

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

FINANCIAL REPORT

JUNE 30, 2003

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

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JUNE 30, 2003

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QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED)
JUNE 30, 2003

This section of the Board of Cooperative Educational Services (hereinafter referred to as "Questar III") annual financial report presents its discussion and analysis of financial performance during the fiscal year ended June 30, 2003. Please read it in conjunction with the financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Net assets on an entity wide basis decreased by 3.3% due to the net effect of new investment in capital assets, depreciation and changes in encumbrances;
- Governmental revenues decreased by 7.4% as a result of a decrease in operating grants (2.8%) and decreased demand for services (4.6%); and
- Questar III continued to offer all programs, without reducing services, while operating on a fiscally sound basis.

OVERVIEW OF THE FINANCIAL STATEMENTS

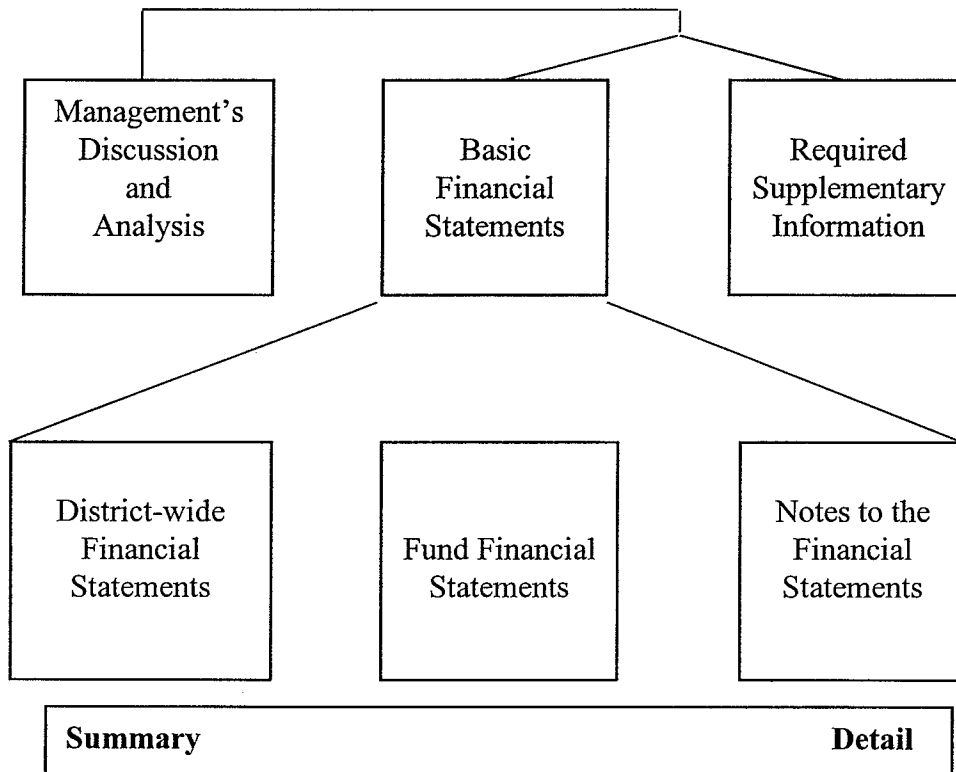
This discussion and analysis is intended to serve as an introduction to Questar III's basic financial statements. As this is the year of GASB 34 implementation, prior year data is not available for analysis purposes, but will be included in future reports. Questar III's annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of Questar III:

- The first two statements are **government-wide financial statements** that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are **fund financial statements** that focus on *individual parts* of the District, 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 funds statements** provide information about the financial relationships in which Questar III acts solely as a *trustee* or *agent* for the benefit of others, including the employees of Questar III.

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
*MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)*
JUNE 30, 2003

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



QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2003

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

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

	Entity-wide Statements	Fund Financial Statements	
		<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 Assets • Statement of Activities and Changes in Net Assets 	<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 Assets • Statement of Changes in Fiduciary Net Assets
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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2003

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 Assets 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 Assets regardless of when cash is received or paid.

The two district-wide statements report Questar III's *net assets* and how they are changed. Net assets, 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 assets 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.

Net assets of the government-wide statements differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated if it does not provide or reduce current financial resources. Finally, capital assets and long-term debt are both accounted for in account groups and do not affect the fund balances.

Government-wide statements are reported utilizing an economic resources management focus and full accrual basis of accounting that involves the following steps to format the Statement of Net Assets:

- Capitalized current outlays for capital assets;
- Report long-term liabilities such as capital leases;
- Depreciate capital assets;
- Calculate revenue and expense using the economic resources measurement focus and the accrual basis of accounting; and
- Allocate net asset balances as follows:
 - *Net assets* invested in capital assets, net of related debt;
 - *Restricted net assets* are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation; and
 - *Unrestricted net assets* are net assets that do not meet any of the above restrictions.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2003

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2003

FINANCIAL ANALYSIS OF QUESTAR III AS A WHOLE

Questar III's net assets decreased 3.3 percent to \$7.4 million as detailed in Tables A-3 and A-4.

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

	Fiscal Year 2003
Current and other assets	\$ 13.8
Capital assets, net of depreciation	<u>4.7</u>
Total Assets	<u>18.5</u>
Current liabilities	7.8
Long-term liabilities	<u>3.3</u>
Total Liabilities	<u>11.1</u>
Net assets	
Investment in capital assets, net of related debt	4.7
Unrestricted	<u>2.7</u>
Total Net Assets	<u>\$ 7.4</u>

CHANGES IN NET ASSETS

Questar III's total fiscal year 2003 revenues totaled \$37.9 million. (See Table A-4) Charges to components and non-components accounted for 81% of Questar III's revenue. The remainder came from operating grants (18%) and other miscellaneous sources (1%).

Questar III's total fiscal year 2003 expenses totaled \$36.6 million. (See Table A-4) These expenses (90%) are predominately related to instruction and instructional support. Questar III's administrative and business activities accounted for 10% of total costs.

After reflecting the surplus refund to school districts, net assets decreased by \$252,492 which was comprised of a \$93,853 decrease in net assets and a \$158,640 decrease in encumbrances.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2003

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

	Fiscal Year 2003
Revenues	
Program Revenues	
Charges for Services	\$ 30.4
Operating Grants	7.1
Other Revenues	<u>.4</u>
Total Revenues	<u>37.9</u>
Expenses	
Administration	3.8
Occupational Instruction	5.0
Instruction of Handicapped	12.7
Internet Services	.9
General Instruction	3.9
Instructional Support	5.6
Other Services	4.4
Depreciation	<u>.3</u>
	<u>36.6</u>
Revenues in Excess of Expenses before Return of Surplus	1.3
Return of Surplus	<u>1.4</u>
Change in Net Assets	<u><u>\$ (.1)</u></u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2003

FINANCIAL ANALYSIS OF QUESTAR III'S FUNDS

Variances between years for the governmental fund financial statements are not the same as variances between years for the District-wide financial statements. The District's governmental funds are presented on the **current financial resources measurement focus** and the **modified accrual basis of accounting**. Based on this presentation, governmental funds do not include long-term debt liabilities for the funds' projects and capital assets purchased by the funds. 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. 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 significant increases in purchased services from component, noncomponent and other BOCES.

Questar III had a number of significant budget amendments during the year ended June 30, 2003 to provide additional services as requested by components and others. The larger increases related to itinerant and handicapped services.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The following table reflects the total cumulative cost of various building renovations and additions, technology and equipment expenditures through the end of fiscal year 2003:

Table A-5: Capital Assets

Category	Fiscal Year-End 2003
Land	\$ 280,430
Buildings	5,975,362
Machinery and Equipment	1,332,885
Vehicles	1,373,059
Construction in Progress	<u>122,799</u>
Total	<u>\$ 9,084,535</u>

Long-Term Debt

At year-end Questar III had \$160,942 in installment purchase debt outstanding. More detailed information about Questar III's long-term liabilities is presented in Note 6 to the Financial Statement.

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:

- During the most recent state fiscal year, the Governor proposed some changes in the formulas relative to reimbursing school districts for the cost of BOCES services. These proposals were subsequently rebuffed by the state Legislature. Such original proposals by the Governor included deleting state aid for the cost of many BOCES management shared services, such as safety/risk management, state aid planning, communications, and the like. Should such proposals ever be enacted into law in the future, it is conceivable that school districts could curtail future requests for management services from BOCES.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2003

FACTORS BEARING ON QUESTAR III'S FUTURE (CONTINUED)

- The state has been mandated by the New York State Court of Appeals to revamp the system of state aid formulas in order to provide (or divert) additional funds for children in New York City. This is the result of court action initiated by the Campaign for Fiscal Equity (CFE). It is conceivable that the required new state formulas could be changed such that the formulas which currently drive BOCES aid to school districts are altered in order to decrease the amount of BOCES aid.
- The projected employment retirement system rates will increase by more than 300% in the upcoming budget year. It is estimated that this increase will cost Questar III up to an additional \$700 thousand in the upcoming year.
- Questar III is currently negotiating two union contracts which comprise the majority of instructional staff. The results of the negotiations will be reflected in the cost of Questar III services.
- Based on an analysis of the most recent trends it appears that demand for Questar III educational services is strengthening. During the 2003/04 Fiscal year enrollment for Special Education, Occupational Education, and General Education services increased by 4.5%, 18% and 3.8% respectively. In addition demand for certain District Support services such as State Aid Planning is increasing.

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:

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying general purpose financial statements of the Questar III -Board of Cooperative Educational Services of Rensselaer-Columbia-Greene Counties ("Questar III"), as of and for the year ended June 30, 2003, 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 financial statements based on our audit.

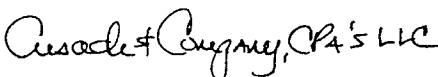
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 the Questar III at June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis listed in the foregoing table of contents is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 19, 2003 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 grants. That 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information presented on pages 29 and 30, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
September 19, 2003

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
STATEMENT OF NET ASSETS
JUNE 30, 2003

ASSETS

Cash	\$ 7,448,752
State and Federal Aid Receivable	2,235,760
Due from School Districts	3,735,996
Other Receivables	79,131
Due from Other Funds	364,907
Prepaid Expenses	14,000
Capital Assets, Net	<u>4,677,855</u>

Total Assets	<u><u>\$ 18,556,401</u></u>
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LIABILITIES

Accounts Payable	669,545
Accrued Expenses	685,486
Due to School Districts	1,409,722
State Aid Due School Districts	2,163,137
Deferred Revenues	1,190,074
Capital Leases Payable	160,942
Due to Retirement Systems	1,465,449
Post Retirement Benefits Payable	<u>3,347,666</u>
Total Liabilities	<u>11,092,021</u>

NET ASSETS

Invested in Capital Assets	4,677,855
Unrestricted Reserve for Encumbrances	293,370
Unrestricted Reserve for Prepaids	14,000
Unrestricted Reserve for Employee Benefits	1,969,245
Unrestricted	<u>509,910</u>
Total Net Assets	<u>7,464,380</u>

Total Liabilities and Net Assets	<u><u>\$ 18,556,401</u></u>
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QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

		<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Assets</u>
<u>Functions/Programs:</u>				
Administration	\$ 3,840,175	\$ 4,293,856	\$ 88,438	\$ 542,119
Occupational Instruction	5,012,399	4,461,866	799,868	249,335
Instruction of Handicapped	12,678,051	11,799,808	979,288	101,045
Itinerant Services	947,207	962,788	-	15,581
General Instruction	3,841,125	2,888,993	1,191,657	239,525
Instructional Support	5,557,734	1,572,855	4,087,570	102,691
Other Services	4,440,982	4,816,851	-	375,869
Depreciation	<u>282,375</u>	<u>-</u>	<u>-</u>	<u>(282,375)</u>
Total Functions/Programs	<u>\$ 36,600,048</u>	<u>\$ 30,797,017</u>	<u>\$ 7,146,821</u>	1,343,790
Return of Surplus				<u>(1,437,643)</u>
Change in Net Assets				(93,853)
General Fund Encumbrances, Beginning of Year				(406,301)
General Fund Encumbrances, End of Year				247,661
Net Assets, Beginning of Year				<u>7,716,873</u>
Net Assets, End of Year				<u>\$ 7,464,380</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
 COMBINED BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2003

	<u>General</u>	<u>Special Aid</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets:				
Cash	\$ 5,197,108	\$ 1,537,808	\$ 713,836	\$ 7,448,752
State and Federal Aid Receivable	-	2,235,760	-	2,235,760
Due from School Districts	3,575,054	-	-	3,575,054
Other Receivables, Net	52,871	26,260	-	79,131
Due from Other Funds	2,892,663	-	-	2,892,663
Prepaid Expenses	<u>14,000</u>	<u>-</u>	<u>-</u>	<u>14,000</u>
Total Assets	<u>\$ 11,731,696</u>	<u>\$ 3,799,828</u>	<u>\$ 713,836</u>	<u>\$ 16,245,360</u>
LIABILITIES				
Liabilities:				
Accounts Payable	\$ 429,330	\$ 240,215	\$ -	\$ 669,545
Accrued Expenses	685,486	-	-	685,486
Due to School Districts	1,409,722	-	-	1,409,722
State Aid Due School Districts	2,163,137	-	-	2,163,137
Due to Other Funds	-	2,369,539	158,217	2,527,756
Deferred Revenues	-	1,190,074	-	1,190,074
Due to Retirement System	1,465,449	-	-	1,465,449
Post-Retirement Benefits Payable	<u>3,347,666</u>	<u>-</u>	<u>-</u>	<u>3,347,666</u>
Total Liabilities	<u>9,500,790</u>	<u>3,799,828</u>	<u>158,217</u>	<u>13,458,835</u>
FUND BALANCES				
Fund Balance:				
Unrestricted Reserve for Encumbrances	247,661	45,708	-	293,369
Unrestricted Reserve for Prepaid Expenses	14,000	-	-	14,000
Unrestricted Reserve for Employee Benefits	1,969,245	-	-	1,969,245
Unrestricted	<u>-</u>	<u>(45,708)</u>	<u>555,619</u>	<u>509,911</u>
Total Fund Balance	<u>2,230,906</u>	<u>-</u>	<u>555,619</u>	<u>2,786,525</u>
Total Liabilities and Fund Balance	<u>\$ 11,731,696</u>	<u>\$ 3,799,828</u>	<u>\$ 713,836</u>	<u>\$ 16,245,360</u>
Reconciliation of Total Fund Balance to Total Net Assets:				
Total Fund Balance				\$ 2,786,525
Capital Assets				4,677,855
Installment Debt Receivables				160,942
Installment Debt Payable				<u>(160,942)</u>
Total Net Assets				<u>\$ 7,464,380</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Special Aid</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES:				
Charges to Components	\$ 28,469,179	\$ -	\$ -	\$ 28,469,179
Charges to Non-Components	1,879,350	-	-	1,879,350
Charges for Services	71,578	1,487,028	-	1,558,606
Interest and Earnings	23,041	-	6,036	29,077
Miscellaneous	690,272	-	-	690,272
Sales	163,429	-	-	163,429
State and Local Sources	-	3,607,214	-	3,607,214
Federal Sources	-	2,052,579	-	2,052,579
Total Revenues	<u>31,296,849</u>	<u>7,146,821</u>	<u>6,036</u>	<u>38,449,706</u>
EXPENDITURES:				
Administration	3,773,433	88,438	86,353	3,948,224
Occupational Instruction	4,234,583	799,868	-	5,034,451
Instruction for Handicapped	11,725,762	979,288	-	12,705,050
Itinerant Services	947,207	-	-	947,207
General Instruction	2,682,321	1,191,657	-	3,873,978
Instructional Support	1,588,925	4,087,570	-	5,676,495
Other Services	4,749,815	-	-	4,749,815
Total Expenditures	<u>29,702,046</u>	<u>7,146,821</u>	<u>86,353</u>	<u>36,935,220</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES:	<u>1,594,803</u>	<u>-</u>	<u>(80,317)</u>	<u>1,514,486</u>
OTHER SOURCES AND (USES):				
Return of Surplus	(1,437,643)	-	-	(1,437,643)
Transfer to Capital Projects	-	-	157,160	157,160
Transfer from General Fund	(157,160)	-	-	(157,160)
	<u>(1,594,803)</u>	<u>-</u>	<u>157,160</u>	<u>(1,437,643)</u>
Change in Fund Equity	-	-	76,843	76,843
Encumbrances, End of Year	(406,301)	-	-	(406,301)
Encumbrances, Beginning of Year	247,661	-	-	247,661
Fund Equity, Beginning of Year	<u>2,389,546</u>	<u>-</u>	<u>478,776</u>	<u>2,868,322</u>
Fund Equity, End of Year	<u>\$ 2,230,906</u>	<u>\$ -</u>	<u>\$ 555,619</u>	<u>\$ 2,786,525</u>
RECONCILIATION OF CHANGE IN FUND EQUITY TO CHANGE IN NET ASSETS:				
Change in Fund Equity				\$ 76,843
Capital Assets Acquired				111,679
Depreciation				(282,375)
Change in Net Assets				<u>\$ (93,853)</u>

See accompanying notes and independent auditor's report.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
STATEMENT OF FIDUCIARY NET ASSETS AND CHANGES IN FIDUCIARY NET ASSETS
JUNE 30, 2003

Statement of Fiduciary Net Assets

	<u>Private-purpose Trusts</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 115,305	\$ 381,291
Accounts Receivables	<u>-</u>	<u>10,489</u>
Total Assets	<u><u>\$ 115,305</u></u>	<u><u>\$ 391,780</u></u>
LIABILITIES		
Due to Student Groups	\$ -	\$ 25,784
Due to Other Funds	<u>-</u>	<u>364,907</u>
Other Liabilities	<u>-</u>	<u>1,089</u>
Total Liabilities	<u><u>-</u></u>	<u><u>\$ 391,780</u></u>
NET ASSETS		
Reserved for Scholarships	<u>115,305</u>	
Total Net Assets	<u><u>115,305</u></u>	
Total Liabilities and Net Assets	<u><u>\$ 115,305</u></u>	

Statement of Changes in Fiduciary Net Assets

Investment Income	\$ 952
Net Assets, Beginning of Year	<u>114,353</u>
Net Assets, End of Year	<u><u>\$ 115,305</u></u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003

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'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
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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

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 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 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

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.

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's net assets resulting from the current year's activities. Internal fund transactions, including, but not limited to, operating transfers, receivables and payables have been eliminated. Government-wide financial statements include a statement of net assets and a statement of activities.

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements (Continued)

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 Revenue - is used to account for the proceeds of specific revenue sources such as Federal and State grants, that are legally restricted to expenditures for specified purposes and other activities whose funds are restricted as to use, other than expendable trusts or major capital projects. These legal restrictions may be imposed by either governments that provide the funds or outside parties.
- c. Other - is used to account for all non-major funds including the capital projects fund.

Fiduciary Fund Financial Statements

The fiduciary fund financial statements include a statement of fiduciary net assets and a statement of changes in fiduciary net assets. 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 a scholarship program.

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting/Measurement Focus

1. Government-wide and Fiduciary Fund Financial Statements

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

2. Governmental Fund Financial Statements

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

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

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting/Measurement Focus (Continued)

2. Governmental Fund Financial Statements (Continued)

Capital Assets and Depreciation

Capital assets are reported at actual or estimated historical cost based on appraisal or deflated current replacement cost. Contributed assets are reported at estimated fair market values at the time received.

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

Long-Term Debt

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

Compensated Absences

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

Deferred Revenue

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

Post Retirement Benefits

In addition to providing pension benefits, Questar III provides health insurance coverage and survivor benefits 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 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 post-retirement benefits is entirely borne by Questar III.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting/Measurement Focus (Continued)

2. Governmental Fund Financial Statements (Continued)

Fund Balance-Reservations and Designations

Reservations of fund balances are created to either satisfy legal restrictions or to plan for future expenditures. A designation of unreserved fund balances in governmental funds indicates the use of these resources in the subsequent year's budget. The following is a description of the reserves utilized by Questar III.

Encumbrance Reserve

The balance of the account represents the amount of outstanding encumbrances at the end of the fiscal year.

Reserve for Employee Benefits

The balance of the account represents funds set aside for the payment of accrued benefit liabilities for employees.

Budgetary Procedures and Budgetary Accounting

1. Budget Policies

The budget policies are as follows:

- a. Section 1950 §4(b) of the Education Law requires adoption of a final budget by no later than May 15, for the ensuing year.
- b. Questar III administration prepares a proposed administrative, capital and program budget, as applicable, for approval by members of Questar III board for the general fund.
- c. Appropriations for educational services are adopted at the program level and lapse at the end of each fiscal year.
- d. A tentative administrative budget is provided to the component districts for adoption by resolution. Approval of the tentative administrative budget requires the approval of a majority of the component school boards actually voting. During the current year, the administrative budget was approved by a majority of its voting component school boards.

2. Budget Basis of Accounting

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Procedures and Budgetary Accounting (Continued)

2. Budget Basis of Accounting (Continued)

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

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 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, 2003 per the bank were \$9,349,252 with a carrying value of \$7,945,348. These deposits were entirely covered by Federal Deposit Insurance or by collateral held by a bank in Questar III's name.

3. OTHER RECEIVABLES

Other receivables at June 30, 2003 consisted of the following, which are stated at net realizable value:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Fee for Service	\$ 52,871
Special Revenue	Fee for Service Billings	\$ 26,260
Trust and Agency	Due from Terminated Employees	\$ 10,489

4. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2003 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 2,892,663	\$ -
Special Revenue Fund	-	2,369,539
Capital Projects	-	158,217
Trust and Agency	-	364,907
	<u>\$ 2,892,663</u>	<u>\$ 2,892,663</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

5. CAPITAL ASSETS

A summary of capital assets for the year ended June 30, 2003 is as follows:

	Restated Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balance</u>
Land	\$ 280,430	\$ -	\$ -	\$ 280,430
Buildings	5,975,362	-	-	5,975,362
Machinery and Equipment	1,326,816	6,069	-	1,332,885
Vehicles	1,353,803	19,256	-	1,373,059
Construction in Progress	<u>36,445</u>	<u>86,354</u>	<u>-</u>	<u>122,799</u>
	<u>8,972,856</u>	<u>111,679</u>	<u>-</u>	<u>9,084,535</u>
Less Accumulated Depreciation:				
Buildings	2,195,008	134,273	-	2,329,281
Machinery and Equipment	821,965	85,721	-	907,686
Vehicles	<u>1,107,332</u>	<u>62,381</u>	<u>-</u>	<u>1,169,713</u>
	<u>4,124,305</u>	<u>282,375</u>	<u>-</u>	<u>4,406,680</u>
Capital Assets, Net	<u>\$ 4,848,551</u>	<u>\$ (170,696)</u>	<u>\$ -</u>	<u>\$ 4,677,855</u>

Depreciation expense was \$282,375 for the year ended June 30, 2003.

6. INSTALLMENT PURCHASE DEBT

Installment purchase debt consists of various leases incurred for the purchase of equipment. The contracts will all mature in the current fiscal year.

Installment purchase debt activity for the year ended June 30, 2003 is as follows:

Installment Purchase Debt, Beginning Balance	\$ 469,775
Repayments	<u>(308,833)</u>
Installment Purchase Debt, Ending Balance	<u>\$ 160,942</u>

7. 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, 2003

7. 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:

	<u>ERS</u>		<u>TRS</u>	
	Amount	Rate	Amount	Rate
2003	\$ 301,784	4.50%	\$ 151,833	0.36%
2002	\$ 87,296	0.91%	\$ 234,633	0.43%
2001	\$ 129,905	0.50%	\$ 362,710	1.43%

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

8. POST RETIREMENT BENEFITS

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, 188 retirees meet those eligibility requirements. Questar III pays 100% of the costs of premiums to an insurance company which provided health care insurance. During 2001, 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. In accordance with an informal plan to recognize the liability for post retirement health insurance over a period of years, Questar III has recognized a portion of the estimated cost of providing future post retirement health benefits to its retirees at \$3,347,666 which has been recorded as a liability in the general fund. In addition, \$1,969,245 has been recorded as an employee benefit accrued liability reserve fund. The actual cost of health insurance premiums paid for during the year ended June 30, 2003 for Questar III's 188 retirees was \$683,359.

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, 2003.

The following table summarizes Questar III future payment requirements as of June 30, 2003 under noncancellable operating leases:

Year Ending	
2004	\$ 710,922
2005	727,298
2006	741,627
2007	381,111
2008	351,295
Thereafter	741,354
	<u>\$ 3,653,607</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

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, 2003 there were 11 participating members from Rensselaer, Columbia and Greene Counties in New York State. An estimated actuarial calculated liability to the Consortium of \$545,215 has been recorded in the accrued expenses in the general fund. Payments made to the Consortium during the year ended June 30, 2003 were \$187,441.

Dental Self-Insurance

Questar III is self-insured for dental insurance. Dental claims expense for the year ended June 30, 2003 was \$136,275.

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

10. CHANGES IN ACCOUNTING PRINCIPLES

For the year ended June 30, 2003, Questar III implemented GASB Statement 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB Statement 34 creates a new set of basic financial statements, and requires Questar III to include District-wide financial statements that are prepared on accrual basis of accounting using the economic resources measurement focus. The previous requirement for fund financial statements is modified to present information for individual major funds rather than by fund type.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2003

10. CHANGES IN ACCOUNTING PRINCIPLES (CONTINUED)

The implementation of GASB Statement 34 resulted in the need to restate prior year ending balances. Financial statements for the year ended June 30, 2002 were issued in conformity with GAAP. GASB Statement 34 requires certain amounts to be restated. The reconciliation of restated amounts to the June 30, 2002 year end balance is:

Total Equity Reported for June 30, 2002	\$ 15,969,037
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Less:

Fund Balance - Endowment Scholarship	113,353
Capital Assets	<u>12,987,362</u>

Beginning Fund Balance Reported on Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, as Adjusted	2,868,322
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The Following Adjustments are Necessary to Determine the Beginning Net Assets for the Statement of Activities:

Capital Asset Related Items:

Adjustment to June 30, 2002 Capital Assets using GASB 34 threshold	8,972,856
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Accumulated Depreciation for Government Type Capital Assets Through June 30, 2002	(4,124,305)
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Installment Debt Receivable at June 30, 2002	469,775
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Long-term Outstanding Obligations Items:

Installment Debt Payable at June 30, 2002	<u>(469,775)</u>
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Beginning Net Assets Reported on Statement of Activities	<u><u>\$ 7,716,873</u></u>
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SUPPLEMENTARY INFORMATION

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
ANALYSIS OF ACCOUNT A431-SCHOOL DISTRICTS AND OTHER BOCES
FOR THE YEAR ENDED JUNE 30, 2003

SUPPLEMENTAL SCHEDULE #1

July 1 - Debit Balance	<u>\$ 3,443,472</u>
Debits:	
Billings to School Districts and Other BOCES	30,348,529
Refund of Balances Due School BOCES	1,814,638
Advance of School District Lease	43,008
Encumbrances - End of Year	<u>247,661</u>
Total Debits	<u>32,453,836</u>
Total	<u>35,897,308</u>
Credits:	
Collections from School Districts and Other BOCES	31,888,032
Adjustments - Credits to School BOCES - Revenues in Excess of Expenditures	1,437,643
Encumbrances - Beginning of Year	<u>406,301</u>
Total Credits	<u>33,731,976</u>
June 30 - Debit Balance	<u><u>\$ 2,165,332</u></u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2003

SUPPLEMENTAL SCHEDULE #2

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Amended Budget</u>	
REVENUES					
Administration (001-002)	\$ 4,182,241	\$ 4,182,241	\$ 4,290,258	\$ 108,017	
Occupational Instruction (100-199)	4,298,638	4,483,916	4,483,916	-	
Instruction for Handicapped (200-299)	11,643,254	11,826,808	11,826,808	-	
Itinerant (300-399)	665,948	962,789	962,789	-	
General Instruction (400-499)	2,581,157	2,930,330	2,930,330	-	
Instructional Support (500-599)	1,843,318	1,677,063	1,677,063	-	
Other	<u>5,581,629</u>	<u>5,125,685</u>	<u>5,125,685</u>	<u>-</u>	
Total	<u>\$ 30,796,185</u>	<u>\$ 31,188,832</u>	<u>\$ 31,296,849</u>	<u>\$ 108,017</u>	
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Unencumbered Balance</u>
EXPENDITURES					
Administration (001-002)	\$ 4,182,241	\$ 4,182,241	\$ 3,930,593	\$ 8,768	\$ 242,880
Occupational Instruction (100-199)	4,298,638	4,483,916	4,234,583	87,165	162,168
Instruction for Handicapped (200-299)	11,643,254	11,826,808	11,725,762	64,232	36,814
Itinerant (300-399)	665,948	962,789	947,207	1,187	14,395
General Instruction (400-499)	2,581,157	2,930,330	2,682,321	23,780	224,229
Instructional Support (500-599)	1,843,318	1,677,063	1,588,925	30,949	57,189
Other	<u>5,581,629</u>	<u>5,125,685</u>	<u>4,749,815</u>	<u>31,580</u>	<u>344,290</u>
Total	<u>\$ 30,796,185</u>	<u>\$ 31,188,832</u>	<u>\$ 29,859,206</u>	<u>\$ 247,661</u>	<u>\$ 1,081,965</u>