totaling \$6,411,059 relating to pensions reported as deferred outflows.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future periods(s) and so will not be recognized as an inflow of resources (revenues) until that time. Questar III has three items totaling \$4,485,577 related to pensions reported as deferred inflows.

9. JOINT VENTURES

Tech Valley Regional Technology Institute

Chapter 757 of the laws of 2005 established the Tech Valley Regional Technology Institute, a high school course of instruction for grades nine through twelve dedicated to providing expanded learning opportunities to students residing in the Capital Region BOCES and Questar III BOCES, in the areas of technology as well as the core academic areas required for the issuance of high school diplomas in accordance with the rules and regulations promulgated by the Board of Regents.

During the 2015-2016 school year, the School had an annualized full-time enrollment of approximately 151 students.

The venture operates under the terms of an agreement dated June 6, 2008. The agreement is for a period of five years and automatically renews for another five years unless either party provides notice of a desire not to renew.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

9. JOINT VENTURES (CONTINUED)

Tech Valley Regional Technology Institute (Continued)

1. The venture is governed by a 10 member operating board, 5 of which are appointed by Capital Region BOCES and 5 of which are appointed by Questar III BOCES.
2. Operating costs are allocated to Capital Region BOCES and Questar III based on the percentage of each party's component and non-component districts participation. (24.1% Capital Region BOCES and 75.9% Questar III for the year ended June 30, 2016).
3. Rent and capital costs are allocated equally to Capital Region BOCES and Questar III.
4. The governing body has established charges at rates intended to be self-sustaining to cover all operating costs. Any shortfall in revenues produced by such charges is to be provided in the same manner as operating costs.

The following is a summary of the audited governmental funds financial information included in financial statements issued for the joint venture as of and for the year ended June 30, 2016:

Total Assets	<u>\$ 1,349,668</u>
Total Liabilities	<u>\$ 597,754</u>
Joint Venture Equity	<u>\$ 751,914</u>
Total Revenue	<u>\$ 3,455,170</u>
Total Expenses	<u>\$ 3,267,908</u>

RCG Group Health Insurance Trust

Questar III is also a member in RCG Group Health Insurance Trust (the "Trust"). The Trust is considered a public entity risk pool which is defined as a cooperative group of governmental entities joining together to finance an exposure, liability or risk, and is tax-exempt under Section 511(c)(9) of the Internal Revenue Code. The Trust includes New York public school districts located in Rensselaer, Columbia and Greene Counties. The Trust was formed July 1, 1985, to allow member schools to obtain health insurance and prescription drug benefits at lower cost through a pooled purchasing arrangement. The Trust procures group insurance contracts with insurance carriers for medical, prescription drug and dental benefits, in which the Trust is not liable for any medical, dental or prescription drug claims. However, the Trust also maintains a self-insured prescription drug plan for which the individual Trust members are liable for any claims in excess of the balances maintained by the Trust. As of June 30, 2016, the District's prescription drug plan account balance maintained by the Trust is approximately \$524,037 which approximates the outstanding estimated liability for the self-insured prescription plan.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2016

10. 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 operating lease arrangements attributable to classrooms to Questar III's main office and classrooms for Tech Valley Regional Technology Institute at June 30, 2016. The term of the leases vary from one to twenty years.

The following table summarizes Questar III future payment requirements as of June 30, 2016 under noncancellable operating leases:

Year Ending	
2017	\$ 1,354,144
2018	1,377,797
2019	1,132,245
2020	1,059,583
2021	760,752
Thereafter	<u>5,256,815</u>
	<u>\$ 10,941,336</u>

Worker's Compensation Self-Insurance Plan

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. The Consortium has a stop loss policy to protect participants from unusually high claims.

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, 2015 (the last year for which an audited financial statement is available) there were 19 participating members from Rensselaer, Columbia and Greene Counties in New York State, including Questar III. The amount held by the Plan on behalf of Questar III at June 30, 2015 approximated \$1,135,336, which approximates the outstanding estimated liability for self-insured workers' compensation claims at June 30, 2015. Payments made to the Consortium for the year ended June 30, 2016 were \$262,100.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Dental Self-Insurance

Questar III is self-insured for dental insurance. Dental claims expense for the year ended June 30, 2016 was \$359,949. 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
Administrators' Association	June 30, 2018

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 lawsuits. Legal counsel is of the opinion that the outcome of this litigation will not materially affect the financial position of Questar III.

SUPPLEMENTARY INFORMATION

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 BUDGETARY COMPARISON STATEMENT - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2016

SUPPLEMENTAL SCHEDULE #1

	Original Budget	Amended Budget	Actual	Over (Under) Amended Budget
REVENUES				
Administration (001-002)	\$ 7,483,483	\$ 7,663,640	\$ 7,540,210	\$ (123,430)
Career Education (100-199)	10,320,498	9,377,413	8,945,293	(432,120)
Instruction for Handicapped (200-299)	20,971,751	22,181,667	22,700,849	519,182
Itinerant (300-399)	2,365,095	2,082,761	2,070,565	(12,196)
General Instruction (400-499)	3,630,455	5,975,467	5,910,766	(64,701)
Instructional Support (500-599)	7,001,439	7,955,314	7,416,883	(538,431)
Other (600-699)	<u>11,635,821</u>	<u>12,217,072</u>	<u>11,055,028</u>	<u>(1,162,044)</u>
	<u>\$ 63,408,542</u>	<u>\$ 67,453,334</u>	<u>\$ 65,639,594</u>	<u>\$ (1,813,740)</u>

	Original Budget	Amended Budget	Actual	Encumbrances	Unencumbered Balance
EXPENDITURES					
Administration (001-002)	\$ 7,483,483	\$ 7,663,640	\$ 7,431,474	\$ 232,166	\$ -
Career Education (100-199)	10,320,498	9,377,413	8,777,681	439,946	159,786
Instruction for Handicapped (200-299)	20,971,751	22,181,667	20,855,563	387,018	939,086
Itinerant (300-399)	2,365,095	2,082,761	1,999,189	4,147	79,425
General Instruction (400-499)	3,630,455	5,975,467	5,865,250	30,420	79,797
Instructional Support (500-599)	7,001,439	7,955,314	7,450,331	369,860	135,123
Other (600-699)	<u>11,635,821</u>	<u>12,217,072</u>	<u>10,138,309</u>	<u>1,022,813</u>	<u>1,055,950</u>
	<u>\$ 63,408,542</u>	<u>\$ 67,453,334</u>	<u>\$ 62,517,797</u>	<u>\$ 2,486,370</u>	<u>\$ 2,449,167</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, 2016

SUPPLEMENTAL SCHEDULE #2

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a percentage of covered payroll (b-a)/c)
July 1, 2009	\$ -	\$ 133,067,158	\$ 133,067,158	N/A	\$ 23,569,220	565%
July 1, 2010	\$ -	\$ 132,426,991	\$ 132,426,991	N/A	\$ 23,052,538	574%
July 1, 2011	\$ -	\$ 143,212,888	\$ 143,212,888	N/A	\$ 19,963,960	717%
July 1, 2012	\$ -	\$ 153,945,108	\$ 153,945,108	N/A	\$ 23,097,020	666%
July 1, 2014	\$ -	\$ 106,910,845	\$ 106,910,845	N/A	\$ 19,636,601	544%
July 1, 2015	\$ -	\$ 116,522,969	\$ 116,522,969	N/A	\$ 23,569,220	494%

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION ASSET/LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016

SUPPLEMENTAL SCHEDULE #3

<u>TRS</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Proportionate share of net pension assets	\$ 11,335,652	\$ 12,473,692
Covered payroll	\$ 17,226,673	\$ 17,296,119
Proportionate share of net pension asset as a percentage of covered payroll	65.8%	72.1%
Plan fiduciary net position as a percentage of total pension asset	110.5%	111.5%

<u>ERS</u>	<u>March 31, 2016</u>	<u>March 31, 2015</u>
Proportionate share of net pension liability	\$ 4,320,516	\$ 870,003
Covered payroll	\$ 9,020,039	\$ 8,218,496
Proportionate share of net pension liability as a percentage of covered payroll	47.9%	10.6%
Plan fiduciary net position as a percentage of total pension liability	90.6%	97.9%

Note: Information for the years prior to implementation of GASB 68 is unavailable and will be completed each year going forward as it becomes available.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF CONTRIBUTIONS - PENSION PLANS
FOR THE YEAR ENDED JUNE 30, 2016

SUPPLEMENTAL SCHEDULE #4

<u>TRS</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,873,792	\$ 2,687,904
Contributions in relation to the contractually required contribution	<u>2,873,792</u>	<u>2,687,904</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 17,226,673	\$ 17,296,119
Contributions as a percentage of covered-employee payroll	16.7%	15.5%

<u>ERS</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,258,095	\$ 1,133,339
Contributions in relation to the contractually required contribution	<u>1,258,095</u>	<u>1,133,339</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 9,020,039	\$ 8,218,496
Contributions as a percentage of covered-employee payroll	13.9%	13.8%

Note: Information for the years prior to implementation of GASB 68 is unavailable and will be completed each year going forward as it becomes available.

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, 2016

SUPPLEMENTAL SCHEDULE #5

July 1, 2015 - Debit Balance	\$ <u>1,928,449</u>
Debits:	
Billings to School Districts and Other BOCES	63,602,202
Prior Year Refund of Balances Due School Districts	4,319,532
Encumbrances - Beginning of Year	<u>2,697,190</u>
Total Debits	<u>70,618,924</u>
Total	<u>72,547,373</u>
Credits:	
Collections from School Districts and Other BOCES	59,498,618
Adjustment - Credits to School BOCES - Revenues in Excess of Expenditures	3,121,797
Adjustment - OPEB Credits Issued	379,476
Encumbrances - End of Year	<u>2,486,370</u>
Total Credits	<u>65,486,261</u>
June 30, 2016 - Debit Balance	\$ <u><u>7,061,112</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, 2016

SUPPLEMENTAL SCHEDULE #6

	Original Appropriation	Revised Appropriation	Expenditures to Date		Balance
			Prior Years'	Current Year	
Sackett Education Center/CGEC	\$ 848,000	\$ 1,529,154	\$ 94,541	\$ 1,434,613	\$ -
Columbia-Greene Education Center	600,000	600,000	-	-	600,000
Sackett Education Center	200,000	200,000	-	-	200,000
Rensselaer Education Center	846,705	846,705	-	-	846,705
	<u>\$ 2,494,705</u>	<u>\$ 3,175,859</u>	<u>\$ 94,541</u>	<u>\$ 1,434,613</u>	<u>\$ 1,646,705</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF INVESTMENT IN CAPITAL ASSETS, NET OF RELATED DEBT
FOR THE YEAR ENDED JUNE 30, 2016

SUPPLEMENTAL SCHEDULE #7

Capital Assets, Net and Net Investment in Capital Assets	<u>\$ 7,947,343</u>
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FEDERAL PROGRAM AWARD INFORMATION

**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, 2016, and the related notes to the financial statements, which collectively comprise Questar III basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Questar III's 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 Questar III's internal control. Accordingly, we do not express an opinion on the effectiveness of the Questar III'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 charge 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's 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
November 30, 2016

CUSACK & COMPANY
Certified Public Accountants LLC
7 AIRPORT PARK BOULEVARD
LATHAM, NEW YORK 12110
(518) 786-3550
FAX (518) 786-1538
E-MAIL ADDRESS: CPAS@CUSACKCPAS.COM
WWW.CUSACKCPAS.COM

MEMBERS OF:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS OF:
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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

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' ("Questar III") compliance with the types of compliance requirements described in the *OMB 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards, 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
November 30, 2016

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Federal Projects</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
U.S. Department of Education		
Passed Through NYS Department of Education		
WIA	84.002	\$ 200,893
RSE-TASC	84.027	394,860
CDOS/IDEA Part B	84.027	44,528
Perkins	84.048	265,439
State Fiscal Stabilization Fund, Race to the Top Incentive		
Grant - Virtual Advance Placement (ARRA)	84.395	25,792
and Teaching is the Core Consortium (ARRA)	84.395	<u>8,315</u>
Total U.S. Department of Education and Total Expenditures of Federal Awards		<u>\$ 939,827</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, 2016

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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. INDIRECT COSTS

Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance. The indirect cost rate is established by the New York State Education Department.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unmodified

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: Unmodified

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

Major Program:	<u>CFDA Number</u>
RSE-TASC	84.027
CDOS/IDEA Part B	84.027

Dollar Threshold to Determine Type A and Type B Programs \$750,000

Auditee Qualified as Low-Risk Auditee: Yes

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

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

Finding 2016-01: Time Certification

Criteria: The compliance requirements of the RSE-TASC and CDOS/IDEA Part B grants requires that employees charged to the grants certify their time expended on the grants.

Condition: Questar III's policy provides for the grant manager to certify employees time expended on the grants but makes no provision for employee's certification.

Statement of Cause: Time certification policies were established on a entity wide basis. No consideration was given to the particular requirements of specific grants.

Effect: Although the specific compliance requirement of the grants were not met, there appears to be no negative effects due to the mitigating procedures in place.

Questioned Costs: None.

Perspective: The audit finding represents an isolated instance applicable to these grants only. The mitigating procedures in place (i.e., grant manager certification) would appear adequate to reduce the risk of misstatement.

Recommendation: We recommend that policies and procedures be developed and implemented to ensure employee time certification when required.

Management Response: Policies and procedures will be developed and implemented to ensure employee time certification is documented when required by individual grants.

EXTRACLASSROOM ACTIVITY FUNDS

CUSACK & COMPANY
Certified Public Accountants LLC
7 AIRPORT PARK BOULEVARD
LATHAM, NEW YORK 12110
(518) 786-3550
FAX (518) 786-1538
E-MAIL ADDRESS: CPAS@CUSACKCPAS.COM
WWW.CUSACKCPAS.COM

MEMBERS OF:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS OF:
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, and the related statement of cash receipts and disbursements-cash basis for the year then ended, and the related note 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 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 assets, and fund balance - cash basis of Questar III Extraclassroom Activity Fund as of June 30, 2016, and its cash receipts and disbursements - cash basis 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
November 30, 2016

QUESTAR III - BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSELAER-COLUMBIA-GREENE COUNTIES
EXTRACLASSROOM ACTIVITY FUNDS
STATEMENT OF ASSETS AND FUND BALANCE - CASH BASIS
JUNE 30, 2016

Assets

Cash \$ 29,755

Fund Balance \$ 29,755

QUESTAR III - BOARD OF COOPERATIVE EDUCATIONAL SERVICES

RENSELAER-COLUMBIA-GREENE COUNTIES

EXTRACLASSROOM ACTIVITY FUNDS

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS - CASH BASIS

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Balances</u> <u>June 30, 2015</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances</u> <u>June 30, 2016</u>
Skills - Columbia-Greene	\$ 2,373	\$ 12,023	\$ 8,689	\$ 5,707
Skills - Rensselaer	7,270	6,240	7,243	6,267
Autistic/Goff	3,081	4,377	3,682	3,776
New Visions Visual Arts	9	211	211	9
Sackett Student Council	923	1,084	894	1,113
Pro Start - Columbia-Greene	965	1,924	1,499	1,390
Pro Start - Rensselaer	2,219	7,588	27	9,780
Food Service	1,126	1,745	2,510	361
Rensselaer Academy Student Council	790	448	3	1,235
Maple Hill Student Council	99	-	7	92
Catskill Academy School Council	<u>740</u>	<u>-</u>	<u>715</u>	<u>25</u>
	<u>\$ 19,595</u>	<u>\$ 35,640</u>	<u>\$ 25,480</u>	<u>\$ 29,755</u>

QUESTAR III - BOARD OF COOPERATIVE EDUCATIONAL SERVICES

RENSELAER-COLUMBIA-GREENE COUNTIES

EXTRACLASSROOM ACTIVITY FUNDS

NOTE TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 Questar III's 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.