

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

***FINANCIAL REPORT***

***JUNE 30, 2002***

**QUESTAR, III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
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*JUNE 30, 2002*

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying general purpose financial statements of QUESTAR, III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties, as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of QUESTAR III's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of QUESTAR III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties at June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information required by the New York State Education Department, listed in the accompanying table of contents, is presented for purpose of additional analysis and is not a required part of the general purpose financial statements. This information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2002 on our consideration of the Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Cusack & Company, CPAs LLC*  
CUSACK & COMPANY, CPA'S LLC

Latham, New York  
September 13, 2002

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS**  
**JUNE 30, 2002 (WITH COMPARATIVE TOTALS FOR 2001)**

	Governmental Fund Types			Fiduciary	Account Groups		Total (Memorandum Only)	
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long Term Debt	2002	2001
<b>Assets</b>								
Cash	\$ 3,315,497	\$ 1,508,165	\$ 478,775	\$ 294,182	\$ -	\$ -	\$ 5,596,619	\$ 4,159,585
Other receivables	129,181	90,099	-	9,389	-	-	228,669	269,910
State and federal aid receivables	-	1,132,213	-	-	-	-	1,132,213	3,125,281
Due from other funds	1,222,540	-	-	-	-	-	1,222,540	4,378,865
Due from school districts	5,340,931	-	-	-	-	-	5,340,931	4,574,834
Prepaid expenses	57,008	-	-	-	-	-	57,008	-
Fixed assets	-	-	-	-	12,987,362	-	12,987,362	12,135,400
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	2,480,400	2,480,400	2,802,922
Total assets	<u>\$ 10,065,157</u>	<u>\$ 2,730,477</u>	<u>\$ 478,775</u>	<u>\$ 303,571</u>	<u>\$ 12,987,362</u>	<u>\$ 2,480,400</u>	<u>\$ 29,045,742</u>	<u>\$ 31,446,797</u>
<b>Liabilities</b>								
Accounts payable	\$ 814,981	\$ 488,802	\$ -	\$ -	\$ -	\$ -	\$ 1,303,783	\$ 1,269,585
Accrued liabilities	826,504	9,178	-	245	-	-	835,927	568,214
Compensated absences	-	-	-	-	-	84,388	84,388	78,754
Due to other funds	-	1,048,626	-	173,914	-	-	1,222,540	4,378,865
Due to school districts	1,897,838	-	-	-	-	-	1,897,838	2,710,405
State aid due to school districts	-	-	-	-	-	-	-	1,630,554
Student activity balances	-	-	-	16,059	-	-	16,059	17,181
Due to retirement systems'	1,349,541	-	-	-	-	-	1,349,541	630,939
Capital leases payable	-	-	-	-	-	469,775	469,775	677,195
Post retirement benefits	2,786,747	-	-	-	-	1,926,237	4,712,984	3,309,120
Deferred revenues	-	1,183,871	-	-	-	-	1,183,871	686,795
Total liabilities	<u>7,675,611</u>	<u>2,730,477</u>	<u>-</u>	<u>190,218</u>	<u>-</u>	<u>2,480,400</u>	<u>13,076,706</u>	<u>15,957,607</u>
<b>Fund Balances:</b>								
Investment in general fixed assets	-	-	-	-	12,987,362	-	12,987,362	12,135,400
Reserve for encumbrances	406,301	250,708	-	-	-	-	657,009	1,255,781
Reserve for prepaid expenses	57,008	-	-	-	-	-	57,008	-
Reserve for unemployment insurance	-	-	-	-	-	-	-	114,575
Reserve for employee benefits	1,926,237	-	-	-	-	-	1,926,237	1,868,670
Endowment scholarship	-	-	-	113,353	-	-	113,353	22,300
Unreserved, undesignated	-	(250,708)	478,775	-	-	-	228,067	92,464
Total fund balances	<u>2,389,546</u>	<u>-</u>	<u>478,775</u>	<u>113,353</u>	<u>12,987,362</u>	<u>-</u>	<u>15,969,036</u>	<u>15,489,190</u>
Total liabilities and fund balances	<u>\$ 10,065,157</u>	<u>\$ 2,730,477</u>	<u>\$ 478,775</u>	<u>\$ 303,571</u>	<u>\$ 12,987,362</u>	<u>\$ 2,480,400</u>	<u>\$ 29,045,742</u>	<u>\$ 31,446,797</u>

See the accompanying notes and independent auditor's report.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2002 (WITH COMPARATIVE TOTALS FOR 2001)

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)	
	General	Special Revenue	Capital Projects	Trust and Agency	2002	2001
<b>Revenues</b>						
Charges for components	\$ 26,900,367	\$ -	\$ -	\$ -	\$ 26,900,367	\$ 26,071,863
Charges to non-components and other BOCES	5,293,882	-	-	-	5,293,882	4,820,570
Charges for services	547,601	468,681	-	-	1,016,282	947,684
Interest and earnings	68,606	-	10,059	-	78,665	101,606
Miscellaneous	196,615	-	-	102,303	298,918	171,190
Sales	196,620	-	-	-	196,620	206,289
State and local sources	-	3,935,320	-	-	3,935,320	3,576,184
Federal sources	-	3,913,790	-	-	3,913,790	3,338,814
Total Revenue	<u>33,203,691</u>	<u>8,317,791</u>	<u>10,059</u>	<u>102,303</u>	<u>41,633,844</u>	<u>39,234,200</u>
<b>Expenditures</b>						
Administration	4,018,381	104,199	36,445	-	4,159,025	3,809,134
Occupational instruction	4,097,027	668,648	-	-	4,765,675	4,371,260
Instruction for the handicapped	12,548,907	820,538	-	-	13,369,445	11,722,831
Itinerant services	1,387,453	-	-	-	1,387,453	1,575,862
General instruction	2,960,191	1,117,661	-	-	4,077,852	4,389,037
Instructional support	1,947,982	5,606,745	-	-	7,554,727	5,925,369
Other services	4,887,816	-	-	-	4,887,816	4,732,738
Other expenses	-	-	-	11,250	11,250	9,800
Total Expenditures	<u>31,847,757</u>	<u>8,317,791</u>	<u>36,445</u>	<u>11,250</u>	<u>40,213,243</u>	<u>36,536,031</u>
Excess (deficiency) of revenues over expenditures	<u>1,355,934</u>	<u>-</u>	<u>(26,386)</u>	<u>91,053</u>	<u>1,420,601</u>	<u>2,698,169</u>
<b>Other financing sources (uses):</b>						
Operating transfers - in	-	-	-	-	-	252,774
Operating transfers - out	-	-	-	-	-	(252,774)
Operating transfers - refund of surplus unpaid	(1,355,934)	-	-	-	(1,355,934)	(2,226,636)
Total other financing sources (uses)	<u>(1,355,934)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,355,934)</u>	<u>(2,226,636)</u>
Excess (deficiency) of revenues over expenditures	-	-	(26,386)	91,053	64,667	471,533
<b>Other changes in fund equity</b>						
Encumbrances, end of year	406,301	250,708	-	-	657,009	1,255,781
Encumbrances, beginning of year	(843,084)	(412,697)	-	-	(1,255,781)	(1,274,393)
Liquidation of reserve	-	161,989	-	-	161,989	(108,870)
Net increase (decrease)	(436,783)	-	(26,386)	91,053	(372,116)	344,051
Fund balance, beginning of year	<u>2,826,329</u>	<u>-</u>	<u>505,161</u>	<u>22,300</u>	<u>3,353,790</u>	<u>3,009,739</u>
Fund balance, end of year	<u>\$ 2,389,546</u>	<u>\$ -</u>	<u>\$ 478,775</u>	<u>\$ 113,353</u>	<u>\$ 2,981,674</u>	<u>\$ 3,353,790</u>

See the accompanying notes and independent auditor's report.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE- BUDGET AND ACTUAL BASIS  
FOR THE YEAR ENDED JUNE 30, 2002

	<b>General Fund</b>		
	<b>Budget (Amended)</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Local Sources:			
Charges to components	\$ 28,284,048	\$26,900,367	\$ (1,383,681)
Charges to other BOCES	5,511,630	5,293,882	(217,748)
Interest and earnings	71,428	68,606	(2,822)
Miscellaneous	204,702	196,615	(8,087)
Other revenue	<u>774,832</u>	<u>744,221</u>	<u>(30,611)</u>
Total revenues	<u>34,846,640</u>	<u>33,203,691</u>	<u>(1,642,949)</u>
<b>Expenditures</b>			
Current:			
Administration	4,672,546	4,018,381	654,165
Occupational instruction	4,477,394	4,097,027	380,367
Instruction for the handicapped	12,979,744	12,548,907	430,837
Itinerant services	1,678,500	1,387,453	291,047
General instruction	2,995,807	2,960,191	35,616
Instructional support	2,436,045	1,947,982	488,063
Other services	<u>5,606,604</u>	<u>4,887,816</u>	<u>718,788</u>
Total expenditures	<u>34,846,640</u>	<u>31,847,757</u>	<u>2,998,883</u>
Excess of revenue over expenditures	<u>\$ -</u>	1,355,934	<u>\$ 1,355,934</u>
Add: Encumbrances at end of year included in actual		406,301	
Less: Expenditure of prior year's encumbrances		<u>(843,084)</u>	
Excess of revenues over expenditures - GAAP basis		919,151	
Operating transfers - refund of surplus unpaid		<u>(1,355,934)</u>	
Net decrease		(436,783)	
Fund balance, beginning of year		<u>2,826,329</u>	
Fund balance, end of year		<u>\$ 2,389,546</u>	

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED JUNE 30, 2002*

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The general purpose financial statements of QUESTAR III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties (QUESTAR III) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of QUESTAR III 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 smaller 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
Brittenkill	Ichabod Crane
Cairo-Durham	Lansingburgh
Catskill	New Lebanon
Chatham	North Greenbush
Copake-Taconic Hills	Rensselaer
Coxsackie-Athens	Schodack
East Greenbush	Troy
Germantown	Wynantskill
Greenville	

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

The financial reporting entity consists of the following, as defined by GASB Statement 14, *"The Financial Reporting Entity:"*

1. The primary government which is the BOCES;
2. Organizations for which the primary government is financially accountable, and;
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 general purpose 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 14, including legal standing, fiscal dependency, and financial accountability. Based on the application

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*FOR THE YEAR ENDED JUNE 30, 2002*

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

*Reporting Entity (continued)*

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 trust and agency fund of QUESTAR III. Separate audited financial statements (cash basis) of the extraclassroom activity funds are located at the QUESTAR III business office.

*Basis of Presentation*

The accounts of QUESTAR III are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. These funds and account groups are based upon the requirements of GAAP as prescribed by the Governmental Accounting Standards Board as well as the New York Uniform System of Accounts for Boards of Cooperative Educational Services. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Governmental resources are allocated to and accounted for in individual funds segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions and limitations. The various funds are grouped in the financial statements in the following fund types and account groups.

- a. **Governmental Funds** - Governmental funds are those through which most governmental functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus of the governmental funds is based upon determination of financial position and changes in financial position. The following are governmental fund types:
  1. **General Fund** - The general fund is the principal operating fund of QUESTAR III and is used to account for all financial resources except those required to be accounted for in another fund.
  2. **Special Revenue Fund** - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts and major capital projects) that are legally restricted to expenditures for specified purposes. The special revenue fund includes the following fund:
    - **Special Aid Fund** - Used to account for special operating projects or programs supported in whole, or in part, with federal funds or state grants.
  3. **Capital Projects Fund** - The capital projects fund is used to account for and report financial resources to be used for the acquisition, construction or renovation of major capital facilities or equipment.
- b. **Fiduciary Funds** - Used to account for assets held by QUESTAR III in a trustee or custodial capacity:
  1. **Trust and Agency Funds** - Trust and agency funds are used to account for and report assets held in the capacity of trustee, custodian or agent for individuals, extraclassroom activity organizations, private organizations, other governments, and/or funds. These include expendable trusts and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.



**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*FOR THE YEAR ENDED JUNE 30, 2002*

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

*Basis of Presentation (continued)*

- c. **Account Groups** - Used to establish accounting control and accountability for QUESTAR III's general fixed assets and general long-term debt. The two account groups are not "funds". They are concerned only with the measurement of financial position, and not with the results of operations.

1. **General Fixed Assets Account Group** - This group of accounts is used to account for all land, buildings, improvements, and equipment of QUESTAR III.

QUESTAR III capitalizes equipment which has a cost in excess of \$500 and has a useful life of more than one year. All initial building and land costs are capitalized.

2. **General Long-Term Debt Account Group** - This group of accounts is established to account for all long-term debt and other obligations of QUESTAR III. Long-term indebtedness includes obligations such as installment purchase debt and any vested or accumulated vacation and/or sick leave and post retirement benefits.

The liability for compensated absences is calculated at rates in effect as of the balance sheet date and is recorded in the governmental funds to reflect the portion that will be funded from current financial resources, and in the general long-term debt account group for amounts to be paid from future financial resources.

*Basis of Accounting/Measurement Focus*

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 and current liabilities 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.

- a. **Modified Accrual Basis** - Accounting principles generally accepted in the United States of America and the New York State Uniform System of Accounts for Boards of Cooperative Educational Services requires 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 for the current period. A one-year availability period is used for recognition for governmental fund revenues. Material revenues 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:

- Expenditures for prepaids and inventory-type items are recognized at the time of the disbursements.
- Principal and interest on indebtedness are not recognized as an expenditure until due.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*FOR THE YEAR ENDED JUNE 30, 2002*

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

*Basis of Accounting/Measurement Focus (continued)*

**a. Modified Accrual Basis (continued)**

- QUESTAR III recognizes a liability for vacation leave and other compensated absences with similar characteristics and additional salary-related payments 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 includes leave that employees will qualify for.

- b. Account Groups** - General fixed assets are recorded at cost, where known, or sound value, i.e., cost of replacement less an allowance for "allowed depreciation" resulting from age and condition. No provision for depreciation is made. The asset values are maintained by an independent appraisal service. General long-term debt liabilities are recorded at the par value of the principal amount. No liability is recorded for interest payable to maturity.

- c. Deferred Revenues** - QUESTAR III reports deferred revenues on its combined balance sheet. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are receivable by QUESTAR III before it has a legal claim to them, as when grant monies are receivable prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when QUESTAR III has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

*Budgetary Data*

**a. Budget Policies** - The budget policies are as follows:

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

- b. Encumbrances** - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed as a control in preventing overexpenditure of established appropriations. Open encumbrances are reported as a reservation of fund balance since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*FOR THE YEAR ENDED JUNE 30, 2002*

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

*Budgetary Data (continued)*

- c. **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 can approve budget revisions based upon requests for additional services and surplus revenues.

*Post Retirement Benefits*

In addition to providing the retirement benefits described in Note 6, QUESTAR III provides post retirement health insurance coverage to its retired employees and their survivors. Substantially all of QUESTAR III's employees may become eligible for these benefits if they reach normal retirement age while working for QUESTAR III. Currently, 162 retirees meet those eligibility requirements. QUESTAR III pays 100% of the costs of premiums to an insurance company which provided health care insurance. QUESTAR III engaged an actuary who estimated that the future cost of providing post retirement health insurance for current retirees and active employees approximated 9.7 million and 29 million, respectively assuming a 5% rate of return on invested funds and a 7.5% inflation rate for the cost of health insurance premiums. QUESTAR III has recognized a portion of the estimated cost of providing future post retirement health benefits to its current retirees at \$4,712,984, of which \$2,786,747 has been recorded in the general fund and \$1,926,237 has been recorded in the long-term debt account group. The actual cost of health insurance premiums paid for during the year ended June 30, 2002 for QUESTAR III's 162 retirees was \$543,550.

*Total (Memorandum Only)*

Total columns in the general purpose financial statements are captioned "memorandum only" to indicate they are presented only to facilitate financial analysis. Data in these columns do not present results of operations in conformity with accounting principles generally accepted in the United States of America; nor is such data comparable to a consolidation.

**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 with the state. The School Business Administrator is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

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 and obligations of New York State or its localities.

Total financial institution (bank) balances at June 30, 2002 per the bank were \$ 6,543,044. These deposits were entirely covered by Federal Deposit Insurance or by collateral held by a bank in QUESTAR III's name.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2002

**3. INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2002 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 1,222,540	\$ -
Special Revenue Fund	-	1,048,626
Trust and Agency	-	173,914
	<u>\$ 1,222,540</u>	<u>\$ 1,222,540</u>

Charges for services in the general fund of \$547,601 includes \$263,566 of interfund and intrafund revenues charged as indirect cost reimbursements.

**4. OTHER RECEIVABLES**

Other receivables at June 30, 2002 consisted of the following, which are stated at net realizable value:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Revenue Billings and Deposits	\$ 129,181
Special Revenue	State and Federal Aid Receivables	\$ 90,099
Trust and Agency	Due from Terminated Employees	\$ 9,389

**5. CHANGES IN FIXED ASSETS**

A summary of changes in general fixed assets for the year ended June 30, 2002 is as follows:

<u>Category</u>	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2002</u>
Land	\$ 30,500	\$ -	\$ -	\$ 30,500
Buildings	5,932,520	368,022	-	6,300,542
Equipment	6,172,380	599,050	115,110	6,656,320
	<u>\$ 12,135,400</u>	<u>\$ 967,072</u>	<u>\$ 115,110</u>	<u>\$ 12,987,362</u>

**6. PENSION PLANS**

*General Information*

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

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*FOR THE YEAR ENDED JUNE 30, 2002*

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**6. PENSION PLANS (CONTINUED)**

*Plan Descriptions*

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

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

*Funding Policies*

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

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

	ERS		TRS	
	Amount	Rate	Amount	Rate
2002	\$ 87,296	0.91%	\$ 234,633	0.36%
2001	\$ 129,905	0.50%	\$ 362,710	0.43%
2000	\$ 37,689	0.10%	\$ 438,415	1.43%

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

Pursuant to Chapter 30 of the Laws of 1996, Chapter 47 of the Laws of 1998, Chapter 70 of the Laws of 1999, and Chapter 69 of the Laws of 2002, the State Legislature authorized local governments to make available retirement incentive programs with estimated TRS costs of \$964,460 and ERS costs of \$155,479 which was charged to expenditures in the Governmental Funds in the current fiscal year.

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*FOR THE YEAR ENDED JUNE 30, 2002*

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**7. INDEBTEDNESS**

*Installment Purchase Debt*

QUESTAR III pays rentals for leases considered to be installment purchases. The balance of the liability under installment purchase debt at June 30, 2002 totaling \$469,775 represents the present value of the balance due in future years for lease rentals. Since the present value of the future minimum lease payments at the beginning of the equipment lease approximated the fair value of the leased assets at that date the leases have been recorded as installment purchase debt.

*Changes*

The changes in QUESTAR III's indebtedness for the year ended June 30, 2002 are summarized as follows:

	<u>Balance</u> <u>July 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2002</u>
Installment purchase debt	\$ 677,195	\$ 164,517	\$ 371,937	\$ 469,775
Post retirement benefits	1,868,670	57,567	-	1,926,237
Retirement incentive	178,303	-	178,303	-
Compensated absences	<u>78,754</u>	<u>5,634</u>	<u>-</u>	<u>84,388</u>
	<u>\$ 2,802,922</u>	<u>\$ 227,718</u>	<u>\$ 550,240</u>	<u>\$ 2,480,400</u>

Additions and deletions to post retirement benefits and compensated absences are shown net since it is impracticable to determine these amounts separately.

*Maturity*

Future minimum principal payments of installment purchase debt are due as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2002 - 2003	\$ 312,431	\$ 20,892
2003 - 2004	<u>157,344</u>	<u>7,607</u>
	<u>\$ 469,775</u>	<u>\$ 28,499</u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*FOR THE YEAR ENDED JUNE 30, 2002*

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**8. FUND BALANCES**

QUESTAR III's fund balance is comprised of various components:

**I. Reserved**

Reserved for encumbrances - This reserve was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts signed by Questar III, but not completed as of the close of the fiscal year.

Reserve for employee benefit accrued liability - This reserve fund is used to pay the cost of any accrued employee benefit due an employee upon termination of the employee's service.

Endowment scholarship - These balances represent funds reserved for student scholarships.

**II. Unreserved**

Capital Projects Fund - This balance represents unexpended funds which will be expended for future capital projects.

**9. CONTINGENCIES AND COMMITMENTS**

*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 various operating lease arrangements at June 30, 2002.

The following table summarizes QUESTAR III future payment requirements as of June 30, 2002 under noncancellable operating leases:

Year Ending	
2003	\$ 746,948
2004	710,922
2005	727,298
2006	741,627
2007	381,111
Thereafter	1,092,648
	<u>\$ 4,400,554</u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*NOTES TO FINANCIAL STATEMENTS (CONTINUED)*  
*FOR THE YEAR ENDED JUNE 30, 2002*

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

*Worker's Compensation Self-Insurance*

QUESTAR III participates in a self-insurance plan for worker's compensation called The Rensselaer Columbia-Greene (RCG) Counties Worker's Compensation Consortium ("Consortium"). The Plan is a claims-servicing public entity risk pool which began operations in July, 1985. The Consortium was formed by participating school districts and the 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 is governed by a Plan Agreement administered by a Board of Directors, consisting of one Director for each member. As of June 30, 2002 there were 11 participating members from Rensselaer, Columbia and Greene Counties in New York State. An actuarial calculated liability to the Consortium of \$529,335 has been recorded in the accrued expenses in the general fund. Payments made to the Consortium during the year ended June 30, 2002 were \$181,348.

*Dental Self-Insurance*

QUESTAR III is self-insured for dental insurance. Dental claims expense for the year ended June 30, 2002 was \$146,227.

*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, 2003
Assistant Unit	June 30, 2003
Support Services	June 30, 2005



## **SUPPLEMENTAL INFORMATION**

**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, 2002*

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July 1 - debit balance	\$ <u>1,864,429</u>
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Debits:

Billings to school districts	35,376,634
Refund of balances due school districts	3,048,399
Encumbrances - end of the year	406,301
Other reserves - end of the year	<u>1,983,245</u>

Total debits	<u>40,814,579</u>
Total	<u>42,679,008</u>

Credits:

Collection from school districts	35,053,273
Adjustment - credits to school districts - revenues in excess of expenditures	1,355,934
Encumbrances - beginning of the year	843,084
Other reserves - beginning of the year	<u>1,983,245</u>

Total credits	<u>39,235,536</u>
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June 30 - debit balance	\$ <u><u>3,443,472</u></u>
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**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*BALANCE SHEET - SPECIAL REVENUE FUND*  
*JUNE 30, 2002*

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Assets	
Cash	\$ 1,508,165
State and federal aid receivables	1,132,213
Other receivables	<u>90,099</u>
Total Assets	<u>\$ 2,730,477</u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable and accrued expenses	\$ 497,980
Due to other funds	1,048,626
Deferred revenues	<u>1,183,871</u>
Total Liabilities	<u>2,730,477</u>
Fund Balance	
Reserve for encumbrances	250,708
Unreserved, undesignated	<u>(250,708)</u>
Total Fund Balance	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 2,730,477</u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY*  
*SPECIAL REVENUE FUND*  
*FOR THE YEAR ENDED JUNE 30, 2002*

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Revenues

Charges for services	\$ 468,681
State and local sources	3,935,320
Federal sources	<u>3,913,790</u>

Total Revenue	<u>8,317,791</u>
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Expenditures

Administration	104,199
Occupational instruction	668,648
Instruction for the handicapped	820,538
General instruction	1,117,661
Instructional support	<u>5,606,745</u>

Total Expenditures	<u>8,317,791</u>
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Excess of revenues over expenditures	-
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Fund balance, beginning of year	<u>-</u>
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Fund balance, end of year	<u><u>\$ -</u></u>
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**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
**RENSSELAER-COLUMBIA-GREENE COUNTIES**  
*SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURES - BUDGET AND ACTUAL*  
*FOR THE YEAR ENDED JUNE 30, 2002*

	<b>Original Budget</b>	<b>Revised Budget</b>	<b>Current Year's Revenues</b>	<b>Over/ (Under) Revised Budget</b>	
<b>Revenues</b>					
Administration 001-002	\$ 4,308,837	\$ 4,672,546	\$ 4,487,948	\$ (184,598)	
Occupational Instruction 100-199	4,534,809	4,477,394	4,300,506	(176,888)	
Instruction for Handicapped 200-299	12,296,817	12,979,744	12,466,954	(512,790)	
Itinerant 300-399	1,501,296	1,678,500	1,612,188	(66,312)	
General Instruction 400-499	2,835,702	2,995,807	2,611,188	(384,619)	
Instructional Support 500-599	2,288,743	2,436,045	2,339,804	(96,241)	
Other Services 600-699	<u>5,681,543</u>	<u>5,606,604</u>	<u>5,385,103</u>	<u>(221,501)</u>	
Totals	<u>\$ 33,447,747</u>	<u>\$ 34,846,640</u>	<u>\$ 33,203,691</u>	<u>\$ (1,642,949)</u>	
	<b>Original Budget</b>	<b>Revised Budget</b>	<b>Current Year Expenditures</b>	<b>Encumbrances</b>	<b>Unencumbered Balances</b>
<b>Expenditures</b>					
Administration 001-002	\$ 4,308,837	\$ 4,672,546	\$ 4,018,381	\$ 46,989	\$ 607,176
Occupational Instruction 100-199	4,534,809	4,477,394	4,097,027	148,333	232,034
Instruction for Handicapped 200-299	12,296,817	12,979,744	12,548,907	107,997	322,840
Itinerant 300-399	1,501,296	1,678,500	1,387,453	3,484	287,563
General Instruction 400-499	2,835,702	2,995,807	2,960,191	33,402	2,214
Instructional Support 500-599	2,288,743	2,436,045	1,947,982	43,980	444,083
Other Services 600-699	<u>5,681,543</u>	<u>5,606,604</u>	<u>4,887,816</u>	<u>22,116</u>	<u>696,672</u>
Totals	<u>\$ 33,447,747</u>	<u>\$ 34,846,640</u>	<u>\$ 31,847,757</u>	<u>\$ 406,301</u>	<u>\$ 2,592,582</u>

**QUESTAR III**  
**BOARD OF COOPERATIVE EDUCATIONAL SERVICES**  
RENSSELAER-COLUMBIA-GREENE COUNTIES  
SCHEDULE OF CAPITAL PROJECT EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002

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	<u>Expenditures to Date</u>					
	<u>Original</u> <u>Appropriations</u>	<u>Revised</u> <u>Appropriations</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total</u>	<u>Unexpended</u> <u>Balance</u>
Administration Center additions and alterations	<u>\$ 156,110</u>	<u>\$ 608,884</u>	<u>\$ 39,000</u>	<u>\$ 36,445</u>	<u>\$ 75,445</u>	<u>\$ 553,439</u>

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

In planning and performing our audit of the financial statements of QUESTAR III, Board of Cooperative Educational Services Rensselaer-Columbia-Greene Counties for the year ended June 30, 2002, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 13, 2002, on the financial statements of QUESTAR III.

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



CUSACK & COMPANY, CPA'S LLC

Latham, New York  
September 13, 2002  
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**QUESTAR III**  
**MANAGEMENT COMMENTS**  
**JUNE 30, 2002**

**1. POST RETIREMENT HEALTH INSURANCE:**

**Findings:**

In our 2001 management letter, we had recommended that management perform an actuarial study to determine the post retirement health benefits liability and establish a plan to record the liability. During 2002, management contracted with an actuary who determined that the post retirement health benefits liability approximated 39 million (10 million for the 160 current retirees and 29 million for current active employees). Beginning in 2001 and continuing in 2002, management has continued an informal plan to record this liability, and as of June 30, 2002 approximately 2.8 million has been accrued.

**Recommendation:**

We recommend that management continue developing and implementing a formal plan to record the post retirement health benefits liability.

**Management Response:**

There is no definitive guidance on this issue. The Government Accounting Standards Board is currently considering this issue and intends to offer guidance after the due process procedures are followed, which may take some time. Until such time as specific guidance is forthcoming, we believe it is prudent to move towards full accrual, and we will continue to do this.

**2. SPECIAL AID FUND - PROGRAM DEFICITS:**

**Findings:**

In our 2001 management letter, we had recommended that management closely monitor the profitability of certain programs (e.g., Employment Preparation Education and Adult LPN), which had a recent history and continuing trend of producing deficits, and implement corrective action plans where necessary. Although some corrective actions were taken, program deficits continue in these programs. Continuing losses from these programs will eventually exceed the allowances which have been provided, and will require these program deficits to be funded by sources other than program income.



Recommendation:

We recommend that management reexamine its options which appear to be a) raise fees and/or lower costs to make the program self-sufficient, b) find other funding for the program, or, c) terminate the program.

Management's Response:

This year we will perform an assessment of our program using our program administrators in conjunction with an independent evaluator who has been recommended by the State Education Department. The findings and recommendations will be shared with our Board and component school districts in order to determine the appropriate course of action.

**3. CONTRACT BIDDING**

Findings:

During our audit of the Literacy Technology federal grant, we noted that Adirondack Area Network, Inc. ("AAN") was designated as a sole vendor for video conferencing equipment and support in October of 2000. In addition, AAN has a significant long-term contract to provide internet services. Given the advances in the past two years in technology, AAN may not be the least costly qualified vendor.

Recommendation:

We recommend that procedures be developed and implemented to review all sole vendor designations to determine if bidding for those services is warranted.

Management's Response:

Currently we have a five-year contract with Adirondack Area Network, Inc. Before expiration of the current contract, we will reevaluate the services being provided and the nature of the sole vendor designation for video conferencing equipment and support.